



2019

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DIRECTORS' STATEMENT

The Board of Directors of The Standard Club UK Ltd ("the Club") acknowledge their responsibility for the proper preparation of the Solvency Financial Condition Report ("SFCR") in all material respects with the PRA Rules and the Solvency II Regulations.

The Board is satisfied that to the best of its knowledge and belief:

- (a) throughout the financial year to 20 February 2019, the Club has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the Club; and
- (b) it is reasonable to believe that the Club has continued to comply subsequently and will continue to do so in the future.

By order of the Board

A Groom
Director
17 May 2019

AUDITOR'S REPORT

Report of the external independent auditor to the Directors of The Standard Club UK Limited ('the Club') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ('SFCR')

Opinion

Except as stated below, we have audited the following documents prepared by the Club as at 20 February 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Club as at 20 February 2019, (**'the Narrative Disclosures subject to audit'**); and
- Club templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21, S.28.01. (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group Solvency and Financial Condition Report;
- Club templates S.05.01.02, S.05.02.01, S.19.01.21; and
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**'the Responsibility Statement'**).

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are total, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Club as at 20 February 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Club in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you, where:

- the Directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the Directors' have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the Club's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Emphasis of Matter – Basis of Accounting

We draw attention to the Valuation for solvency purposes and Capital Management sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications and supplemented by the approvals and determinations by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Approval reference: 3871028 which approves the calculation of ancillary own funds; and
- Modification reference: 4213123 which modifies rule 2.2(1) to exempt the firm from certain quarterly reporting requirements.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of The Standard Club UK Limited statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Alexander Barnes (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
150 Aldersgate Street,
London.
EC1A 4AB

SUMMARY

This is the Solvency and Financial Condition Report (“SFCR”) for The Standard Club UK Limited (Standard UK or “the club”) for the year ended 20 February 2019. The purpose of the SFCR is to meet the public disclosure requirements of Articles 290 to 303 of the Commission Delegated Regulation (EU) 2015/35.

The report sets out different aspects of the club’s solvency and financial condition, specifically its business and performance, system of governance, risk profile, valuation methods used for the calculation of its balance sheet, and capital management practices. The report should be read in conjunction with the information in the quantitative reporting templates provided at the end of this report. The club’s financial year runs to 20 February each year and it reports its results in US dollars.

The ultimate administrative body that has the responsibility for all of these matters is the club’s Board of Directors, with the help of various governance and control functions that it has put in place to monitor and manage the business.

The club’s solvency position as at 20 February 2019 is shown below:

As at 20 February	2019 US\$'000	2018 US\$'000
Own Funds - Basic (reconciliation reserve)	93,205	107,928
Own Funds - Ancillary	30,102	33,749
Total Eligible Own Funds	123,307	141,677
Solvency Capital Requirement	60,204	67,497
Solvency II Surplus	63,103	74,179
Cover ratio	205%	210%

Total available own funds of \$93,507k include \$302k of tier 3 funds (which is the amount of net deferred tax asset on the club’s balance sheet), however this \$302k does not count as capital eligible to cover the SCR and so is excluded from this table.

Business and performance

The club is a marine mutual insurance company, providing marine protection and indemnity (P&I) insurance and related covers to its shipowner members. The club is a subsidiary of The Standard Club Limited (“the Standard Club”) and part of the Standard Club group of clubs (“the Standard Group”), writing approximately 85% of the group’s P&I business.

As a mutual insurance company, the club does not aim to make underwriting surpluses and instead its goal is break-even underwriting with investment returns used to strengthen the club’s capital base.

For the year to 20 February 2019 the club recorded a shortfall for the year of \$2.6m, with a \$0.5m underwriting deficit, a \$1.9m investment surplus but a \$3.9m foreign exchange loss. A dividend of \$10.0m was paid during the year to the parent, the Stanard Club.

Section A of this report sets out further details about the club’s business structure, key operations and financial performance over the reporting period.

System of Governance

Standard UK's Board is responsible for ensuring that an appropriate system of governance is in place. The system of governance has not changed materially during the year.

The Board's role is to lead and act as a representative of the members, effectively promoting their interests within a framework of effective processes and controls. They are responsible for setting strategy and overseeing that the company is managed in accordance with risk appetite. The Board also delegates clearly defined responsibilities to its Audit and Risk Committee, including in-depth monitoring of the internal control framework and the risk management framework.

Section B of this report provides further detail about the club's system of governance, the roles and responsibilities of the Board and the four key control functions (Risk Management, Actuarial, Compliance and Internal Audit). It covers the risk management framework and internal control system, and explains how it complies with the requirements of Solvency II. It also describes the approach to Standard UK's Own Risk and Solvency Assessment (ORSA) and governance over the process.

Risk profile

The primary risk the club faces is the non-life underwriting risk arising out of the P&I insurance it provides to its members.

The club has in place significant levels of external reinsurance to protect itself from large claim events, and also has in place a 90% quota share reinsurance with its fellow Standard Group subsidiary, Standard Reinsurance Bermuda Ltd. Although this comprehensive level of reinsurance protection mitigates the level of non-life underwriting risk, this does generate a large secondary risk arising from potential counterparty default.

The club also faces market risk arising out of its investment portfolio, and operational risk.

The Solvency Capital Requirement (SCR), which is calculated as Solvency II Own Funds at risk in a 1-in-200 year loss event over a 1 year time horizon (and calculated using the Standard Formula), quantifies these risks. A summary of the club's diversified SCR by primary risk type at 20 February 2019 is set out below:

Solvency Capital Requirement (SCR)	2019 US\$'000	2018 US\$'000
Market risk	10,296	14,075
Counter party default risk	24,062	27,230
Non-life underwriting risk	24,754	25,973
Undiversified BSCR	59,112	67,278
Diversification	(12,801)	(15,357)
Basic SCR	46,311	51,921
Operational risk	13,893	15,576
Final SCR	60,204	67,497

Minimum Capital Requirement (MCR)	15,051	16,874
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Section C of this report further describes the risks to which the club is exposed, how the risks are assessed and mitigated, including any specific risk mitigation actions taken, risk concentrations and risk sensitivity.

Valuation for Solvency Purposes

Assets, technical provisions and other liabilities are valued in the Company's Solvency II Balance Sheet according to Solvency II regulations. The principle that underlies the valuation methodology for Solvency II purposes is the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction.

At 20 February 2019, the club's excess of assets over liabilities is \$93.5m on a Solvency II basis which is \$17.5m lower than the value under UK GAAP as presented in the club's financial statements. The difference is primarily driven by the inclusion of an \$15.0m risk margin required to be held for Solvency II as part of the technical provisions.

Section D of this report provides further description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset/liability class. In addition, it also provides an explanation of the material differences between the UK GAAP and Solvency II bases of valuation.

Capital management

The primary objective of capital management is to maintain economic and regulatory capital in accordance with risk appetite, whilst managing the balance between return and risk.

The club and board's tolerance for risk (at both Standard UK and Standard Group level) is limited by the desire to minimise the chance of making unbudgeted calls on the club's membership, and so the club seeks to maintain sufficient capital such that the chance of a supplementary call is less than 10% over a 12-month time horizon.

The club's own funds are equal to the excess of assets over liabilities of its Solvency II balance sheet (\$93.5m), plus the ability to make unbudgeted supplementary calls (tier two ancillary own funds, \$30.1m). The excess of assets over liabilities is split between the reconciliation reserve (tier one capital, \$93.2m) and an amount equal to the value of net deferred tax assets (tier three capital, \$0.3m). Tier two capital is restricted to 50% of the SCR.

Own funds (at both Standard UK and Standard Group level) are well in excess of regulatory capital requirements.

Section E of this report further describes the own funds of the club, calculation of the SCR and MCR, and an assessment of future capital requirements and surplus capital of the club.

A. BUSINESS AND PERFORMANCE

A.1 BUSINESS

Company Information

1. **Name**

The Standard Club UK Limited

2. **Legal form**

A private company limited by guarantee, registered in England and Wales No. 17864

3. **Supervisory authority of company**

Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

Financial Conduct Authority
12 Endeavour Square
London E20 1JN

4. **Supervisory authority of parent**

Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton

PO Box 2447
Hamilton HMJX
Bermuda
Tel: (441) 295 5278

5. **Auditors**

BDO LLP
150 Aldersgate Street
London
EC1A 4AB

6. **Holders of qualifying holdings**

The directors regard The Standard Club Limited, a company limited by guarantee and registered in Bermuda (no. 1836), as the immediate and ultimate parent undertaking and ultimate controlling party by virtue of it holding 75% of the voting rights of the club (the remaining 25% are held by the club's members, who are also members of The Standard Club Limited).

Copies of the consolidated financial statements of The Standard Club Limited can be obtained from the registered office: Swan Building, 26 Victoria Street, Hamilton HM 12, Bermuda.

7. **Principal activities**

The principal activities of Standard UK are the insurance and reinsurance of marine protection and indemnity (P&I) and related risks, war risks, and defence risks, on behalf of its members.

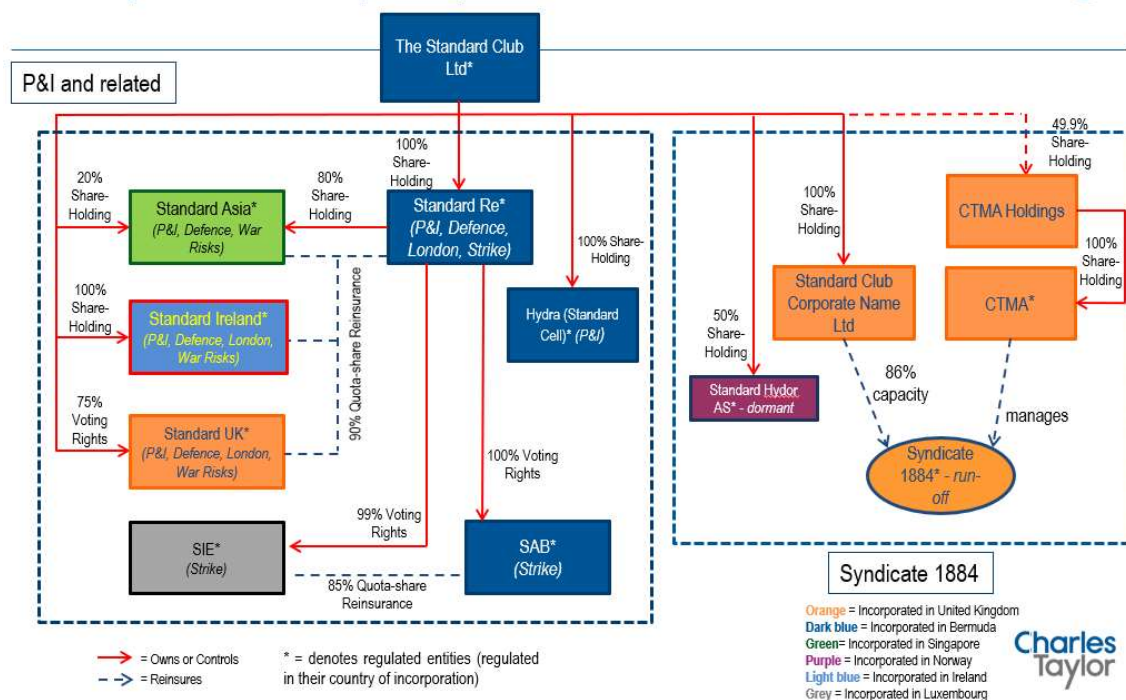
The company conducts business internationally; the material geographical areas where it carries out business are Europe and North America. Standard UK is registered as an alien insurer in New York State, permitting it to write surplus lines insurance throughout the United States. Standard UK provides insurance on a freedom of

services basis throughout the European Union and European Economic Area, and has a permanent branch establishment in Greece.

8. Group structure

The group structure chart indicating the position of Standard UK within the Standard Group is shown below.

Group Structure (2019)



9. Other information

The day to day management of the Standard Group is outsourced to Charles Taylor and Co (Bermuda), a member of the Charles Taylor Plc group (collectively referred to as “the managers”). The outsourced management of the club by Charles Taylor and Co (Bermuda) and its predecessor companies has existed since the establishment of the Standard Club in 1884. As a consequence, the Standard Group has no direct employees, with all staff being provided by the manager. Further information is provided below in section B7 Outsourcing.

10. UK exit from the European Union

With the UK expected to leave the EU in the near future it appears increasingly likely that UK companies will lose ‘passporting rights’ which means that UK insurance companies (including Standard UK) will lose the automatic right to offer insurance to EU insureds. This will have a substantial impact on Standard UK as approximately 55% of insured business during 2018/19 was EU based.

The Standard Club Ireland DAC was established to ensure that previous EU members of Standard UK will be able to continue to be insured by the Standard Group. This new subsidiary started to write EU risks previously insured by Standard UK from the February 2019 renewal. Standard UK continues to insure its existing non-EU business.

The level of service and cover offered to members (both EU and non-EU) will not be affected by this change, nor will the financial security of the wider Standard Group be negatively impacted.

A.2 UNDERWRITING PERFORMANCE

As a mutual insurance company, the club does not aim to make underwriting surpluses and instead its goal is break-even underwriting with investment returns used to strengthen the club's capital base.

The club achieved a positive result for members with a financial year combined ratio of 100% (2018: 99%) after application of the quota share reinsurance with the club's fellow subsidiary, Standard Re (2019: 102% and 2018: 93% before quota share).

In addition, the club announced no general increase at the 2019/20 renewal. The club's free reserves stood at \$111.0m at the year-end (2018: \$123.6m).

The club's underwriting result as set out in the club's financial statements is summarised below.

	20 February 2019		20 February 2018	
	Marine, aviation and transport \$m	Total \$m	Marine, aviation and transport \$m	Total \$m
Premium Income	244.7	244.7	248.6	248.6
RI Premium	(205.7)	(205.7)	(212.3)	(212.3)
Net Premium	39.0	39.0	36.3	36.3
Gross claims	171.1	171.1	156.7	156.7
RI Recovery	(151.8)	(151.8)	(139.7)	(139.7)
Net Claims	19.3	19.3	17.1	17.1
Operating Costs	20.3	20.3	17.8	17.8
Net Costs	39.6	39.6	34.9	34.9
Underwriting Result	(0.6)	(0.6)	1.4	1.4
Investment Return	1.9	1.9	1.6	1.6
Exchange gains/(losses)	(3.9)	(3.9)	8.0	8.0
Tax	(0.1)	(0.1)	0.4	0.4
Surplus/Deficit	(2.7)	(2.7)	11.4	11.4
Reserves brought forward	123.6	123.6	112.2	112.2
Surplus/Deficit	(2.7)	(2.7)	-	-
Dividends	(10.0)	(10.0)	-	-
Reserves carried forward	110.9	110.9	123.6	123.6
Combined ratio	100%	100%	99%	99%

Premium income for the year ended 20 February 2019 analysed by territory is as follows:

Italy	17%	Japan	5%
Greece	11%	Monaco	4%
United States of America	7%	Switzerland	4%
Turkey	7%	Nordic region	2%
The Netherlands	7%	Rest of Europe	9%
Canada	6%	Middle East	1%
Denmark	6%	Rest of Asia	5%
Germany	5%	Rest of World	2%
United Kingdom	5%		

A.3 INVESTMENT PERFORMANCE

The club's policy is to invest predominantly in stable assets which has resulted in a consistent result year-on-year. As such, the investment portfolio consists largely of fixed income assets and cash, as summarised below.

Investment types, cash and cash equivalents	2019 US\$m	2018 US\$m
Government Bonds	12.2	25.3
Corporate Bonds	0.8	1.0
Bonds	13.0	26.2
Equities	0.0	1.9
Collective Investments Undertakings	30.9	49.7
Derivatives	0.1	0.0
Deposits other than cash equivalents	5.7	5.7
Cash and cash equivalents	19.3	16.8
Total investments	69.0	100.3

The club achieved an overall investment return of \$1.9m (2018: \$1.6m). The investment return is further analysed as below.

	2019 US\$m	2018 US\$m
Equities	0.2	0.5
Bonds and collective investments undertakings	1.4	1.1
Deposits	0.5	0.2
Gains arising on realisation of investments	0.5	1.0
Total investment income	2.6	2.8
Investment management expenses	(0.3)	(0.7)
Losses on realisation of investments	(1.4)	(0.4)
Total investment expenses and charges	(1.7)	(1.1)
Movement in unrealised gains on investments	0.3	(0.3)
Movement in unrealised losses on investments	0.7	0.2
Total movement in unrealised gains and losses	1.0	(0.1)
Total investment return	1.9	1.6

There were no investments in securitisations as at 20 February 2019 (2018: nil).

Investment management expenses of \$0.3m (2018: \$0.7m) is made up of bank charges and investment manager's fees.

The club has however recorded a \$3.9m foreign exchange deficit which offsets these investment surpluses.

A.4 PERFORMANCE OF OTHER ACTIVITIES

No other material income was earned nor expenses incurred over the reporting period.

B. SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON SYSTEM OF GOVERNANCE

System of Governance

1. Governing body – the board of The Standard Club UK Limited

The board of Standard UK comprises ten directors, of whom:

- Five are drawn from leadership positions within shipping businesses which are insured by Standard UK;
- Three (including the Chairman) are non-executive directors with insurance industry experience;
- Two are drawn from the managers, including the CEO of the Standard Club (executive director), and the CEO of Charles Taylor Plc (acting in a non-executive capacity).

All the directors of Standard UK are also directors of the Standard Club.

a) Role of the board

The role of the board is to focus on those tasks that are unique to it as the representative of the members and necessary for it to undertake the effective promotion of their interests.

The board will assure itself that the club is achieving its purpose by satisfying itself that the business plan developed by the managers and accepted by the board represents a satisfactory means of progressing its purpose.

The board's tasks include:

- to ensure that the club achieves its purpose, and in doing so ensures that the concept of mutuality is maintained and that all members are treated fairly;
- to set the club's strategy and to agree its business plan;
- to set the club's risk appetite;
- to ensure that the club is managed in accordance with good business principles;
- to ensure that suitable systems and controls are in place to ensure that the club is managed prudently and in accordance with legal and regulatory requirements;
- subject to the Articles, to review the performance of the managers and agree their remuneration;
- to decide such other specific matters which are, according to the Articles or the rules or as determined from time to time by the board, reserved for the board's decision.

2. Board committees

The board has established an Audit and Risk Committee and Nomination and Governance Committee, each of which is entirely composed of non-executive directors.

a) The Audit and Risk Committee is delegated duties relating to:

- Financial reporting;
- Internal controls and risk management systems;
- Whistleblowing and fraud;
- Internal audit – monitoring of IA effectiveness; make recommendations on the appointment/removal of the head of IA; consider the remit and resources of IA; assess the annual audit plan; review reports from IA; monitor the managers' responsiveness to findings and recommendations of IA; meet with IA without management (at least annually);
- External audit – make recommendations on the appointment, re-appointment and removal of the external auditor, oversee the relationship with the external auditor (including, inter alia: fees, independence and non-audit work);
- Solvency of the club;
- Reporting to the board on its proceedings after each meeting, making appropriate recommendations and reporting to members in the annual report.

b) The Nomination and Governance Committee is delegated the following duties:

- Identification and recommendation of board and committee candidates
- Succession planning and board member rotation
- Ensure fitness and propriety of senior executives, key function positions and board members
- Review and recommendation of directors' fees
- Review and report on the governance structure, policies and practices of the company

3. Advisory body – the board of The Standard Club Limited

The board of The Standard Club Limited, the parent company, acts as an advisory body to the board of Standard UK. The board comprises 30 directors, the vast majority of whom are representatives of the member insureds. All the directors of Standard UK are also directors of Standard Club.

The purpose, role and duties of the board are set out in the board policies statement. The board has a schedule of matters reserved for consideration by the board and has established three board committees: Audit and Risk Committee, Nomination and Governance Committee, and Strategy Committee.

a) Audit and Risk Committee – is delegated similar duties to those set out above in respect of the Audit and Risk Committee for Standard UK.

b) Nomination and Governance Committee – is delegated similar duties to those set out above in respect of the Nomination and Governance Committee for Standard UK. It additionally performs the following duties:

- Evaluate the performance and effectiveness of the managers pursuant to the service level agreement and the management agreement;
- Review the level of management costs and assess the appropriateness of the remuneration policy of the managers to ensure that they align with the club's interests;
- Review, for consideration by the board, the management fee.

c) The Strategy Committee is delegated the following duties:

- Consider and make recommendations on the strategy to be adopted;
- Review the performance of the club in meeting its strategic objectives;
- Review the club's business environment and make recommendations arising from developments therein;
- Consider and make recommendations to the board on the club's business plan;
- Consider new strategic initiatives, alliances and potential mergers; make decisions on strategic opportunities where necessary, between board meetings, in accordance with the club's business plan as authorised by the board;
- Consider matters relating to the International Group and reinsurance market.

In addition, a 'Chairman's Group', comprising the chairmen and deputy chairmen of the Standard Club and Standard UK, the chairmen of each committee, and two additional directors, reviews the affairs of the club with the managers between board meetings.

4. Delegation of responsibilities and allocation of functions

a) Delegation of day-to-day management

The day-to-day management of the Standard Club and its subsidiary companies (including Standard UK) is delegated to the managers by virtue of a management agreement.

b) Management Agreement

The management agreement sets out the terms upon which Charles Taylor & Co (Bermuda) and other Charles Taylor plc group companies provide management services to the Standard Club.

c) Service Level Agreement and Key Performance Indicators

The services provided by the managers are subject to a Service Level Agreement (SLA) which forms part of, and is subject to, the Management Agreement. The SLA sets out the key performance indicators (KPI's) for the club's success. The following measures are adopted in the SLA:

- Tonnage
- Premium income
- Free reserves
- Underwriting result
- Investment result
- Financial ratios – in the annual ratio analysis
- Member satisfaction
- Implementation of the business plan

The Standard Club Ltd Nomination and Governance Committee and the board review the managers' performance against KPIs set out in the SLA on an annual basis.

d) Oversight of the outsourced function

The chairman of Standard UK is responsible for overseeing the performance of the outsourcing arrangements with the managers with respect to Standard UK in accordance with the requirements of the Senior Insurance Managers' Regime and EIOPA Guidelines on Systems of Governance.

e) Standard Club UK Governance Map

Standard UK has approved a governance map which sets out the Senior Insurance Manager Functions and key function holders identified by the board. The governance map is reviewed at least annually by the Nomination and Governance Committee. Recommendations in respect of enhancements or confirmation of its continuing appropriateness are made to the board by the managers.

f) Executive management arrangements

The day to day management of the Standard Club, including Standard UK, is led by executives who are members of the P&I executive committee of the managers. The executive committee comprises the chief executive, each of the Senior Insurance Management Function holders, and key function holders employed by the managers. The head of internal audit, whilst not a member, attends meetings of the committee.

The following committees report to the executive committee:

- Risk committee
- Claims committee
- Finance committee
- Underwriting committee
- Portfolio management committee
- Reinsurance review committee
- Reserving committee
- IT steering committee

Each of the committees has prescribed terms of reference setting out the roles, duties and reporting requirements.

The board has established a Board reporting policy, pursuant to which the managers are required to provide the board with a full and complete overview of the affairs of Standard UK, covering all key areas of its operations in sufficient detail to allow the board to properly discharge its responsibilities.

5. Training – An annual programme of training is provided to the board and its committees, key function holders and employees.

6. Internal audit and compliance reviews of management functions are carried out to assess performance against KPIs.

7. Annual appraisal process / board evaluation

As part of the club's governance processes, and in line with good corporate governance practices, the club conducts a periodic board and committee evaluation.

The purpose of the evaluation is to help the board, committees and individual directors perform to their maximum capabilities, and:

- assess the balance of skills within the board / committee;
- identify attributes required for any new appointments;
- review practices and procedures to improve efficiency and effectiveness;
- consider the effectiveness of the board / committee's decision-making processes;
- recognise the board / committee's outputs and achievements.

The board last conducted a full evaluation in November 2017, which was considered by the Nomination and Governance Committee in January 2018. In 2018, the committee engaged Latham & Watkins to carry out a review of the club's governance arrangements which concluded that overall it was fit for purpose. A small number of recommendations to enhance some aspects of the governance of the club were proposed to, and approved by, the board and these will be actioned by the managers.

The Nomination and Governance Committee makes recommendations to the board in respect of enhancements that it considers desirable following its review of the evaluation results. Each October, it considers the progress against actions in respect of improvements identified in the results of the evaluation process.

Material changes in the system of governance that have taken place over the reporting period

No material changes have occurred during the reporting period.

Remuneration policy and practices

1. Directors' fees (including committees) – The Nomination and Governance Committee's terms of reference include the review and recommendation of changes to directors' fees. A detailed benchmarking exercise was conducted during 2015 to ensure fees were brought into line with market rates, and a further review was conducted during 2016.

2. Management fee – The managers submit a proposal in respect of the fee to be paid by the Standard Club to the managers, for the services provided under the management agreement for the following year, to the October meeting of the Nomination and Governance Committee, following prior discussion of the proposed fee level with the Chairman's Group.

The Nomination and Governance Committee reviews the fee proposals and makes a recommendation to the board. The Nomination and Governance Committee in reviewing the fee takes account of the fees paid by the other P&I clubs to their respective management companies.

3. Remuneration policy - The Nomination and Governance Committee considers the remuneration policy of the managers to ensure that it aligns with the interests of the club and that it does not promote excessive risk taking. In doing so, it additionally reviews the performance appraisal of the chief executive in respect of the previous year and the objectives of the chief executive and members of the managers' executive team for the following year. The chairman of the Nomination and Governance Committee reports to the board on its review of the policy.

4. Summary of the remuneration policy of the managers – The managers' policy is to adopt and encourage a total view of remuneration, with the reward strategy being to place more emphasis on variable pay and alignment to performance based on the achievement of objectives, rather than to focus on base pay. The total remuneration of the managers' employees consists of annual base salary, a discretionary annual bonus, pension, private medical insurance, group life assurance and group income protection cover.

The managers participate in the Spinnaker survey, which is the main source of benchmarking data for P&I clubs. For more senior roles, in respect of which the survey lacks detail, additional sources are used to help guide and inform.

Annual base salary – this is set at a market rate for the role being performed.

Discretionary annual bonus – bonus awards are based upon the employee's performance against a set of objectives during the performance period and are aligned with the interests of the Standard Club and Standard UK.

Deferred equity schemes are additionally used to motivate senior employees' performance over the longer-term.

As the club does not have employees, there are no supplementary pension or early retirement schemes to disclose.

Material transactions during the reporting period

The club, which is limited by guarantee, has no share capital and is controlled by the members who are also its insureds. Shipowner members enter into insurance contracts negotiated with the club's managers on arm's length terms. The Standard Club pays an annual management fee to the club's managers (of whom two are also directors of Standard UK and the Standard Club) and has some limited transactions with other Charles Taylor companies as part of the normal course of insurance business. Standard UK has in place a comprehensive quota share reinsurance programme with its fellow group subsidiary, Standard Reinsurance (Bermuda) Ltd ('Standard Re'), whereby 90% of claims (net of external reinsurance recoveries) are recovered from Standard Re and 90% of premium (net of external reinsurance premium) is ceded to Standard Re.

Aside from these there were no other material transactions during the reporting period with shareholders, persons who exercise a significant influence on the undertaking, or with members of the administrative, management or supervisory body.

B.2 FIT AND PROPER REQUIREMENTS

The Standard Club (and subsidiaries) outsources to a Club manager, as is common for P&I Clubs across the world. The central relationship is with Charles Taylor and Co (Bermuda) and with other Charles Taylor group entities. There are four basic groups of roles that can be considered key to the Standard Club (and Standard UK):

- The Non-Executive Directors of the Club who act as Chair of the Board, Audit and Risk Committee (“ARC”) and the Nomination and Governance Committee. The individuals carrying out these roles are all individually approved by the UK regulators and are subject to the individual and senior manager conduct standards;
- Other Non-Executive Directors who do not act as chair of a committee. These individuals are notified to the PRA and FCA but are not reported on the FCA register. Non-Executive Directors who do not perform a prescribed responsibility are subject to the individual standards and a limited number of senior manager conduct standards;
- The Charles Taylor resources that perform significant roles for the Club and are individually approved by the UK regulators and are subject to the individual and senior manager conduct standards. These include the individuals performing the functions of Chief Executive, Chief Actuary, Chief Finance Officer, Chief Underwriting Officer, Director of Performance and Strategy, Head of Compliance & Governance, Head of Internal Audit Function, Head of Risk and the Managing Director; and
- The Charles Taylor resources that are able to take material risks for the Club. These individuals are subject to the individual conduct standards.

There is also a skills and knowledge matrix used by Standard UK to ensure that the board has the right combination of skills, knowledge and experience to meet its regulatory obligations and the firm’s strategic and operational objectives.

A Fit and Proper Policy is in place for the Standard Group and describes the objectives, roles and responsibilities and governance around the selection, due diligence and appointment of resources into the key roles. The Fit and Proper Policy is owned by the Board of Directors as a body and by the Standard Club CEO as a business owner. The policy is reviewed and approved at least annually.

The Fit and Proper Policy splits the necessary scrutiny into ensuring honesty, integrity and sound reputation, financial soundness of the individual proposed, and competency and capability in the role. The Policy applies to service providers if they hold a key function and is applied by the board’s Nomination and Governance Committee.

The Nomination and Governance Committee oversees that:

- Key role holders are fit and proper at all material times;
- Appointments to key roles are appropriately reviewed;
- Due diligence is exercised in line with the policy when assessing individuals for key roles;
- The board composition in aggregate meets the aggregate needs of the Club’s governing body;
- Professional training is available to those individuals in key roles; and
- A clear rationale exists for changes to the senior management team.

B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

1. Overview of the club's risk management system

Risk management system

The risk management system is owned and defined by the board. It is designed to ensure that the risk strategy is consistent with the overall business strategy and operates effectively within its documented risk appetite. The risk management system includes classification of risks in the risk register, assessment of risks in terms of likelihood and impact, and identification of key risk controls and indicators for each risk type. Oversight of the risk framework governance is delegated by the board to the ARC, and formal roles, responsibilities and governance of risk are set out in the scope of individual senior management role descriptions, terms of reference of internal oversight committees and the policies and procedures used within the business.

The organisation of the Standard Group includes mechanisms which integrate the risk profile of Standard UK with the wider affairs of the group – for example, through the reinsurance of 90% of the risks of Standard UK to Standard Re. This reflects the ultimate beneficial ownership of Standard UK which resides with members of the Standard Club who are policyholders of either Standard UK, Standard Ireland or Standard Asia. As a consequence, the risk management system for Standard UK considers risk both at a group level and with explicit consideration of the differing nature and view of risk at the Standard UK level.

“Three lines of defence” principle

The risk management system follows ‘three lines of defence’ principles widely used within the insurance industry. Management of risk is performed by business units on a day to day basis, supplemented by oversight and review of controls by the risk management function and independent assurance that controls are adequate through testing performed by the internal audit department.

Risk management function

The risk management function consists of the risk management department and other members of the executive team involved in oversight of the risk management processes of the business, for example members of the executive risk committee. The risk management department is responsible for co-ordinating the activities of the risk management function and maintaining effective risk management awareness across the business.

Risk strategy and appetite

Risk management strategy is subject to a formal strategic risk appetite statement, which sets out the degree of risk considered prudent to accept in the overall long-term interests of the club's stakeholders. Risk appetite and strategy are explicitly linked with the capital management objectives of the Standard Group and the nature of its mutual ownership and objectives.

The strategic risk appetite statement requires the business to manage its affairs in a manner intended to:

- Reduce the likelihood that it is required to make an unbudgeted supplementary call on its members to an acceptable minimum;
- Target a breakeven underwriting result over the business planning horizon;
- Ensure it maintains delivery of excellent levels of service to members; and
- Ensure the degree of risk to which mutual members subject to supplementary calls are exposed from activities other than core underwriting activities (for example, from investments or fixed premium mutual business) is appropriate and commensurate with the expected benefits.

In addition, the business monitors the level of capital held to ensure it does not exceed that required for the orderly management of its affairs consistent with its mutual objectives, including maintaining its financial strength and external credit rating.

At a more granular level (for example, by risk category) risk appetite is expressed in terms of impact and likelihood using a risk assessment matrix, where the impact is measured as a proportion of free reserves.

Risk governance

The ARC and board review the club's risk appetite and risk policies at least annually in respect of the major business risks facing the Standard Group, their potential impact, and the systems to manage and mitigate those risks.

Responsibility for day to day management of risk is the responsibility of the managers' executives as part of the performance of their roles, as set out in individual job descriptions, defined processes and procedures identifying levels of authority within the management structure, and risk policies. The Standard Club operates an internal managers' risk committee led by the Chief Risk Officer and including key senior managers, which monitors and provides oversight of risk and capital issues across the business. The risk committee is responsible for making recommendations and ensuring that the executive management committee is kept informed of key risk information and issues, and escalating matters of concern to the ARC.

Management information

Tools, models and systems have been developed in order to provide qualitative and quantitative management information for use in risk management decisions. In particular, the Standard Group makes use of its internal model in order to quantify the levels of aggregate risk carried at both group and Standard UK level and to monitor whether levels of risk are within strategic risk appetite. Detailed measures of the club's appetite for risk have also been established, with key risk indicators reported at each board meeting against pre-set board and management tolerances, for example with respect to key financial ratios, maximum exposure to individual investment counterparties, maximum exposure to specific ship types, or acceptable levels of new business growth.

Policies and procedures

Policies and procedures are in place in respect of the material risks of the club which, amongst other matters, set out the roles and responsibilities with respect to the management of risk. Specific processes and procedures are in place to manage risks arising from the business. These are designed to ensure that transactions and decisions are made by individuals with appropriate levels of experience and authority, with consideration of relevant risks.

2. Implementation and integration of the club's risk management function**Strategy and appetite**

The risk management function provides significant input into the design and implementation of risk appetite which assists in setting the strategy of the club, for example with respect to the key underwriting and investment risks.

The risk management department co-ordinates the monitoring of whether the club is likely to, or has, exceeded risk appetite and assists in making decisions in those eventualities. The assessment is reviewed by the managers' risk committee on a quarterly basis.

Risk assessment and control effectiveness reviews

The risk management department has implemented a rolling programme of reviews to assess business risks and the effectiveness of mitigating controls in place. This programme is designed to cover all areas of risk identified in the risk register at least once a year. These reviews, which are performed in conjunction with each business unit, consider whether controls are designed and operating effectively and ensure that outstanding risk mitigation actions are occurring in a timely manner.

Incident reporting and embedding risk management

There is an emphasis upon continual education of senior management and staff in considering good risk management practice in individual aspects of their roles. The risk management department maintains an incident reporting process which records control failures and "near miss" events and is designed to identify underlying root causes and whether any control improvements can be implemented. Incidents are reported across the senior executive management team and to the board.

Use of internal model

The risk management system and processes are linked to the club's internal model. The internal model is used to create the financial projections which form the business plan. Key assumptions used in the model reflect expectations of future insured exposure and premium rate changes, claims frequency and severity trends and investment returns. Assumptions with respect to the degree of uncertainty and volatility arising from risk taking activities are based on a combination of analysis performed by the actuarial function and inputs provided by business

units. Internal model assumptions are reviewed by relevant business experts and the ARC. Internal model outputs are a key input into the ORSA process described below, and their uses include assessing levels of risk compared with risk appetite, assessing the adequacy of reinsurance arrangements, and informing pricing and capital management decisions.

3. ORSA process

Key elements of Own Risk and Solvency Assessment (ORSA) process

The ORSA process brings together the key elements of risk, capital and strategy. The ORSA process is performed at both a Standard Group and Standard UK level, and is summarised in a single annual report which is approved by the board. At a group level the ORSA report meets the Bermuda regulatory requirement to prepare a Commercial Insurer's Solvency Self Assessment report.

The ORSA process combines outputs from business strategy and planning processes with the results of risk profile monitoring, stress and scenario testing and outputs from the internal model on aggregate levels of risk. The annual ORSA report consolidates the results of these analyses in a single document in order to provide a coherent view of capital adequacy, risk profile, the effectiveness of the risk management system and key risk mitigating actions required to ensure the business remains within risk appetite.

In addition, each Board meeting receives a summarised "Risk Overview" report which sets out the status of key risks to achieving strategic objectives together with actions designed to mitigate these. The core strategic objective that most directly relates to Standard UK's overall solvency needs is "to provide first class financial security". The current qualitative and quantitative risks to achieving this objective, any mitigating actions and the outlook over the next 12 months are assessed and incorporated into the ORSA process.

The "Risk Overview" also includes an assessment of capital adequacy, an analysis of key investment risks, and an analysis of the likely range of outcomes for the current financial year.

Financial information and business plan

The prior year results used in the financial reporting provide the basis for the first stage of the ORSA and strategic planning processes. The internal model is used to create a business plan over a three-year time horizon including projected levels of free reserves and the potential distribution of outcomes around the central projection. These results are used to review the business plan against risk appetite and amend plans if required.

Stress and scenario testing and emerging risk review

The ORSA process includes a pre-defined set of stress and scenario tests. There is a structured annual process to review potential emerging risks which is designed to identify whether any changing or new risk could have a significant impact on the business risk profile, and whether any consequent actions are required (for example, a new risk mitigating action or set of controls). The significance of new or emerging risks is typically assessed through development of appropriate stress tests.

Assessment of capital adequacy and comparison with standard formula capital requirements

Standard UK is required to hold capital calculated using the Solvency II standard formula methodology. The ORSA report includes an analysis of the level of capital required under the standard formula calculation compared with the equivalent level of capital calculated using the internal model. The broad underlying structure of the standard formula is consistent with the internal model developed in-house based on the evaluation of the business risk profile. As a consequence, changes in the risk profile of the business are expected to cause directionally similar changes in both regulatory capital requirements and the equivalent internal model requirement. While there are some differences in approach and calibration, such as in the treatment of default risk on the 90% quota share arrangement in place with Standard Re, these are not sufficiently material to suggest the standard formula is inappropriate to use for regulatory capital requirement purposes.

ORSA report governance

The Chief Risk Officer is responsible for the preparation of the ORSA report, including ensuring that it articulates a coherent overall strategic plan that fits with the agreed risk appetite. The board reviews and approves the ORSA report in conjunction with the strategy and business plans. A key expectation is that the ORSA report and strategic and business plans are aligned and fit within strategic risk appetite.

ORSA process timing

The ORSA process is continuous, with various elements conducted through the year and integrated into the final ORSA report. For example, internal model outputs are used to inform decisions on potential changes in premium rates for renewals in the following policy year. A draft assessment of capital levels based on internal model outputs incorporating the results of February renewals is provided at the May board meeting.

The ORSA process is closely aligned with the business planning and strategy setting process (a detailed timetable of the key milestones for each process and how they are interlinked is set out in the ORSA report).

The board reviews the ORSA report twice a year. A draft ORSA report is provided for the July board meeting for input and the finalised ORSA report is reviewed and approved at the October board meeting.

Internal Audit performs an independent review of the ORSA report to provide assurance that it has been prepared in line with the board's ORSA policy and is consistent with underlying financial and other information.

Circumstances that could trigger a need for an ORSA review outside the normal timetable, including significant investment, insurance or operational losses, are set out in the ORSA report.

B.4 INTERNAL CONTROL SYSTEM

The club has a robust system of internal controls which are used to manage the risks faced by the club to within its documented risk appetite. This system covers all functions and all activities undertaken by the managers on behalf of the Standard Club and Standard UK.

Business functions (such as underwriting, loss prevention or claims) own the functional controls for their areas of responsibility. These controls are set out in the risk register and described in procedure manuals, often accompanied by process flows to aid the accurate adoption of procedures by new resources. Formal procedures are in place covering a wide range of business activities, in particular in relation to underwriting and claims activities. For example, formal procedures govern the pricing of new business, performance of member risk reviews by the loss prevention department, issuance of certificates of insurance, approval and payment of claims, and performance of sanctions, anti-money laundering and anti-bribery and corruption due diligence on counterparties prior to transacting business.

The effectiveness of controls is assessed semi-annually by the risk owners identified in the risk register in conjunction with the risk department, and subject to periodic Internal Audit testing and review. Material controls are reviewed by Internal Audit on a three yearly rotating basis and those with a strong regulatory element are also subject to monitoring reviews by the compliance department. Any failure of a material control is recorded as an incident and reported through the executive management structure and to the board.

B.5 INTERNAL AUDIT FUNCTION

1. Implementation of the internal audit function

Audit Planning

Internal audit ("IA") prepares, in consultation with risk management, compliance senior management and other key users, an annual audit plan ("the plan"), setting out the proposed timing and rationale for IA assignments. The plan is based on a risk assessment, identifying business objectives, all significant activities and key risks to the achievement of those objectives. The plan is reviewed and approved by the ARC and communicated to the club board, and the ARC ensures that the plan addresses all key business risks.

Any significant changes to the plan are discussed with the chairman of the ARC and are communicated to the ARC for approval.

a) Audit execution

IA is responsible for planning, conducting, reporting and following up on audit assignments included in the plan.

Audit fieldwork is conducted in a professional and timely manner.

b) Reporting

IA is responsible for reporting to management and, ultimately, the ARC issues relating to the processes and activities identified in an audit assignment including potential improvements to those processes.

A draft audit report is prepared at the conclusion of each audit and facts are agreed with relevant management. Management responses to findings and action plans are agreed, including deadlines and identification of those responsible for implementation.

IA sends a summary of each completed audit to the ARC.

IA is responsible for verifying that audit issues have been completed, and the head of IA is responsible for monitoring the timely action of management to address these findings. Progress is reported to the ARC.

At each meeting, IA provides to the ARC information on the status and results of the annual audit plan. IA also provides regular reports on IA's compliance with its key performance requirements. Periodically IA will report on feedback obtained from key business users on its performance and effectiveness.

c) Interaction with other control and assurance activities

IA liaises on an ongoing basis with the Charles Taylor Plc group compliance and risk officer and other parties as appropriate to ensure optimal audit coverage to the club and Charles Taylor Plc and avoid unnecessary duplication of effort.

IA maintains regular contact with all parts of the business at a senior level to ensure continued understanding of the business, cooperation between the business areas and IA and awareness of plans and strategy that may affect the audit universe and audit activity.

Access to IA programmes, working papers and reports are made available for review by the external auditors.

d) Resources

The head of IA maintains sufficient and appropriately skilled audit personnel to implement the audit programme, either internally within the audit team or externally through the use of specialist resources.

2. Independence and objectivity of the internal audit function

Objectivity and independence

IA is independent of the activities that it audits, and its auditors are objective in performing their work. IA, while consultative in approach, is free from interference in determining the scope of internal auditing, performing work and communicating results. In summary, IA is impartial, unbiased and avoids conflicts of interest.

To ensure independence, IA is directly accountable to the chairman of the ARC, with a day-to-day administrative reporting line to the Chief Executive Officer of Charles Taylor Plc, and has free and unrestricted access to the chairman of the club board.

B.6 ACTUARIAL FUNCTION

The Chief Actuary has responsibility for the actuarial function, which, in line with its terms of reference:

- a) contributes to the effective implementation and embedding of the risk management system, in particular by designing, implementing, updating, testing, running and reporting on the internal model;
- b) calculates and validates the technical provisions;
- c) expresses an opinion on the overall underwriting policy;
- d) expresses an opinion on the adequacy of current reinsurance arrangements;
- e) reports to the senior management and the board on the reliability and adequacy of actuarial calculations; and
- f) liaises with the external auditors to assist with their annual independent assessment of the technical provisions.

The actuarial team comprises three qualified actuaries and two trainee actuaries. The team sits within and works closely with the finance team, which aids access to, communication of and understanding of the data and outputs used by and produced by the actuarial team.

The Chief Actuary reports to the board four times a year on subjects that as a minimum include the actuarial function reporting cycle, which comprises the setting of GAAP technical provisions, the conversion of GAAP technical provisions to a Solvency II basis, an opinion on the underwriting policy, an opinion on the reinsurance arrangements, and a description of how the actuarial function has contributed to the risk management system during the year (including use of the club's internal model).

B.7 OUTSOURCING

Outsourced management of the business

The day to day management of the Standard Group is outsourced to Charles Taylor and Co (Bermuda), an arrangement which has existed since the establishment of the Standard Club in 1884. The use of an outsourced manager is an operating model adopted by several other P&I club competitors, having evolved over many years in response to the mutual ownership and specific marine liability management and insurance needs of the shipowners who control the Standard Club and for whose benefit it has been established. As a consequence, the Standard Club UK Ltd has no direct employees, with all staff being provided by the outsourced manager.

Charles Taylor and Co (Bermuda) performs the outsourced management of the Standard Group from Bermuda or procures the performance of activities from other Charles Taylor entities. Reflecting the wide geographical scope of the Standard Club business, including the business of Standard UK, it procures performance of many activities from other entities within the Charles Taylor Plc group, the most significant of which are:

- Charles Taylor Investment Management – providing investment management services for the Standard Group and its subsidiaries including Standard UK.
- Charles Taylor & Co Ltd – providing insurance management services in London, including management of a substantial part of the affairs of Standard UK.
- Charles Taylor Mutual Management Services – providing insurance management services in Singapore, including management of a substantial part of the affairs of Standard Asia, and some claims management services on behalf of Standard UK.

A number of arrangements are in place between Charles Taylor & Co (Bermuda) and other Charles Taylor entities (collectively referred to as “the managers”), for example to support claims management activities performed on behalf of Standard UK in its regional offices or where specific ancillary services are performed such as acting as claims correspondent.

The performance of the managers is formally reviewed by the NGC at least annually against service level agreements detailed within the management agreement which governs the outsourced relationship. The Board also exercises oversight of the performance of the managers through the regular reporting provided by the various function heads at each meeting of the Board and its committees, through reports provided by the key functions (finance, underwriting, claims, actuarial, risk, compliance and internal audit) and through regular discussion between key board members (for example, the chair of Standard UK and the chairs of the ARC and NGC) and executives.

Outsourcing policy

An Outsourcing Policy is in place which considers both:

- The primary outsourcing relationship with Charles Taylor & Co (Bermuda) and other Charles Taylor plc group entities which provide management services to members of the Standard Group.
- The approach to be taken in the event that the managers themselves outsource activities that would otherwise be performed directly by them.

The outsourcing policy sets out a number of requirements with respect to outsourcing arrangements including:

- No activity or function reserved for the Board may be outsourced. In addition, if the function or activity is considered critical or important (for example, insurance product design and pricing, performance of key functions such as actuarial), the Board must authorise any further outsourcing arrangement proposed by the managers.
- Notification of material outsourcing arrangements to regulators where required.
- Criteria which must be considered in selecting a new outsourced provider or renewing an existing contract, including the ability of the provider to provide services in a manner that will not breach risk appetite and will meet business continuity standards and regulatory requirements.
- Prescribed elements to be included in written contractual arrangements.
- Contingency plans in the event the service provider is unable to deliver an adequate level of service or seeks to terminate the outsourced arrangement.

B.8 ANY OTHER INFORMATION

Adequacy of the System of Governance

The club has assessed its corporate governance system, using external expert advisers, and has concluded that it effectively provides for the sound and prudent management of the business, which is proportionate to the nature, scale and complexity of the operations of the club.

C. RISK PROFILE

C.1 UNDERWRITING RISK

1. Material underwriting risks

The underwriting risk of Standard UK arises from two main categories of insurance product which it provides to its members:

- i) *“Poolable” P&I cover* – being protection and indemnity insurance which covers members against third party liabilities arising from their shipping activities.

“Poolable” P&I represents covers which qualify for inclusion within the International Group (“IG”) pooling agreement. The IG is made up of 13 principal mutual P&I clubs which are owned and controlled by shipowners representing approximately 90% of the world’s ocean going ship tonnage. Each club (including Standard UK) pools losses in excess of a \$10 million per claim retention, with losses in excess of this amount being shared between all clubs using a formula based on the historical loss record of each club and the tonnage and type of ships entered into the pool. The IG has entered into a number of collective reinsurance arrangements with the commercial reinsurance market, which takes a progressively greater share of individual losses as claim size increases. Losses in excess \$2.1 billion (termed “overspill claims”) are re-pooled, however the IG reinsurance arrangement provides an additional \$1 billion reinsurance for a single claim. In practice no claim has yet arisen which breaches the limits of the IG reinsurance programme, with the largest individual poolable claim to date being \$1.48 billion of third party liability costs arising from the wreck of the Costa Concordia.

Poolable P&I cover is a variable premium product, meaning that Standard UK may make supplementary calls on members if required to meet unanticipated financial losses. All clubs which are members of the IG must be mutual associations capable of levying additional premiums on their members in the event that an overspill claim occurs. In practice, as set out in Standard UK’s risk appetite statement, the business seeks to minimise the possibility that such unbudgeted supplementary calls could occur.

As a consequence of the pooling arrangement, Standard UK is subject to underwriting risk arising from both its own policyholders and through its share of other P&I club’s poolable claims (“inwards pool” claims).

- ii) *“Non-pool” business* – being protection and indemnity insurance where the nature of the underlying activity does not qualify for inclusion in the IG pooling arrangement (primarily relating to offshore energy activities), or liability cover for ship charterers, or ancillary covers such as legal expense costs relating to shipping disputes.

In addition to the benefit provided by the IG pooling agreement, Standard UK benefits from:

- Specific per claim reinsurance for non-poolable risks provided by commercial reinsurers.
- A comprehensive 90% quota share of underwriting gains and losses including operating expenses provided by Standard Re, the internal reinsurer of the Standard Group.

Categorisation of types of underwriting risk

At a high level, underwriting risk is categorised between premium risk, being the risk that premiums will not be sufficient to meet all claims covered and associated expenses, and reserve risk, being the risk that case or actuarial reserves will be inadequate in covering known or unreported losses. These risks are further considered in terms of:

- Inappropriate insurance strategy, including reinsurance strategy;
- Ineffective implementation of underwriting strategy;
- Ineffective implementation of reinsurance strategy;
- Ineffective claims management, leading to inappropriate case reserve and settlements;
- Inadequate actuarial reserving.

2. Material risk concentrations and changes in risk profile over the reporting period

Gross underwriting risk has remained relatively stable over the period, with no substantive change in tonnage of ships entered into the club. This is consistent with the relatively high levels of policyholder loyalty, low levels of churn

in the underwriting portfolio and targeting of a breakeven underwriting result including expenses. Underwriting risk net of reinsurance has moved in line with gross underwriting risk.

NB - Underwriting risk will reduce significantly after the 20 February 2020 renewal date as a result of approximately half of Standard UK's business being renewed by Standard Ireland at 20 February 2019. The premium risk component of the Feb 2019 SCR is based on the higher of either historical or forecast premium. It has therefore not changed significantly since Feb 2018, despite forecast premium reducing by half. Standard Ireland was established in order to carry on the group's European insurance business in preparation for the UK leaving the European Union.

More than 90% of net underwriting risk arises from poolable P&I cover, driven largely by Standard UK's exposure to its own and other clubs' pool claims. While the club monitors other types of underwriting risk concentration, including ship type and membership, these represent less significant sources of concentration risk. P&I cover provides liability cover for ships which are trading on a global basis, therefore is not significantly exposed to geographical risk concentrations, for example, compared with insurance of static property or similar asset-based covers. As a consequence, the primary drivers of underwriting risk relate to:

- The number and severity of large poolable P&I claims including inward pool claims.
- The potential for significant adverse reserve development arising from existing claims or new types of previously unreported liability.

3. Risk mitigation techniques

A number of risk mitigation techniques are used to manage underwriting risk, including:

Premium risk

- Board and senior management review of underwriting results, drafting of strategy and business plans;
- Reinsurance strategy review and approval by the board in line with risk appetite;
- Comprehensive and high quality reinsurance programme;
- Underwriting and reinsurance authorities, approvals, processes, reporting and review;
- Use of exposure based pricing tools for new business;
- Activities of the loss prevention department, including ship surveys, member risk reviews, and application of coverage warranties, exclusions or non-renewal of members where ship operating standards are considered deficient;
- Monitoring for undue concentrations of risk and acceptability of results consistent with risk appetite.

Reserve risk

- Claims case management: authorities, approvals, processes, reporting and review;
- Systems workflow in place to assist management of claims cases;
- Claims peer review, feedback and management information;
- Actuarial reserving: modelling processes, reporting and review;
- Board: review and approval of key reserving output.

The comprehensive 90% quota share reinsurance of Standard UK's net operating result with Standard Re substantially mitigates the economic impact of both premium and reserve risk.

4. Stress and scenario testing

The key stress tests identified with respect to underwriting risk relate to:

- Premium risk – a significantly higher than historic average number of large pool claims occurring in the current policy year.
- Reserve risk – reserve deterioration across all years of account due to a systemic reserving issue.

Standard UK is assessed as being within its risk appetite in relation to the above scenarios.

5. Sensitivity analysis

The club is protected from underwriting volatility through its comprehensive external and internal reinsurance programmes (in particular the 90% quota share with Standard Re).

While a 5% increase in the club's gross loss ratio would reduce the underwriting result by \$12.2m (2018: \$12.4 reduction), net of all reinsurance the impact would be \$1.2m (2018: \$1.2m).

A 10% increase in gross IBNR claims would reduce the underwriting result by \$9.6m (2018: \$10.3m reduction), net of all reinsurance the impact would be \$1.0m (2018: \$1.0m).

C.2 MARKET RISK

1. Material market risks

Market risk relates to the risk of losses on assets held to pay future claims and operating expenses, and losses on surplus assets held for solvency purposes.

The club's investment strategy has been developed with the following objectives:

- To preserve capital for the payment of the club's claims and other liabilities by limiting risk in the portfolio
- Within the risk tolerance, to maximise the overall returns as measured over rolling three-year periods.

Prudent person principle – management of assets

The club invests in a range of assets and instruments whose risks it can sufficiently identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency. All assets are invested to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Sufficient assets are localised to ensure their availability. Assets are invested in the best interest of all members under the direction of the investment director.

As a consequence the asset allocation strategy in place reflects a relatively cautious investment risk appetite for Standard UK, focussing on maintaining a portfolio which broadly reflects the liability profile in terms of currency and duration and consists of a diversified range of investments primarily made up of high quality bonds or similar fixed income instruments. More volatile investments including equities are held within Standard UK, however the majority of the Standard Club's higher yield and more volatile assets are held within the Standard Re, which also holds the majority of surplus assets held across the group.

Categorisation of types of market risk

Market risk is considered in terms of three categories:

- Inappropriate investment strategy;
- Ineffective implementation of investment policy, strategy or investment rules;
- Ineffective management of investment counterparties.

2. Material risk concentrations and changes in risk profile over the reporting period

As a consequence of the asset allocation strategy and consequent portfolio diversification, material asset risk concentrations are minimised. Market risk has reduced since February 2018 driven by a reduction in the overall investment portfolio.

The most significant risk concentration within the portfolio relates to currency risk, arising out of currency liability matching. There is a significant proportion of technical provisions held in Euros whilst the majority of assets are held in US Dollars, creating a slight mismatch which is amplified at the 1 in 200 level.

3. Risk mitigation techniques

A number of risk mitigation techniques are used to manage market risk, including:

- The board reviews and approves investment strategy;
- Clear investment guidelines and rules are implemented and monitored, including counterparty limits;
- Investment guidelines require investing widely and in different asset classes to diversify the portfolio;
- Asset-liability matching processes are in place;
- Foreign-exchange matching processes are in place;
- Interest rate risk exposure is measured and controlled through regular review of the appropriate duration;
- Levels of investment risk are monitored using "Value at Risk" techniques which must remain within risk appetite.

4. Stress and scenario testing

Investment loss stress tests and scenarios, including consideration of historic scenarios and an inflation shock scenario, are regularly monitored. Standard stress tests include:

- Bond price falls;
- Equity market falls;
- Currency fluctuations;
- Credit spread increases;
- Combined bond price and equity market fall.

Standard UK is assessed as being within its risk appetite in relation to the above scenarios.

5. Sensitivity analysis

The club maintains a conservative investment portfolio with approximately 84% (2018: 88%) of investment assets held in fixed income assets.

Sensitivity analysis for interest rate risk illustrates how changes in the fair value of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 150 basis points in bond yields would result in a deficit for the club of \$0.8m (2018: \$3.1m).

The club is exposed to equity price risk as a result of its holdings in equity investments. Sensitivity analysis for equity price risk illustrates the effect of changes in equity market indices on the value of the investment portfolio. A 10% decrease in equity values would be estimated to have decreased the surplus before tax and reserves at the year-end by \$0.7m (2018: \$0.9m).

The club is exposed to currency risk in respect of liabilities under insurance policies denominated in currencies other than US dollars. The most significant currencies to which the club is exposed are sterling and the euro. The club seeks to manage this risk by constraining the deviation of the currencies of the assets from the estimated currencies of the liabilities. The club also uses forward currency contracts to protect currency exposures and maintain investment policy benchmarks.

At 20 February 2019, had sterling strengthened by 10% against the US dollar with all other variables held constant, the surplus for the year would have been \$0.1m higher (2018: \$6.2m higher). Had the euro strengthened by 10% against the USD dollar the surplus for the year would have been \$3.1m higher (2018: \$3.3m higher).

C.3 CREDIT RISK

1. Material credit risks

Credit risk relates to the risk that another party fails to perform its financial obligations or performs them in a timely manner. Counterparty risk arises in relation to members, guarantors, other clubs, reinsurers, investments and deposits. Under the risk management system investment counterparty risk is considered within the market risk category. Therefore the most significant credit risks arise from reinsurers, banking counterparties used to hold cash and the premium balances due from members of Standard UK.

A diverse range of high-quality reinsurers are used on the reinsurance programme.

Significant amounts of money are held with the custodian bank as money flows in respect of premiums, claims and management fees. The flow is carefully monitored and managed so as to not to exceed tolerance levels.

There are a number of credit controls over members that fail, allowing for the club to offset potential losses. The club continues to closely monitor the credit worthiness of members and collect premiums in good time.

2. Material risk concentrations

External reinsurance is placed with a range of highly rated reinsurers, with the highest single concentration being due from underwriters at Lloyd's. The potential overall concentration levels are considered when placing reinsurance.

The internal group quota share reinsurance with Standard Re comprises the largest single counterparty and is considered under C.6 other material risks.

Standard UK has a small number of key banking relationships for handling cash receipts and payments, which may result in material amounts cash accumulating for short periods of time, for example when member premium payments are received on key due dates.

The club seeks to maintain a diversified member base, reducing the credit concentration risk to any one member. Given the significant risk mitigation in place, member credit risk is considered to be relatively low.

3. Risk mitigation techniques

A number of risk mitigation techniques are used to manage reinsurer and IG pool reinsurance credit risk, including:

- Reinsurance is placed with many different reinsurers, reducing the potential impact of individual reinsurer default;
- The reinsurance programme is reviewed and approved by the board on an annual basis;
- All reinsurers are required to hold a credit rating of A- (Standard & Poor's or equivalent) or better;
- The board receives regular reports on the amounts recoverable from reinsurers;
- The board receives regular reports on the top 10 potential exposures by reinsurer;
- There is a clear risk appetite and thresholds set around the concentration of exposure with any single reinsurance counterparty;
- Should a reinsurer default on its obligations the loss to Standard UK would be mitigated by the comprehensive 90% quota share provided by Standard Re, which includes losses arising from reinsurer default within its coverage;
- The IG pooling agreement includes mechanisms to protect member clubs in the event of the default of one of its members, including securitisation of pool recoverables through "Hydra", the IG captive insurer, and minimum solvency and rating requirements for P&I clubs to be included within the pooling agreement;
- The IG provides guidance to the brokers on the GXL programme around counterparty and concentration risk, including having no reinsurer with a rating lower than S&P A-, a threshold of 15% participation for any one reinsurer of the overall programme and minimum requirements around reinsurer shareholders' funds.

Risk mitigation techniques used with respect to Standard UK's banking relationships include:

- Maximum counterparty limits with any single banking entity, which may not exceed \$50 million and may not exceed \$35 million for more than 5 working days;
- Frequent monitoring of bank credit rating.

Risk mitigation techniques used with respect to Standard UK's exposure to outstanding member premium balances include:

- Under the terms of coverage, member claims may be offset against outstanding premiums.
- Overdue premium amounts are monitored and reported to the managers executive committee on a monthly basis.
- Member cover can be cancelled for non-payment of premium.
- Guarantor security is monitored by the managers' finance committee.

4. Stress and scenario testing

A regular stress test is performed which considers the impact of the failure of a major reinsurer. Standard UK is assessed as being within its risk appetite in relation to this scenario.

5. Sensitivity analysis

The club's principal counterparty exposure is to its reinsurers. At the 20 February 2019 the reinsurers' share of claims outstanding (on a GAAP basis) was \$641.9m (2018: \$779.2m), of which \$242.8m (2018: \$351.2m) was from external reinsurers, and \$399.1m (2018: \$428.0m) was from Standard Re.

A 10% default on its external reinsurers' share of claims outstanding would have a gross impact of \$24.3m (2018: \$35.1m) on the club, however as any such default would be 90% reinsured by Standard Re (and any default on the International Group's excess of loss reinsurance would be pooled amongst the International Group clubs), the net impact would be \$1.4m (2018: \$1.5m).

The board reviews the solvency position of the club and Standard Re at each board meeting and through its ORSA, and has determined that the risk of default of Standard Re is extremely remote (more remote than a 1 in 200 event).

C.4 LIQUIDITY RISK

1. Material liquidity risk

Liquidity risk is the risk of failure to maintain sufficient funds to meet obligations as they fall due, for example due to the lack of marketability of investments, inability to make reinsurance recoveries in a timely manner, and incorporating the risk that additional funding may only be secured at excessive cost.

Given the high level of liquid investments held and mechanisms in place to enable quick access to reinsurance recoveries, the risk is considered to be very low.

2. Material risk concentrations and changes in risk profile over the reporting period

Investment assets are administered by a single asset custodian. While investments are required to be held in segregated accounts, there is a risk that in the event of the failure of the custodian there may be delays in accessing funds in a timely manner.

3. Risk mitigation techniques

A number of risk mitigation techniques are used to manage liquidity risk including:

- Asset-liability management controls are in place, which assist in Standard UK's ability to manage liquidity;
- The investment rules require a significant proportion of the portfolio to be held in easily realisable assets such as highly liquid sovereign debt;
- The club regularly reviews the time period required to liquidate the investment portfolio;
- Principal reinsurance arrangements allow for short period recovery of all significant claims payments due;
- A monitoring process is in place to identify short term potential cash needs in the business;
- Cash flow projections are reviewed and updated regularly to ensure the most efficient use of cash resources. The likely cash outflows in relation to specific large claims are projected and kept under review. All anticipated future profits in respect of future premiums are offset by losses in the premium provision. At 20 February 2019, the premium provision amounts to a loss of \$645k (see section D.2 Technical Provision) and therefore there were no profit associated with future premium.

4. Stress and scenario testing

A reverse stress test is performed which considers a liquidity issue arising from the failure of the asset custodian holding the club's assets, causing significant delays in receipt of funds owed.

The scenario is considered to be very remote and within risk appetite.

C.5 OPERATIONAL RISK

1. Material operational risk

Operational risk is the risk of losses incurred as a result of inadequate or failed internal processes, people and systems, or from external events (including legal risk).

Operational risk is considered in terms of five categories:

- Ineffective management of regulatory or corporate governance requirements;
- Ineffective management of people and relationships;
- Poor data management or application;
- Ineffective management of systems;
- Inadequate planning or reaction to external events.

2. Material risk concentrations and changes in risk profile over the reporting period

Standard UK has experienced an increase in direct and indirect cyber-attacks seeking to extract money through fraudulent means, with the ambition and sophistication of such attacks observed across the wider insurance industry increasing. The managers continue to invest in improving controls over this growing and changing threat.

3. Risk mitigation techniques

A number of risk mitigation techniques are in place including:

- Board oversight of service level agreement ("SLA");
- Maintaining professionally staffed management functions;
- Investment to support recruitment, retention and development of good quality resources;
- Monitoring systems issues, accounting for the need to achieve service objectives and protect data;
- Business continuity planning, including both physical business continuity planning and contingency plans in the event of failure of the outsourced manager;
- Requirement for the managers to maintain errors and omissions insurance;
- Regulatory compliance monitoring.

A system of incident reporting is in place in order to quickly identify operational failings in order that they may be reported upon and improvement actions put in place in order to reduce the risk of reoccurrence.

4. Stress and scenario testing

A range of operational risk stress and scenario tests are performed in order to understand the potential impact of operational issues. The most significant scenarios identified include:

- Rogue investment manager;
- Rogue chief financial officer;
- Regulator action;
- Cyber-attack.

Standard UK is assessed as being within its risk appetite in relation to the above scenarios.

C.6 OTHER MATERIAL RISKS

1. Group risk

Standard UK is subject to material group risk due to its interdependence with other parts of the Standard Club. For example, Standard UK relies on the strength of the overall Standard Club balance sheet to support its credit rating which represents a key marketing tool, and reinsures 90% of its retained risk with Standard Re, the group internal reinsurer.

The risk for the club is limited as there are consistent policies and procedures across the group. A loss is more likely to manifest in all entities at once and hence arise from one of the other risks.

2. Material risk concentrations

The primary exposure of Standard UK arises from the 90% quota share reinsurance arrangement with Standard Re.

3. Risk mitigation techniques

A number of risk mitigation techniques are in place including:

- Common directorships across Standard UK and Standard Club;
- Cross-review of Standard Club issues in place at board and management level;
- Right to commute the quota share contract in place with Standard Re at any time, for any reason under the terms of the contract;
- Standard Re has undertaken to advise the club of any material change in their investment rules;
- Standard UK monitors the performance of Standard Asia and the group as a whole;
- Standard UK monitors the forward-looking solvency of Standard Re and the group as a whole;
- Standardised processes, procedures and risk control measures are in place across the group.

4. Stress and scenario testing

The Standard Club recovery and resolution plan considers the impact of different insolvency and run-off scenarios from the perspective of each legal entity within the group.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

1. Valuation and difference between UK GAAP and Solvency II

The club held the following assets at 20 February 2019:

Assets as at 20 February 2019	2019	2019	2018	2018
	UK GAAP	Solvency II	UK GAAP	Solvency II
	value	value	value	value
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets	C0020	C0010		
Deferred tax assets	302	302	396	396
Investments	43,940	60,223	77,709	83,495
Reinsurance recoverables	654,534	583,292	791,774	672,233
Insurance and intermediaries receivables	68,783	12,640	58,596	703
Reinsurance receivables	58,216	58,216	22,487	22,487
Receivables (trade, not insurance)	14,146	14,146	68,268	68,268
Cash and cash equivalents	24,986	19,321	22,510	16,841
Any other assets	4,843	147	5,278	31
Total assets	869,750	748,287	1,047,018	864,455

The club's valuation and recognition of assets under Solvency II is consistent with the statutory financial statements prepared under UK GAAP. Some assets are reclassified and valued differently under Solvency II and are described below.

- Deferred tax assets – amounts of income taxes recoverable in future periods in respect of deductible temporary differences; the carry forward of unused tax losses; and/or the carry forward of unused tax credits. Recognised to the extent that they are regarded as recoverable only when it is more likely than not that there will be suitable net taxable income from which the future reversal of the underlying timing differences can be deducted.
- Investments - valued at market price at period end provided by the club's investment custodian, Northern Trust. The club uses Bloomberg to ascertain that investments are traded in active markets and hold no over the counter assets requiring modelling in the portfolio. Some deposits disclosed as cash under UK GAAP (valued at \$5,665k) have been reclassified to investments under Solvency II determined by the deposits' Complementary Identification Code ("CIC"). Accrued interest has been reallocated to investments from any other assets as required under Solvency II.

Within the UK GAAP balance sheet there are forward foreign exchange contracts of which the purchases and sales are reported on a net basis. Under Solvency II, the purchases and sales are reported separately in assets and liabilities respectively. At 20 February 2019, forward foreign exchange contracts were reported under UK GAAP at \$60k net of purchases and sales. Under Solvency II, these contracts were reported as \$10,580k assets and \$10,520k liabilities.

- Reinsurance recoverables - reinsurers' share of technical provision valued on a cash flow basis under Solvency II. See section D.2 Technical Provision.
- Insurance and intermediaries receivables - amounts past due for payment by members that are not included in cash-in flows of technical provisions. Valued at cost less any provision for impairment in value. Premium receivable from members, recognised as insurance receivables under UK GAAP, forms part of the best estimate technical provisions under Solvency II. See section D.2 Technical Provisions.
- Reinsurance receivables - amounts past due by reinsurers, both external and internal, that are not included in reinsurance recoverables. Valued at cost less any provision for impairment in value.

- Receivables (trade, not insurance) – amounts past due for payment from other Standard Group companies and non-insurance business partners. Valued at cost less any provision for impairment in value.
- Cash and cash equivalents – valued at the amount held at period end. Foreign currencies are translated at the US dollar rate of exchange at the balance sheet date. Some deposits disclosed as cash under UK GAAP have been reclassified to investments under Solvency II determined by the deposits' Complementary Identification Code ("CIC").
- Any other assets – valued at cost less any provision for impairment in value. Prepayments and accrued income are included on an accrual basis. Accrued premium income is reclassified to technical provision under Solvency II. See section D.2 Technical Provisions.

During the reporting period, no changes were made to the recognition and valuation bases used or to estimations.

D.2 TECHNICAL PROVISIONS

1. Valuation

The methodology for estimating the reserves required at year end for claims yet to emerge and be paid is:

- Risks are combined into broad groupings that can be expected to develop in a similar fashion to each other but in a different way to other risks;
- The five groupings used for this purpose are Own P&I (including owned/mutual, non-pool and chartered), Inwards Pool, Defence, London and Asbestos. While asbestos claims are Own P&I claims, they are separated out due to their different development patterns;
- Development patterns are derived from the historical data and applied to the current reported and paid claims. Other loss estimates are calculated using historical data regarding frequency and severity of claims, combined with exposure information. Weighted averages of these estimates are calculated using the Bornhuetter–Ferguson method. Finally, estimates are selected from the preceding methods and adjusted for claims outcomes not reflected in the calculated estimates.

Information on booked and expected premiums is used to determine the allowance for future premiums.

Historical information on expenses is used to determine the charge for expenses in the claims and premiums provisions.

2. Valuation in Solvency II and the UK GAAP Financial Statements

UK GAAP	Marine, aviation and transport	Total	Total
	2019 US\$'000	2019 US\$'000	2018 US\$'000
Technical provisions gross	686,080	686,080	826,230
Technical provisions net	31,546	31,546	34,457

Technical provisions net	31,546	31,546	34,457
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Solvency II	Marine, aviation and transport	Total	Total
	2019 US\$'000	2019 US\$'000	2018 US\$'000
Best estimate - gross	569,150	569,150	654,722
Best estimate - net	(14,142)	(14,142)	(17,511)

Risk margin	15,037	15,037	16,815
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Technical provisions net	895	895	(696)
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The calculation of the technical provisions starts with the GAAP reserves and proceeds in a number of stages:

- *Any prudence in the GAAP reserves is removed to arrive at a 'best estimate' - \$(1,227)k.* At the year-end, any potential case reserve redundancy not taken credit for in the GAAP reserves is removed.
- *Time value of money - \$(1,579)k.* While the GAAP reserves take credit for the time value of money on the asbestos reserves \$(1,375)k, under Solvency II discounting is applied to all cashflows for all classes of business \$(2,954)k.
- *An explicit additional allowance is made for events not in data (ENIDs): large events that have not happened in the past (so are not in the basic reserves) but might happen in the future - \$862k.* An ENID loading of 2% is used for past claims, broadly calculated as one event in 15 years of a size that causes a 30% deterioration of reserves – approximately the size of the deterioration experienced by the club due to asbestos claims from the reserves held in 1978-1980 when asbestos was first identified as a reserving issue.
- *An additional allowance is made for the expenses, both external and internal, of settling the claims - \$3,531k.* A claims handling expense (CHE) allowance of \$1,359k is already included in the GAAP reserves, however the methodology for calculating this allowance differs under Solvency II, coming to \$4,880k, so the difference is adjusted for at this stage.

- *An allowance is made for reinsurance bad debt - \$45k.* The managers use the credit ratings of the club's reinsurers and default rates published by S&P to estimate the cost of reinsurer defaults over the future lifetime of the claims.
- *An allowance is made for member bad debt - \$131k.* The managers make an estimate of the shortfall in respect of premiums already due or overdue from members who are in financial difficulty.
- *Reclassification of insurance receivables - \$(60,873)k.* Premium debt that is due after the balance sheet date (being the third instalment of poolable premium that is due 9 months after the year-end) is included as a debtor balance in the GAAP balance sheet but forms part of the claims provision on the Solvency II balance sheet.
- *Risk margin - \$15,037.* A risk margin is included to allow for the cost of funding the solvency capital required to support the reserves until they fully run off, as follows:

The Solvency Capital Requirement (SCR) for premium risk is calculated as at the valuation date and is assumed to decrease in future years in proportion to the premium still to be earned. The SCR for reserve risk is calculated as at the valuation date and is assumed to decrease in future years in proportion to the square root of reserves still outstanding. The SCR for counterparty default risk is calculated as at the valuation date and is assumed to decrease in future years in proportion to the reserves still outstanding. The SCR for operational risk is assumed to be 3% of the reserves outstanding at all dates. The risk margin is calculated as the cost of funding the SCR over the remaining lifetime of the liabilities assuming a cost of capital of 6% per annum.

- *'Premiums provisions' are added, on the same basis, for premiums, claims and expenses in respect of future exposures that the club has already agreed to underwrite - \$645k.* An ENID loading of 2% is used for premium provisions, broadly equal to an increase in costs of 50% in crew claims that might be caused by legal or judicial changes in the most significant jurisdiction. Since the current policy year is broadly expected to break even, the premiums provision is close to zero.

3. Reinsurance recoverable

The main elements of the reinsurance recoverable balance are in respect of (a) recoveries on pooled business from the International Group (IG) pooling arrangement, which includes recoveries from pool members and from external excess-of-loss reinsurers; (b) recoveries on non-pooled business from external excess-of-loss reinsurers; and (c) recoveries on the net retained business from a 90% quota share reinsurance arrangement with Standard Re.

There are no material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period.

4. Level of uncertainty

Uncertainty may give rise to a variance around the best estimates indicated within the technical provisions. Uncertainty arises from firstly, the potential of inaccuracy of the point estimate, and secondly the possibility of unexpected adverse experience. The ENID loading applied to both claims and premium provision aims to allow for some of these uncertainties. The likelihood & sizes of uncertainty are based on a combination of internal capital model output and expert judgement. Key areas of uncertainty around technical provisions are as follows:

- *Claims Provision* – uncertainties include large claims developing adversely; asbestos numbers and/or sizes greater than expected; Ogden discount rate change; additional size increase due for example to legislation changes or changes in jurisdictions where claims can be made; changes in development pattern not yet observed in experience; mix of claim sizes escapes reinsurance recovery to an extent greater than expected; and debtor default greater than foreseen.
- *Premium Provision* – uncertainties include claims numbers or sizes higher than expected, due to for example emerging risks, change in mix of business, legislation changes; inflation impacting claims costs greater than expected; and large losses greater in number than expected.
- *Yield curve* - applying to all elements of the Technical Provisions is the risk free yield curve, which may be subject to a shock change.

- *Risk margin* - uncertainty of the risk margin is driven largely by the SCR results, which in turn are driven by business volume, claims reserves, mix of reinsurers for credit default risk and mix of assets for market risk. As the calculation is based on 6% of future SCRs, any one change would not have large impact on the risk margin.

Analysis of the historical variability of claims notification and settlement suggests there is a 1-in-5 chance of the reserves deteriorating by approximately 11% over time. Conversely, there is also a 1-in-5 chance of the reserves improving by approximately 10% over time. Due to the comprehensive reinsurance arrangements in place for Standard UK the net impact of an 11% deterioration in the current level of net outstanding claims (\$40.3m) would be \$4.4m.

The club aims to achieve break-even underwriting (with a target 5 year average combined ratio of 100%). Due to the 90% quota share reinsurance with Standard Re any variability around this target at a net level is mitigated. While a 110% gross combined ratio would give an underwriting loss of \$9.0m, at a net basis this would be \$0.9m, limiting the variability around the premium provision assumptions.

5. Adjustments not made

The matching and volatility adjustments referred to in Article 77b of Directive 2009/138/EC, the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC and the transitional deduction referred to in Article 308d of Directive 2009/138/EC have not been applied.

There were no data deficiencies for which an adjustment was necessary.

6. Simplifications

There are no significant simplifications in the Technical Provisions.

D.3 OTHER LIABILITIES

1. Valuation and difference between UK GAAP and Solvency II

The club held the following other liabilities:

Other liabilities as at 20 February 2019	2019	2019	2018	2018
	UK GAAP	Solvency II	UK GAAP	Solvency II
	value US\$ '000	value US\$ '000	value US\$ '000	value US\$ '000
Derivatives	-	10,521	-	-
Insurance & intermediaries payables	35,832	35,832	36,267	36,267
Reinsurance payables	29,318	16,672	56,746	44,132
Payables (trade, not insurance)	6,651	6,651	3,409	3,409
Any other liabilities	918	918	785	785
Total other liabilities	72,719	70,594	97,207	84,593

The club's valuation of other liabilities under Solvency II is consistent with the statutory financial statements prepared under UK GAAP. Liabilities that are reclassified and valued differently under Solvency II are described below.

- Derivatives – Within the UK GAAP balance sheet there are forward foreign exchange contracts of which the purchases and sales are reported on a net basis. Under Solvency II, the purchases and sales are reported separately in assets and liabilities respectively. At 20 February 2019, forward foreign exchange contracts were reported under UK GAAP at \$60k net of purchases and sales. Under Solvency II, these contracts were reported as \$10,580k assets and \$10,520k liabilities
- Insurance & intermediaries payables - valued at cost less any provision for impairment in value.
- Reinsurance payables – within the UK GAAP balance sheet, \$12,646k is unearned as it relates to the 2019/20 financial year. Under Solvency II, this amount is recognised within the Solvency II Technical Provision. See section D.2 Technical Provision.
- Payables (trade, not insurance) - valued at cost less any provision for impairment in value.
- Any other liabilities - valued at cost less any provision for impairment in value. Accrued expenses are included on an accrual basis.

During the reporting period, no changes were made to the recognition and valuation bases used or to estimations.

D.4 ALTERNATIVE METHODS FOR VALUATION

The club does not utilise any alternative methods of valuation.

D.5 ANY OTHER INFORMATION

The club has not identified any other information that it considers material to be disclosed.

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

The club's available own funds are set out below.

Own funds - Basic	Tier	2019 US\$'000	2018 US\$'000
Reconciliation reserve	1	93,205	107,928
An amount equal to the value of net deferred tax assets	3	302	396
Total own funds - Basic		93,507	108,324

Own funds - Ancillary	Tier	2019 US\$'000	2018 US\$'000
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	2	30,102	33,749

Total available own funds		123,609	142,073
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The club's available own funds comprise tier one reconciliation reserve as calculated on a Solvency II balance sheet basis (\$93.2m), tier three amount equal to net deferred tax assets (\$0.3m) and tier two ancillary own funds (\$30.1m) (being the ability to make unbudgeted supplementary calls, capped at 50% of the SCR).

The club's eligible own funds are set out below.

As at 20 February	Tier	2019 US\$'000	2018 US\$'000
Own Funds - Basic (reconciliation reserve)	1	93,205	107,928
Own Funds - Ancillary	2	30,102	33,749
Total Eligible own funds to meet the SCR		123,307	141,677
SCR		60,204	67,497
Ratio of Eligible own funds to SCR		205%	210%
Total Eligible own funds to meet the MCR		93,205	107,928
MCR		15,051	16,874
Ratio of Eligible own funds to MCR		619%	640%

All eligible own funds are unrestricted and available to meet the SCR. The ancillary own funds are not available to cover the MCR and thus only the tier one reconciliation reserve of \$93.2m is available to meet the MCR.

The differences between net assets as calculated under UK GAAP and those calculated under a Solvency II basis are set out below. Further detail is included in section D2.

Reconciliation of net assets - UK GAAP to Solvency II	2019 US\$'000	2018 US\$'000
UK GAAP net assets	110,951	123,581
Claims provision adjustment	(1,763)	383
Premium provision adjustment	(645)	1,175
Risk margin	(15,037)	(16,815)
Solvency II net assets	93,507	108,324

The club and board's tolerance for risk (at both Standard UK and Standard Group level) is limited by the desire to minimise the chance of making unbudgeted calls on the club's membership, and so the club seeks to maintain sufficient capital such that the chance of a supplementary call or other similar material mitigating action is less than 10% over a 12-month time horizon. Own funds (at both group and UK level) are well in excess of regulatory capital requirements.

In addition one of the club's goals is to provide first class financial security to its membership, including maintaining a 'AAA' capital strength rating with Standard and Poor's, and so any decisions around premium returns or underwriting rate rises are made in the context of ensuring UK GAAP net assets remain above the capital level.

Another goal of the club (which supports maintaining capital strength) is to aim for breakeven underwriting, so ensuring the maintenance of the level of own funds.

Approval for the use of ancillary own funds was granted on 20th February 2017 and lasts from midday on that date until midday on 20th February 2020. Details of this approval are available on the PRA's website.

Volatility of own funds

As set out in section C, the comprehensive reinsurance available to Standard UK limits any volatility around the underwriting result, while the conservative investment portfolio limits volatility in the investment result. While there is some volatility around currency risk, even at a 1 in 200 level currency fix as per the standard formula at \$6.9m (2018: \$11.1m) represents approximately 7% (2018: \$10%) of the reconciliation reserve.

Management of own funds

The club renews the majority of its business on 20 February. As a result, it can respond to adverse underwriting results by raising insurance rates at renewal (or keeping rates constant or reduce them in the event of underwriting profits occurring). If the club has surplus assets it can either return premium to shipowner members or pay dividends to its parent company (The Standard Club Limited). While a sustained period of erosion of own funds through underwriting or investment losses is unlikely, the club is able call on the financial support of the parent company if required.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

1. SCR by risk module

Solvency Capital Requirement (SCR)	2019 US\$'000	2018 US\$'000
Market risk	10,296	14,075
Counter party default risk	24,062	27,230
Non-life underwriting risk	24,754	25,973
Undiversified BSCR	59,112	67,278
Diversification	(12,801)	(15,357)
Basic SCR	46,311	51,921
Operational risk	13,893	15,576
Final SCR	60,204	67,497

Minimum Capital Requirement (MCR)	15,051	16,874
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The SCR for the club is \$60.2m (2018: \$67.5m) and was calculated using the Standard Formula. The club has not adopted simplified calculations for any risk modules and sub-modules.

The club has not utilised simplified calculations nor has it used undertaking-specific parameters to calculate the SCR pursuant to Article 104(7) of the Solvency II Directive. The SCR remains subject to formal supervisory assessment and includes no adjustments or capital add-on.

2. Change over the reporting period

The SCR has decreased by \$7.3m (2018: \$2.1m increase) from last year with the main drivers being market risk and counter party default risk. The decrease in market risk is largely driven by the reduction in investments held by the club from \$77.7m last year to \$44.0m.

The decrease in counter party default risk is driven by the reduction in reinsurer balances due to future EU business being transferred to Standard Ireland and no longer written by the club from the 2019 policy year onwards.

The MCR which is calculated as 25% of the SCR has decreased in proportion to the decrease in the SCR.

3. Inputs to MCR

The Minimum Capital Requirement (MCR) for the club is \$15.1m (2018: \$16.9m). The input parameters to the MCR are the net best estimate technical provision and the net written premium. The net best estimate technical provision data input for the club is \$nil, being the minimum amount accepted by the calculation, as the club has a negative net best estimate technical provision (due to the inclusion of premium receivable from members within the claims provision). The net written premiums consist of premiums due to the club during the reporting period irrespective of whether the premiums relate in whole or in part to insurance cover provided in prior or future periods.

E.3 USE OF THE DURATION BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

The club has not used the duration-based equity risk sub-module in the calculation of the SCR.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

The club has not used any internal model in the calculation of the SCR.

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

The club has not faced any form of non-compliance with the Minimum Capital Requirement or the Solvency Capital Requirement and has maintained capital sufficient to meet both requirements during the reporting period and at the date of this report.

E.6 ASSESSMENT OF FUTURE CAPITAL REQUIREMENTS AND SURPLUS CAPITAL

With the SCR at 20 February 2019 being \$60.2m (2018: \$67.5m), and the total eligible own funds being \$123.3m (2018: \$141.7m), the level of surplus capital stands at \$63.1m (2018: \$74.2m).

From 21 February 2019, all EU business previously written in Standard UK is now written in Standard Ireland as part of the group's Brexit plan.

This will result in a reduction in the SCR for Standard UK (to \$51.3m in 2020 and to \$44.8m by 2022).

Given the increase in the level of surplus capital that would result, Standard UK will repatriate some surplus capital to its parent company, The Standard Club Ltd.

	Current	Forecast (unaudited)			
	2019	2020	2021	2022	
	US\$'000	US\$'000	US\$'000	US\$'000	
Solvency Capital Requirement (SCR)	60,204	51,292	48,023	44,753	
Minimum Capital Requirement (MCR)	15,051	12,823	12,006	11,188	
Tier 1 basic own funds (reconciliation reserve)	93,205	82,158	77,965	74,465	
Tier 2 ancillary funds (supplementary calls)	30,102	15,841	16,633	17,465	
Total eligible own funds	123,307	97,999	94,598	91,930	
Surplus of total own funds over the SCR	63,103	46,708	46,576	47,177	

ANNUAL QUANTITATIVE REPORTING TEMPLATES

S.02.01 BALANCE SHEET

S.02.01.02

Balance sheet (US\$'000)

		Solvency II value
		C0010
Assets		
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	302
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	60,223
R0080	<i>Property (other than for own use)</i>	
R0090	<i>Holdings in related undertakings, including participations</i>	
R0100	<i>Equities</i>	
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	13,036
R0140	<i>Government Bonds</i>	12,187
R0150	<i>Corporate Bonds</i>	849
R0160	<i>Structured notes</i>	
R0170	<i>Collateralised securities</i>	
R0180	<i>Collective Investments Undertakings</i>	30,942
R0190	<i>Derivatives</i>	10,580
R0200	<i>Deposits other than cash equivalents</i>	5,665
R0210	<i>Other investments</i>	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	
R0240	<i>Loans on policies</i>	
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	583,292
R0280	<i>Non-life and health similar to non-life</i>	583,292
R0290	<i>Non-life excluding health</i>	583,292
R0300	<i>Health similar to non-life</i>	
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	12,640
R0370	Reinsurance receivables	58,216
R0380	Receivables (trade, not insurance)	14,146
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	19,321
R0420	Any other assets, not elsewhere shown	147
R0500	Total assets	748,287

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	584,186
R0520	Technical provisions - non-life (excluding health)	584,186
R0530	TP calculated as a whole	
R0540	Best Estimate	569,150
R0550	Risk margin	15,037
R0560	Technical provisions - health (similar to non-life)	
R0570	TP calculated as a whole	
R0580	Best Estimate	
R0590	Risk margin	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	
R0610	Technical provisions - health (similar to life)	
R0620	TP calculated as a whole	
R0630	Best Estimate	
R0640	Risk margin	
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	
R0660	TP calculated as a whole	
R0670	Best Estimate	
R0680	Risk margin	
R0690	Technical provisions - index-linked and unit-linked	
R0700	TP calculated as a whole	
R0710	Best Estimate	
R0720	Risk margin	
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	10,521
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	35,832
R0830	Reinsurance payables	16,672
R0840	Payables (trade, not insurance)	6,651
R0850	Subordinated liabilities	
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	
R0880	Any other liabilities, not elsewhere shown	918
R0900	Total liabilities	654,780
R1000	Excess of assets over liabilities	93,507

S.05.01 PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS

S.05.01.02

Premiums, claims and expenses by line of business (US\$'000)

Non-life	Line of Business for: non-life insurance and reinsurance	Total
	Marine, aviation and transport insurance	
	C0060	C0200
Premiums written		
R0110 Gross - Direct Business	244,730	244,730
R0120 Gross - Proportional reinsurance accepted		
R0130 Gross - Non-proportional reinsurance accepted		
R0140 Reinsurers' share	218,343	218,343
R0200 Net	26,387	26,387
Premiums earned		
R0210 Gross - Direct Business	244,730	244,730
R0220 Gross - Proportional reinsurance accepted		
R0230 Gross - Non-proportional reinsurance accepted		
R0240 Reinsurers' share	205,697	205,697
R0300 Net	39,033	39,033
Claims incurred		
R0310 Gross - Direct Business	142,751	142,751
R0320 Gross - Proportional reinsurance accepted		
R0330 Gross - Non-proportional reinsurance accepted		
R0340 Reinsurers' share	152,085	152,085
R0400 Net	(9,335)	(9,335)
Changes in other technical provisions		
R0410 Gross - Direct Business		
R0420 Gross - Proportional reinsurance accepted		
R0430 Gross - Non-proportional reinsurance accepted		
R0440 Reinsurers' share		
R0500 Net		
R0550 Expenses incurred	49,174	49,174
R1200 Other expenses		
R1300 Total expenses		49,174

S.05.02 PREMIUMS, CLAIMS AND EXPENSES BY COUNTRY

S.05.02.01

Premiums, claims and expenses by country (US\$'000)

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
Non-life	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
R0010	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
R0110 Gross - Direct Business	244,730						244,730
R0120 Gross - Proportional reinsurance accepted							
R0130 Gross - Non-proportional reinsurance accepted							
R0140 Reinsurers' share	218,343						218,343
R0200 Net	26,387						26,387
Premiums earned							
R0210 Gross - Direct Business	244,730						244,730
R0220 Gross - Proportional reinsurance accepted							
R0230 Gross - Non-proportional reinsurance accepted							
R0240 Reinsurers' share	205,697						205,697
R0300 Net	39,033						39,033
Claims incurred							
R0310 Gross - Direct Business	142,751						142,751
R0320 Gross - Proportional reinsurance accepted							
R0330 Gross - Non-proportional reinsurance accepted							
R0340 Reinsurers' share	152,085						152,085
R0400 Net	(9,335)						(9,335)
Changes in other technical provisions							
R0410 Gross - Direct Business							
R0420 Gross - Proportional reinsurance accepted							
R0430 Gross - Non-proportional reinsurance accepted							
R0440 Reinsurers' share							
R0500 Net							
R0550 Expenses incurred	49,174						49,174
R1200 Other expenses							
R1300 Total expenses							49,174

S.17.01 NON-LIFE TECHNICAL PROVISIONS

S.17.01.02

Non-Life Technical Provisions (US\$'000)

		Direct business and accepted	Total Non-Life obligation
		C0070	C0180
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		
Technical provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
R0060	Gross - Total	(9,779)	(9,779)
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(10,423)	(10,423)
R0150	Net Best Estimate of Premium Provisions	644	644
Claims provisions			
R0160	Gross - Total	578,928	578,928
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	593,715	593,715
R0250	Net Best Estimate of Claims Provisions	(14,787)	(14,787)
R0260	Total best estimate - gross	569,150	569,150
R0270	Total best estimate - net	(14,142)	(14,142)
R0280	Risk margin	15,037	15,037
Amount of the transitional on Technical Provisions			
R0290	TP as a whole		
R0300	Best estimate		
R0310	Risk margin		

S.19.01 NON-LIFE INSURANCE CLAIMS

S.19.01.21

Non-Life insurance claims (US\$'000)

Total Non-life business

Z0010

Accident year / underwriting year Underwriting Year

Gross Claims Paid (non-cumulative) (absolute amount)													
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
R0100	Prior											5,347	5,347
R0160	N-9	43,721	32,565	20,117	19,576	39,529	7,012	4,805	1,676	1,290	134	134	170,424
R0170	N-8	21,440	131,156	31,595	28,654	16,324	4,668	4,848	1,600	(4,627)		(4,627)	235,658
R0180	N-7	26,540	209,902	311,726	203,219	52,532	22,493	27,122	18,572			18,572	872,105
R0190	N-6	26,637	46,142	26,333	18,727	11,601	5,125	9,829				9,829	144,393
R0200	N-5	32,399	107,139	65,355	45,141	21,439	54,320					54,320	325,794
R0210	N-4	40,011	93,959	29,497	7,485	6,689						6,689	177,640
R0220	N-3	34,956	84,418	45,449	16,257							16,257	181,080
R0230	N-2	27,551	37,118	21,525								21,525	86,193
R0240	N-1	20,496	65,718									65,718	86,214
R0250	N	83,489										83,489	83,489
R0260												Total	2,368,337

Gross undiscounted Best Estimate Claims Provisions (absolute amount)													
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
Year	Development year											Year end (discounted data)	
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior										(14,032)	85,311	
R0160	N-9							(3,097)	(1,442)	(364)		3,692	
R0170	N-8						(8,501)	(1,788)	(1,397)			12,947	
R0180	N-7					(15,392)	(31,423)	(29,983)				17,798	
R0190	N-6				(8,370)	1,106	(87,357)					29,140	
R0200	N-5			56,158	(39,228)	(115,300)						39,841	
R0210	N-4		(52,961)	9,165	(10,336)							44,609	
R0220	N-3	(121,499)	(39,317)	(35,984)								35,426	
R0230	N-2	153,252	13,685	(32,237)								53,621	
R0240	N-1	84,625	125									79,678	
R0250	N	189,349										176,865	
R0260												Total	578,928

S.23.01 OWN FUNDS

S.23.01.01

Own Funds (US\$'000)

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010 Ordinary share capital (gross of own shares)					
R0030 Share premium account related to ordinary share capital					
R0040 Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
R0050 Subordinated mutual member accounts					
R0070 Surplus funds					
R0090 Preference shares					
R0110 Share premium account related to preference shares					
R0130 Reconciliation reserve	93,205	93,205			
R0140 Subordinated liabilities					
R0160 An amount equal to the value of net deferred tax assets	302				302
R0180 Other own fund items approved by the supervisory authority as basic own funds not specified above					
Own funds from the financial statements that should not be represented					
R0220 Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Deductions					
R0230 Deductions for participations in financial and credit institutions					
R0290 Total basic own funds after deductions	93,507	93,205			302
Ancillary own funds					
R0300 Unpaid and uncalled ordinary share capital callable on demand					
R0310 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand					
R0320 Unpaid and uncalled preference shares callable on demand					
R0330 A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
R0340 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350 Letters of credit and guarantees other than under Article 96(2) of the Directive					
R0360 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	30,102			30,102	
R0370 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0390 Other ancillary own funds					
R0400 Total ancillary own funds	30,102			30,102	
Available and eligible own funds					
R0500 Total available own funds to meet the SCR	123,609	93,205		30,102	302
R0510 Total available own funds to meet the MCR	93,205	93,205			
R0540 Total eligible own funds to meet the SCR	123,307	93,205		30,102	
R0550 Total eligible own funds to meet the MCR	93,205	93,205			
R0580 SCR	60,204				
R0600 MCR	15,051				
R0620 Ratio of Eligible own funds to SCR	205%				
R0640 Ratio of Eligible own funds to MCR	618%				
Reconciliation reserve					
R0700 Excess of assets over liabilities	C0060 93,507				
R0710 Own shares (held directly and indirectly)					
R0720 Foreseeable dividends, distributions and charges					
R0730 Other basic own fund items	302				
R0740 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds					
R0760 Reconciliation reserve	93,205				
Expected profits					
R0770 Expected profits included in future premiums (EPIFP) - Life business					
R0780 Expected profits included in future premiums (EPIFP) - Non-life business					
R0790 Total Expected profits included in future premiums (EPIFP)					

S.25.01 SOLVENCY CAPITAL REQUIREMENT - ONLY SF

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula (US\$'000)

	Net solvency capital requirement	Gross solvency capital requirement
	C0030	C0040
R0010 Market risk	10,296	10,296
R0020 Counterparty default risk	24,062	24,062
R0030 Life underwriting risk		
R0040 Health underwriting risk		
R0050 Non-life underwriting risk	24,754	24,754
R0060 Diversification	(12,801)	(12,801)
R0070 Intangible asset risk		
R0100 Basic Solvency Capital Requirement	46,311	46,311
Calculation of Solvency Capital Requirement	C0100	
R0130 Operational risk	13,893	
R0140 Loss-absorbing capacity of technical provisions		
R0150 Loss-absorbing capacity of deferred taxes		
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC		
R0200 Solvency Capital Requirement excluding capital add-on	60,204	
R0210 Capital add-ons already set		
R0220 Solvency capital requirement	60,204	
Other information on SCR		
R0400 Capital requirement for duration-based equity risk sub-module		
R0410 Total amount of Notional Solvency Capital Requirements for remaining part		
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds		
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment p		
R0440 Diversification effects due to RFF nSCR aggregation for article 304		

S.28.01 MINIMUM CAPITAL REQUIREMENT - NON-COMPOSITE

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (US\$'000)

Linear formula component for non-life insurance and reinsurance oblig C0010

R0010 MCR _{NL} Result	3,694
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Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
C0020	C0030
	26,387

R0020	Medical expense insurance and proportional reinsurance
R0030	Income protection insurance and proportional reinsurance
R0040	Workers' compensation insurance and proportional reinsurance
R0050	Motor vehicle liability insurance and proportional reinsurance
R0060	Other motor insurance and proportional reinsurance
R0070	Marine, aviation and transport insurance and proportional reinsurance
R0080	Fire and other damage to property insurance and proportional reinsurance
R0090	General liability insurance and proportional reinsurance
R0100	Credit and suretyship insurance and proportional reinsurance
R0110	Legal expenses insurance and proportional reinsurance
R0120	Assistance and proportional reinsurance
R0130	Miscellaneous financial loss insurance and proportional reinsurance
R0140	Non-proportional health reinsurance
R0150	Non-proportional casualty reinsurance
R0160	Non-proportional marine, aviation and transport reinsurance
R0170	Non-proportional property reinsurance

Linear formula component for life insurance and reinsurance obligation C0040

R0200 MCR _L Result	
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Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
C0050	C0060

R0210	Obligations with profit participation - guaranteed benefits
R0220	Obligations with profit participation - future discretionary benefits
R0230	Index-linked and unit-linked insurance obligations
R0240	Other life (re)insurance and health (re)insurance obligations
R0250	Total capital at risk for all life (re)insurance obligations

Overall MCR calculation

C0070

R0300	Linear MCR	3,694
R0310	SCR	60,204
R0320	MCR cap	27,092
R0330	MCR floor	15,051
R0340	Combined MCR	15,051
R0350	Absolute floor of the MCR	4,188

R0400 Minimum Capital Requirement	15,051
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