Standard Club

By your side

Standard Club Annual Report 2021

Contents

Chairman's statement

02 Chairman's statement

The directors

04 The directors

Report of the directors

05 Business and operational review
10 Principal risks and uncertainties
12 Corporate governance
17 Directors' responsibilities

The club at a glance

Free reserves

$360m

21	360
20	394
19	435
18	461

Calls and premiums[1]

$293m

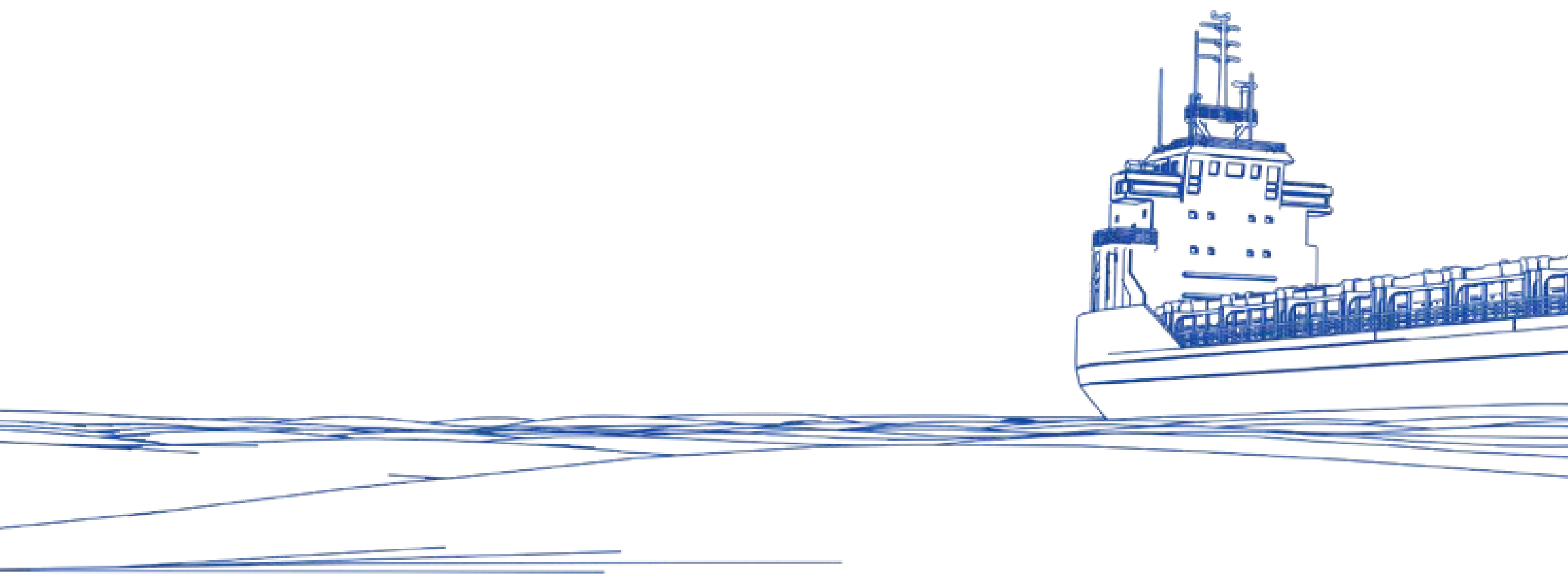
21	293
20	288
19	289
18	298

Tonnage

149mgt

21	149
20	156
19	155
18	159

1 Excludes the club's share of The Standard Syndicate and before a return of call on the 2016 and 2017 policy years.



Auditor’s report

18 Independent auditor’s report to the members of The Standard Club Ltd

Financial statements

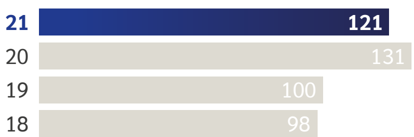
20 Financial highlights 2021
21 Consolidated statement of comprehensive income
22 Consolidated balance sheet
23 Statement of changes in reserves
24 Consolidated cash flow statement
25 Notes to the financial statements

Other information

47 Appendix I – funds available (Class 1 – P&I summary)
48 Appendix II – funds available (Class 1 – P&I open policy years)
49 Appendix III – funds available (Class 1 – P&I closed policy years and contingency reserve)
50 Managers and offices

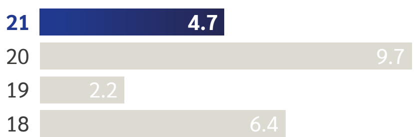
Combined ratio[1]

121%



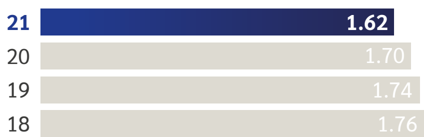
Investment return

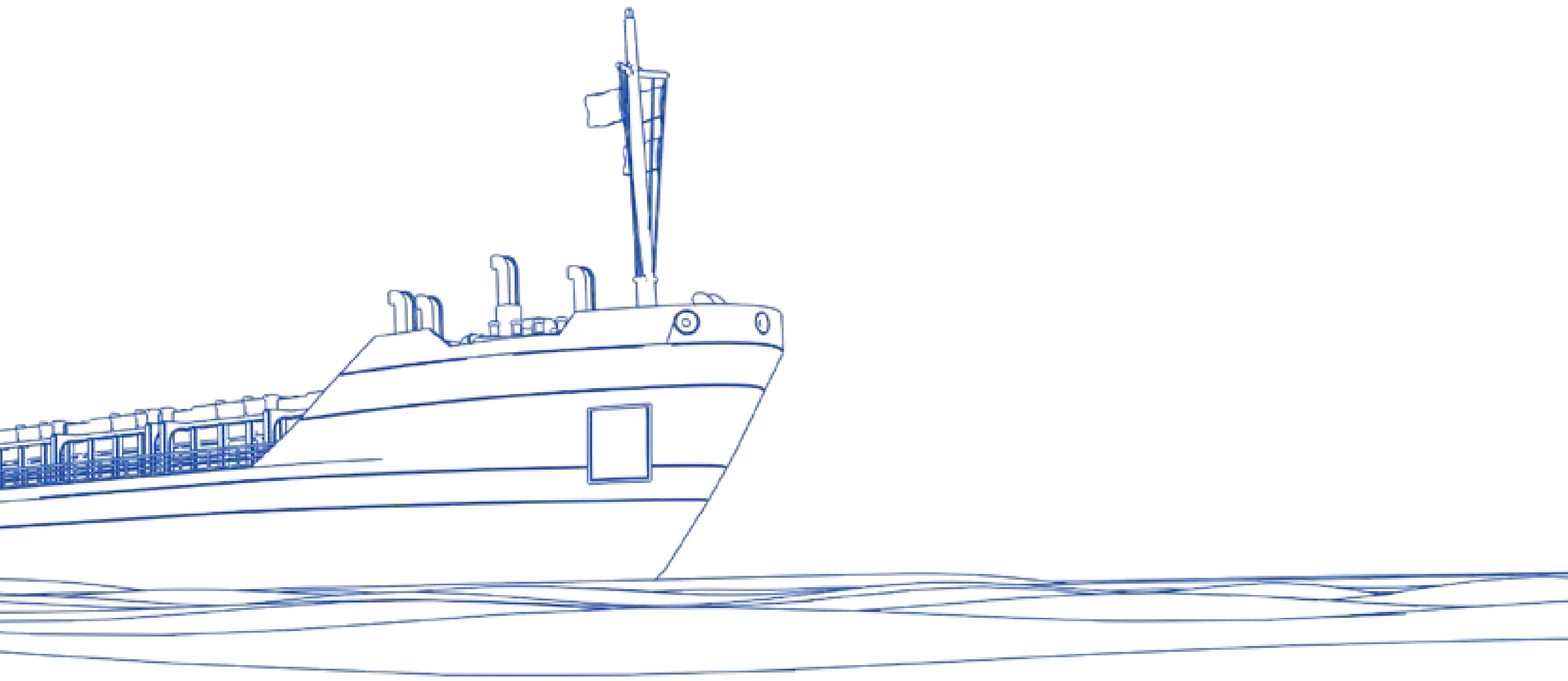
4.7%



Claims cover ratio of net assets to net outstanding claims

1.62





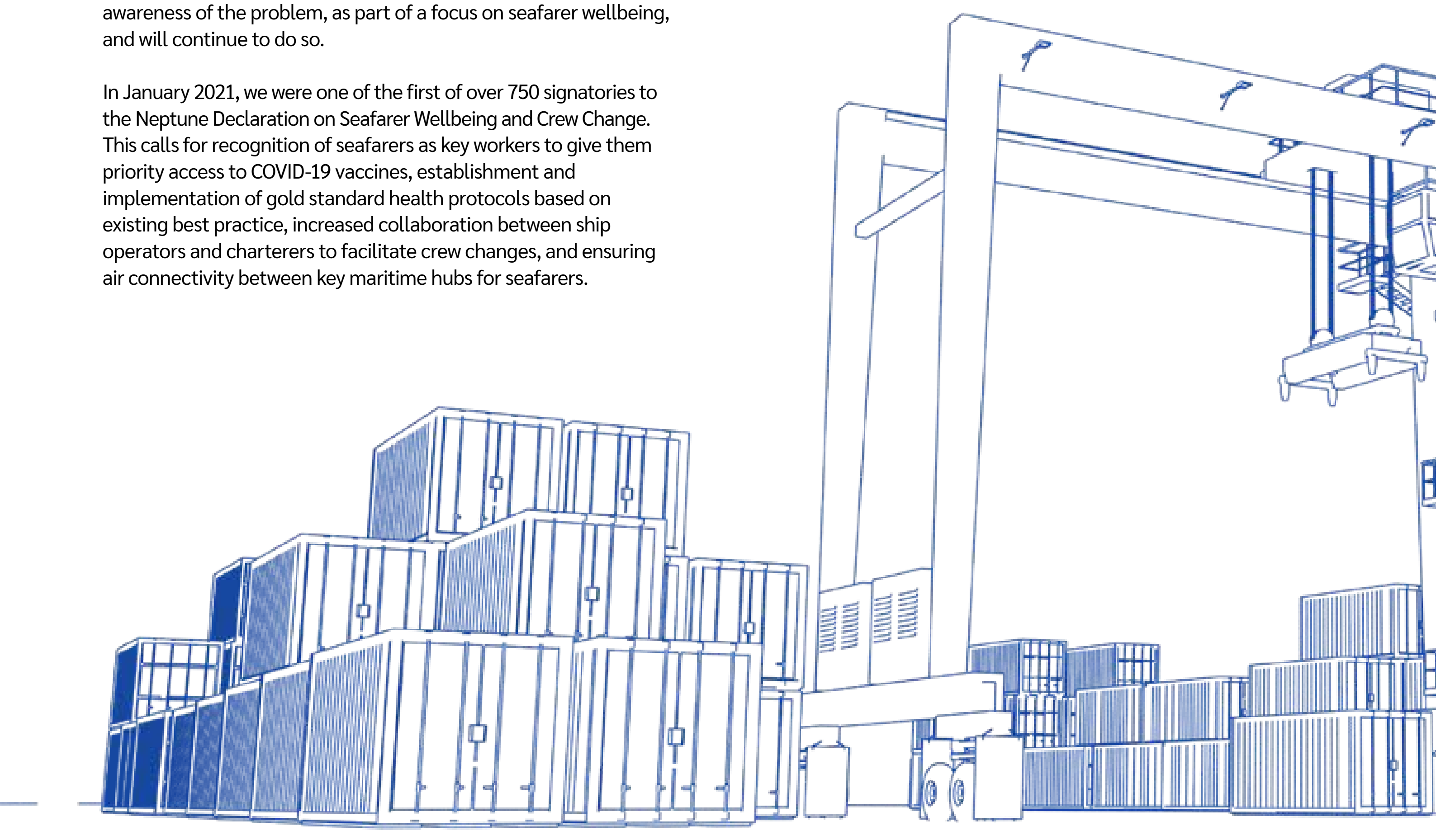
Chairman’s statement

The COVID-19 pandemic has increased the general public’s awareness of the importance of global maritime trade and how much we all rely on it for products used in our daily lives. This was reinforced by the grounding of the *Ever Given* and the consequent blockage of the Suez Canal in March this year.

Despite this new understanding, many of the seafarers on whom we depend so heavily continue to endure significant personal hardship. The health and happiness of seafarers is vital to the safe and successful operation of ships and the free flow of international maritime trade, but many seafarers are still unable to leave their ships and return home to their families due to persistent global restrictions on travel. The club has been working hard to raise awareness of the problem, as part of a focus on seafarer wellbeing, and will continue to do so.

In January 2021, we were one of the first of over 750 signatories to the Neptune Declaration on Seafarer Wellbeing and Crew Change. This calls for recognition of seafarers as key workers to give them priority access to COVID-19 vaccines, establishment and implementation of gold standard health protocols based on existing best practice, increased collaboration between ship operators and charterers to facilitate crew changes, and ensuring air connectivity between key maritime hubs for seafarers.

The club has weathered the first year of the COVID-19 pandemic well. Despite the challenge of the highest-ever International Group Pool claims cost, the club has maintained its financial strength, continued providing members with first-class service and progressed plans to bring all staff in-house by this summer.



During the past year, the club has found every possible way to help and support its members regardless of the restrictions imposed by the pandemic. I am grateful to our staff, consultants and correspondents around the world for working from their homes when needed to provide all members with uninterrupted service and assistance.

In addition to ensuring continuous cover and support to members under these unusual conditions, we have also been progressing plans announced in May 2020 to transfer our 200-plus staff from Charles Taylor, who have been our outsourced managers since the club's foundation, to direct employment with the club. An advance team transferred in August 2020 and the transition remains on schedule for completion by August 2021. Your board is confident these changes will strengthen the club's governance, create a more resilient management system and instil a greater sense of self-determination and pride in our loyal and talented team.

The relationship between The Standard Club and Charles Taylor has shaped both organisations over the years and will continue to be an important one for the club. We will retain Charles Taylor for a range of professional support services including information technology, investment management and internal audit after August 2021.

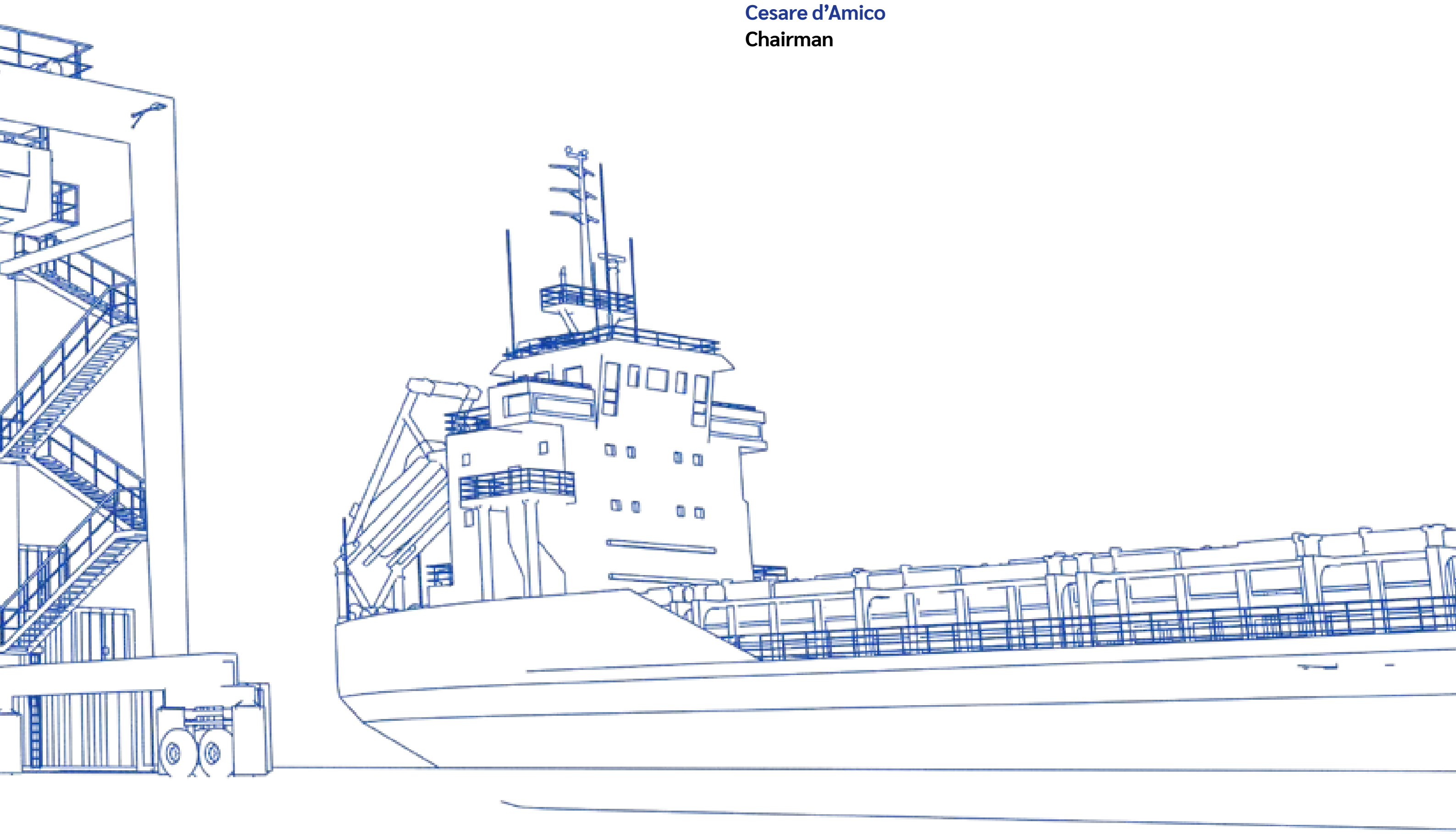
We will also continue to share office space where it is mutually beneficial for us to do so. The board is pleased to see that Charles Taylor has continued to develop its business well since it became privately owned last year.

With regard to finances, the 2020 policy year saw the club's own claims' position improve compared to the relatively high levels of claims experienced over the previous two years. However, International Group Pool claims from other clubs reached a new high last year, with our contributions to these claims pushing our combined ratio to 121%. On the plus side, the club's investments delivered a 4.7% return in a very volatile market, as a result of a deliberate strategy of capital preservation and generating an absolute return. This helped reduce our operating loss to $33m, and our net free reserves of $360m are again comfortably above regulatory requirements.

Your directors dedicated a significant amount of time and effort over the last year ensuring the club's success (including attending numerous online meetings) and my thanks go to them for their ongoing support and commitment. During the year we welcomed Tim Huxley of Mandarin Shipping, who joined the board in February 2021, and thanked departing directors Chen-Huei Yeh and Hugh Williams for their valuable contributions and insight.

Finally, I am grateful to all our members and brokers for their ongoing commitment to The Standard Club throughout this challenging period. In February 2021 we renewed 95% of members successfully, with many expanding or consolidating their entries with us. We also welcomed several new members and look forward to working with them. Your board has every confidence in the club's ability to continue providing high quality insurance cover and unstinting support in the coming years, whatever the future may bring.

Cesare d'Amico
Chairman



The directors

Directors who have served since the date of the last annual report and financial statements are:

Chairman

C d'Amico [1,2,3,4,5,6,7,8]
d'Amico Società di Navigazione SpA

Deputy Chairmen

N Hadjioannou [2,4,5,6]
Cymona Shipping Management SAM

E Johnsen [1,2,3,4,5,6]
Shipinvest Corporation

Directors

N Aksoy [2]
Akmar Holding S.A.

A Bensler [2,3]
Teekay Shipping (Canada) Ltd

P Clausius [3,7]
Transport Capital Pte Ltd

C Cosimi [1]
Saipem SpA

A Cossar [1,6]
Bermudian resident, Non-Executive Director

R Forest [2,3]
Matson Navigation Co Inc.

A Groom [1,2,3,5,6]
Insurance Expert

J Grose [6]
Executive Director

B Harinsuit [2,5,7]
The Harinsuit Transport Co Ltd

L Henneberg [1]
A.P. Møller – Maersk A/S

K Howarth [1,6]
P&O Ferries Holdings Ltd

B Hurst-Bannister [1,3,5,6,8]
Insurance Expert Director

T Huxley [7]
Mandarin Shipping Ltd
(Appointed 2 February 2021)

G Jaegers [3]
Reederei Jaegers GmbH

H Joshi [1,7]
The Shipping Corporation of India Ltd

D Koo [2,7]
Valles Steamship Co Ltd

T Kuroyanagi [2,7]
Kumiai Navigation (Pte) Ltd

R Menendez Ross [2,3,5,6,7]
Interocean Transportation Inc.

A Paterson [3]
CSL Group Inc.

M Procopiou [3]
Dynacom Tankers Management Ltd

O Tangen [1]
SBM Offshore

C W Teo [2,7]
Pacific International Lines (Pte) Ltd

T Vellis
Pleiades Shipping Agents S.A.

M Voorham
SMT Shipping (Cyprus) Ltd

H Williams
Graig Shipping Plc
(Resigned 15 October 2020)

J Woodrow [3,7]
The China Navigation Co Pte Ltd

C-H Yeh [3,6]
Kuang Ming Shipping Corp
(Resigned 13 August 2020)

1 Member of the Audit and Risk Committee
2 Member of the Nomination and Governance Committee
3 Member of the Strategy Committee
4 Member of the Remuneration Committee
5 Member of the Chairman's Group
6 Director of Standard UK
7 Director of Standard Asia
8 Director of Standard Ireland

Report of the directors

Business and operational review

We are a specialist marine and energy insurer known for our diverse membership, pioneering loss prevention expertise and attractive pricing.

Our solutions-oriented underwriters work alongside proactive technical and legal experts who advise members on how to prepare for new regulations and implement best practice.

We provide members with the reassurance that our supportive claims handlers will deliver immediate help wherever, whenever.

We are always by your side.

Our service lines

Our members rely on us in three main areas: protection from losses in the areas where we offer cover, as well as information and guidance on how to avoid risk and, in the event of an incident, rapid help and resolution.

We have organised our services to align with our members' needs.

Report of the directors continued

The principal activity of The Standard Club Ltd is to act as a holding company for subsidiaries that provide insurance and reinsurance of third-party liabilities and related risks, marine delays, war risks and defence risks on behalf of their members. At 20 February 2021, there was approximately 149mgt of shipping entered in the club.

Directors

The directors of the club who were in office from the date of the last report and up to the date of signing these financial statements are shown on page 04 of this report. On 2 February 2021, the board was pleased to welcome Tim Huxley, Director of Mandarin Shipping Ltd and Chairman of the Strike & Delay class committee, as a new director. Having been appointed during the year, he will offer himself for election at the AGM.

The directors who retire by rotation in accordance with the bye-laws and offer themselves for re-election are: Philip Clausius, Carlo Cosimi, Alan Cossar, Jeremy Grose, Harjeet Joshi, Tomomaru Kuroyanagi, Oivind Tangen, Choo-Wee Teo and James Woodrow. The directors who fulfil the corporate governance requirement to seek annual re-election after having served on the board for over nine years and who, being eligible, offer themselves for re-election are: Necdet Aksoy, Arthur Bensler, Cesare d'Amico, Alistair Groom, Bhumindr Harinsuit, Gunther Jaegers, Erik Johnsen, David Koo and Ricardo Menendez Ross. Details of those directors seeking annual re-election will be included in the notice of the AGM, which will be circulated to members separately.

Since the last report, Hugh Williams and Chen-Huei Yeh have resigned from the board. The directors of the club would once again like to take the opportunity to thank both of them for their valued contribution.

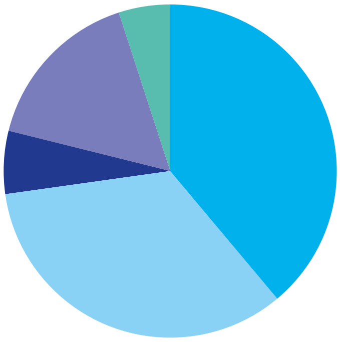
Meetings of the board

Since the date of the last report, the board has met on five occasions: 30 July 2020, 18 August 2020, 15 October 2020, 2 February 2021 and 20 May 2021. Due to the pandemic, all of the meetings have been held virtually, originating from Bermuda. At each meeting, the board has overseen the work on the transition to in-house management, and reviewed the club's strategy and business plan, the risk overview, financial and underwriting performance of the club, significant claims, new members admitted to the club, new ships attaching, reinsurance arrangements, legal, regulatory and tax matters, industry developments, control and governance matters, investment strategy and results. The principal issues discussed by the board, and the decisions reached, are set out in this report.

Investments

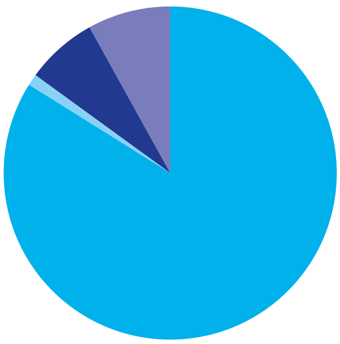
For the year to 20 February 2021, the club's investment assets returned 4.7%.

At the 20 February 2021 valuation point, the investment portfolio was invested across the following asset classes:



Government bonds (including short-term bills and inflation-linked bonds)	39%
Corporate bonds	34%
Equities	6%
Alternatives and property	16%
Cash/FX forwards	5%

The allocation by currency was:



US, Canadian and Hong Kong dollars	84%
European currencies (excluding sterling)	1%
Sterling	7%
Other currencies	8%

The main changes in asset allocation over the year were that the club has revised down its investment risk appetite and has reduced the maximum permitted exposure to risk assets. Further changes involved the significant de-risking of the portfolio in the pandemic-related sell-off in March. The portfolio was already underweight equities but this position was cut further, as were positions in lower-rated corporate bonds. As a result, the holdings of short-dated US treasury bills and notes increased. When the markets began to recover, investments risk assets were prudently increased, including emerging market government bonds, both USD-denominated as well as in local currencies, as they represented favourable risk-reward characteristics, but risk levels are lower, consistent with the club's revised risk stance.

The currency profile saw a shift out of Euros to fund the positions in the mostly Asian-EM currencies.

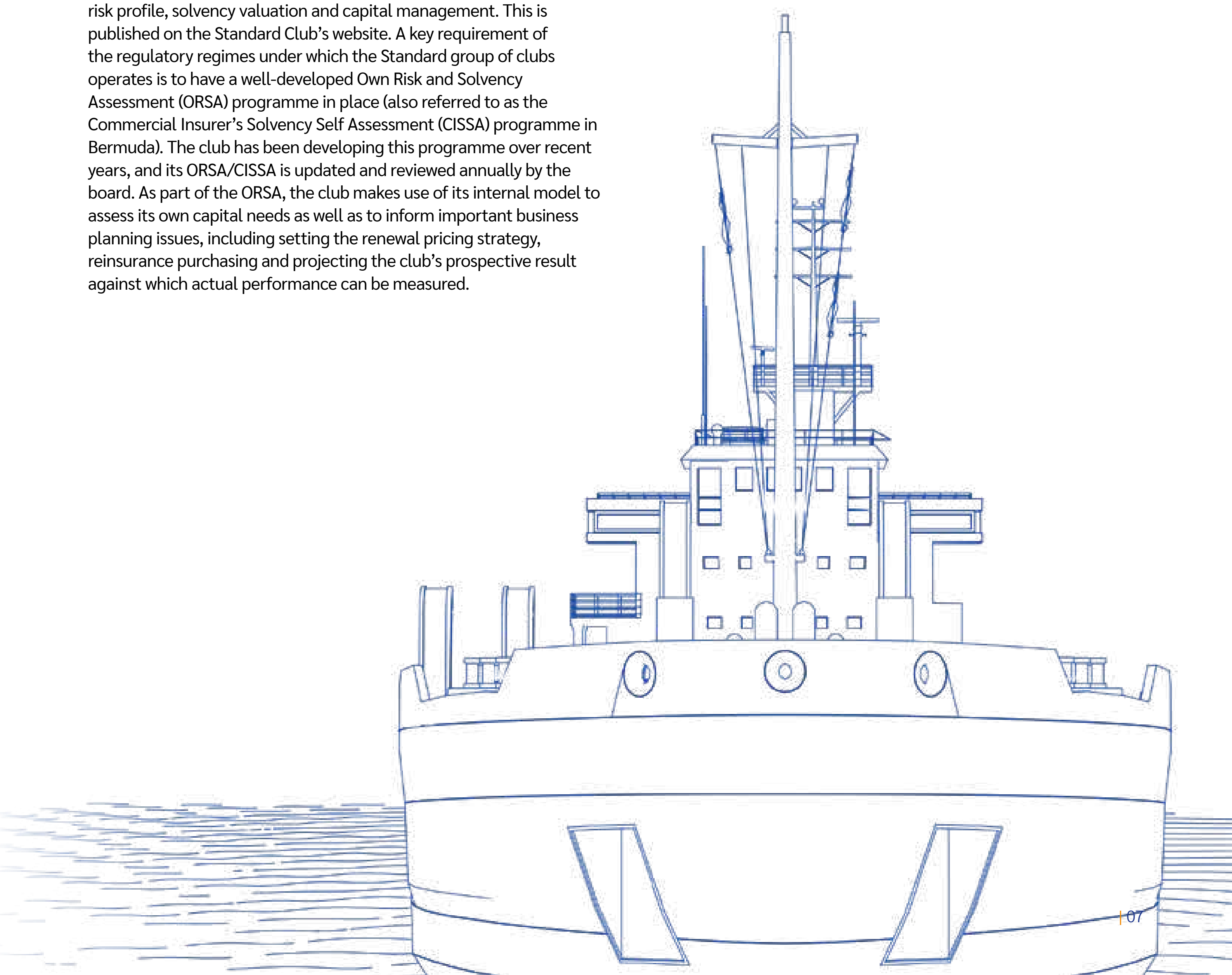
With the continued support of central banks and the commitment to increased fiscal spending in the USA in particular, in conjunction with the general easing of lockdowns and increasingly widespread vaccination programmes, the outlook for markets is becoming more constructive. As a result, the portfolio has recently increased its allocation to risk assets and to equities in particular.

Solvency and capital management

The Standard group of clubs is regulated by the Bermuda Monetary Authority (BMA) under a regulatory regime deemed 'equivalent' to Solvency II, the EU-wide European regulatory regime, which applies to The Standard Club Ireland DAC (Standard Ireland) and presently, despite Brexit, The Standard Club UK Ltd (Standard UK) still follows the same rules.

As part of the BMA's regulatory framework, insurance companies are required to publish a 'Financial Condition Report' setting out the business and performance of the company, its governance structure, risk profile, solvency valuation and capital management. This is published on the Standard Club's website. A key requirement of the regulatory regimes under which the Standard group of clubs operates is to have a well-developed Own Risk and Solvency Assessment (ORSA) programme in place (also referred to as the Commercial Insurer's Solvency Self Assessment (CISSA) programme in Bermuda). The club has been developing this programme over recent years, and its ORSA/CISSA is updated and reviewed annually by the board. As part of the ORSA, the club makes use of its internal model to assess its own capital needs as well as to inform important business planning issues, including setting the renewal pricing strategy, reinsurance purchasing and projecting the club's prospective result against which actual performance can be measured.

The ability of the club to make supplementary calls remains an important part of the resources available to meet its capital requirements. Both the BMA's regulatory framework and the Solvency II Framework Directive allow mutual insurers, such as the club, to have the right to make supplementary calls included as additional capital. The board keeps the need to make supplementary calls under review when considering the overall financial resources available to the club and has decided that no supplementary call is currently needed for any of the open policy years, nor is any expected. The board's strategic approach to capital is referred to in the free reserves section of the report of the directors.



Report of the directors continued

Financial results

Summary of financial results and consolidated balance sheet

As set out in the consolidated statement of comprehensive income, there was a deficit for the year of $33m (2020: $41m deficit). Free reserves at 20 February 2021 stood at $360m (2020: $393m). Total reserves available for claims stood at $946m (2020: $1,040m). The amount set aside to meet outstanding claims and IBNR was $586m at 20 February 2021 (2020: $646m).

Statement of comprehensive income

Revenue from calls, premiums and releases amounted to $293m (2020: $353m, or $288m excluding the club's share of The Standard Syndicate). Paid claims, net of reinsurance recoveries, were $260m (2020: $267m). Pool and reinsurance recoveries amounted to $38m (2020: $133m).

Average expense ratio

The average expense ratio for the club's P&I class for the five years ended 20 February 2021 was 12.7% (2020: 12.9%). The ratio was calculated in accordance with the Schedule and Guidelines issued by the IG pursuant to the International Group Agreement and is consistent with the relevant financial statements. The ratio expresses the club's expenses as a percentage of its total income. Although members' brokerage is not an expense of the club, for the sake of consistency, the ratio includes members' brokerage fees paid by members to their brokers through the agency of the club.

Open and closed policy year balances – P&I class

The appendices to the report set out details of the open policy years together with the closed policy year balances. The 2018/19 policy year was closed on the basis of the financial position at 20 February 2021. The total open policy year balance at 20 February 2021 amounted to $268m after closure of the 2018/19 policy year. Included in this balance are estimated reinsurance recoveries of $97m. The estimate of net outstanding claims liabilities for the closed years amounted to $272m (including liabilities for the 2018/19 policy year).

Free reserves

The free reserves represent the surpluses built up out of open and closed policy years (which include investment returns and constitute the core capital of the club. The club's free reserves reduced to $360m at the 2021 year end (2020: $393m).

The board has reviewed the strategic purpose of the club's capital and agreed that the appropriate level of free reserves would:

- ensure that the club has sufficient capital to reflect its business risks and to comply with regulatory requirements
- provide a sufficient buffer so as to make the probability of supplementary calls very low and unnecessary in any phase of a normal underwriting cycle, levied only in extreme stress scenarios
- ensure that the club is perceived as being in the top division of clubs from a financial perspective, in order to give the club flexibility and the power to maintain discipline on pricing and quality
- maintain an S&P capital strength rating of 'AAA'.

The current level of free reserves is within the target strategic range set by the board. The board will ensure that the free reserves continue to be aligned with the volume of risks in the club's business.

The board keeps the need to make supplementary calls under review when considering the overall financial resources available to the club and has decided that no supplementary call is currently needed for any of the open policy years, nor is any expected.

Release calls

An actuarial assessment is undertaken to establish the level of release calls for each policy year, as the various risks to which the club is exposed and the long-tail nature of claims development could lead to a wide variety of claims results. The club has considered each of a large number of possible results to assess the probability of the free reserves falling to a level at which a supplementary call might be made. The size of such a supplementary call, weighted by the probability of requiring a call of that size, represents the liability foregone by a member that leaves the club.

A benchmark release call rate is calculated as this amount plus a risk transfer premium, adjusted to take into account any commercial or market considerations.

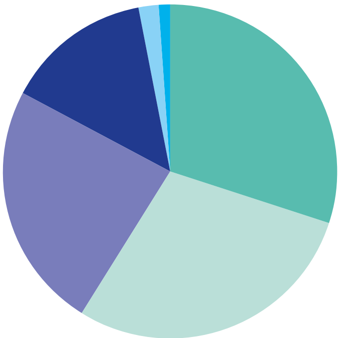
In line with recent years, the club is sufficiently confident in its balance sheet strength to maintain relatively low levels of release calls on the P&I class, as compared to other IG clubs, of 0% for 2019/20, 6% for 2020/21 and 12.5% for 2021/22.

The Coastal & Inland class release calls are set at 0% for each of the three open policy years, and 20% for the Strike & Delay class for 2020/21 and 2021/22.

S&P

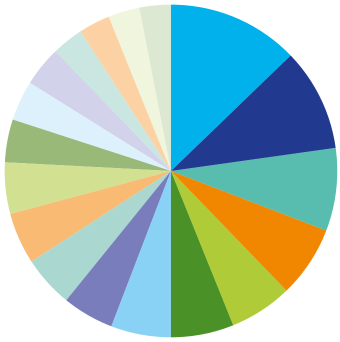
S&P reaffirmed the club's 'A' (strong) rating in May 2020, reflecting S&P's expectations that the club will 'maintain capital and earnings commensurate with the 'AAA' capital rating' (a key component of the overall credit rating). The club was, however, placed on negative outlook (along with others in the International Group (IG)) reflecting concerns by S&P that a continuation of underwriting losses (and high levels of Pool claims) would erode that capital base in the future. As at February 2021, the club has maintained that capital and earnings position, and expects S&P to maintain the 'A' rating following its annual review in June 2021.

Ship types entered
Owned tonnage as at 20 February 2021



Container and general cargo	30%
Tanker	29%
Dry bulk	24%
Offshore	14%
Passenger and ferry	2%
Other	1%

Country of management
Owned tonnage as at 20 February 2021



Greece	13%
Nordic countries	10%
Japan	8%
USA	7%
Singapore	6%
Switzerland	6%
Rest of Europe	6%
Canada	5%
Rest of Asia	5%
Turkey	5%
Monaco	5%
Rest of world	4%
Italy	4%
Netherlands	4%
Indonesia	3%
Middle East	3%
South Korea	3%
Germany	3%

Impact of COVID-19

The directors have been monitoring the development of the impact of COVID-19, both directly on the club's business, and indirectly through the development of government policy and advice. The main considerations are outlined below.

Operational

The club's managers have activated full business continuity contingency plans and have now proved that the club can continue to operate in the event of a serious prolonged incident, such as the present pandemic. Business records and documentation are stored electronically, are regularly backed up and are accessible remotely from anywhere in the world. Personnel in each of the managers' global offices have successfully transitioned to working from home and the club has been able to continue to provide the same level of service to its members.

Risks underwritten

The club insures only limited aspects of the effects of COVID-19. The marine protection and indemnity (P&I) policies, which form the majority of the club's book, provide cover for crew illness and death, crew repatriation and substitution, passenger illness and death, broader liabilities to passengers arising out of threats to life, health or safety on board, third-party illness and death, and additional quarantine expenses. The club also provides legal expenses cover for members (Defence) and cover for COVID-19 related delays. The net aggregate of COVID-19 claims notified up to 20 February 2021 across all classes of business amounted to approximately $20m.

Policyholders

The economic downturn resulting from the pandemic has affected some of the club's members and business partners. However, due to the effectively compulsory nature of P&I insurance, the club has not seen any noticeable delays in collecting insurance premiums nor any upturn in bad debt. There has been an increase in the levels of laid-up ships, but any reduction in premium income arising has been offset by reduced claims on those vessels. The managers maintain very close links with members either directly or through brokers, and where members are struggling, the club is being as supportive as possible.

Reinsurance
Club retention and the Pool

The individual club retention increased to $10m in 2016 and remains unchanged for the 2021/22 policy year. The attachment point of the Group's General Excess of Loss (GXL) reinsurance programme, which increased to $100m in 2017, remains unchanged.

The pooling mechanism maintains fairness between IG clubs and ensures that the exposures generated are manageable.

Report of the directors continued

The IG reinsurance programme
The GXL was renewed in 2020 on a two-year deal so these rates follow through to 2021 unchanged. The structure of the programme remains the same. The first layer is for $650m excess $100m. There are now three private placements totalling 30% and a $100m annual aggregate deductible on the first layer for this 70% share.

The second layer remains at $750m excess $750m, with the third layer at $600m excess $1.5bn. Overspill is unchanged at up to $3.1bn.

Non-pool programme
A large proportion of the club's members benefit from the club's non-poolable covers. The biggest users of the non-pool programme are charterers, fixed premium members and those involved in the offshore energy and specialist sectors, whose risks are largely excluded from the Pool. The club continues to be able to offer the same maximum limit of $1bn.

Principal risks and uncertainties
How the club manages risk
The board is responsible for identifying and managing the club's risks. The board's risk management responsibilities are led by the Audit and Risk Committee, which reviews the risks facing the club, as well as their potential impact, management and mitigation, at each of its meetings. The board sets the club's risk appetite in relation to all key aspects of the club's operations, and the club's strategy reflects that appetite.

Key risks are evaluated to assess their likelihood and potential impact.

The club's management establishes controls which are designed to ensure that the tolerances contained in the board's risk appetite are not exceeded and, where possible, puts in place arrangements or processes to mitigate the club's risks. Acting through its executive Risk Committee, the club's management regularly monitors the effectiveness of the risk management system, including the impact of changes in the club's risk profile and emerging risks. A risk register, which records the risks and their potential likelihood, impact, mitigation and controls, is maintained.

The club's internal model reflects the risks identified and is used to assess the potential aggregate impact, and hence the levels of capital required to cover them.

The club's risk, compliance and internal audit functions report to the Audit and Risk Committee, providing assurance that the club's risk management systems are functioning correctly.

Type of risk	Risk description	Management of action
Underwriting risk		
Premium risk	The risk that premiums charged will not be sufficient to meet all associated claims and expenses, including: • internal risks arising from underwriting inappropriate or incorrectly priced business • external risks arising from adverse insurance or reinsurance market movements.	• Premium risk is managed by: – clear underwriting controls, pricing models, and underwriting review and authority levels – monitoring for undue concentrations of risk, acceptability of member loss records and consistency of pricing with risk appetite – a dedicated loss prevention function, aimed at ensuring the club only underwrites those shipowners that operate to an acceptable standard as well as encouraging good risk management by members. • Premium risk is mitigated by appropriate reinsurance programmes, including the IG pooling and reinsurance programme, and the club's own non-pool and retention reinsurance. • Reinsurance strategy is set by the board in line with the board's risk appetite and is designed to mitigate the club's insurance risk through programmes tailored to the club's exposures. The efficacy of the club's reinsurance arrangements in mitigating club risks is tested by the actuarial function.
Reserve risk	The risk that claims reserves will be inadequate to cover known losses, and/or unknown or undeveloped losses, such as occupational diseases.	• Reserve risk is managed by: – prompt reserving of potential losses – regular review of individual estimates and overall reserve adequacy – systematic claims audits and monitoring the performance of individual claims handlers to ensure consistency of approach – modelling of technical provisions by the club's actuarial function – actuarial reserving process and controls, with a quarterly reserving committee incorporating a review of underlying assumptions and methodologies.

Type of risk	Risk description	Management of action
Financial risk		
Credit risk	The risk of a loss occurring owing to the failure of a counterparty to meet its contractual debt obligations. Counterparties include members, reinsurers, other IG clubs, intermediaries, banks and investment counterparties.	• The risk of default is mitigated by: – using only well-rated reinsurers and monitoring their financial condition – Pooling Agreement provisions, which provide security for inter-club obligations – prompt follow-up of outstanding member premiums, the ability to net overdue premium amounts against unpaid claims, and suspension or cancellation of cover – investment rules and counterparty limits.
Market risk	The risk of a loss occurring from fluctuations in the value or income from investments, including the effects of fluctuations in interest and exchange rates.	• The club's investment strategy has been developed with the following objectives: a. To preserve capital for the payment of the club's claims and other liabilities by limiting the risk in the portfolio as agreed from time to time by the board. b. Within the risk tolerance agreed by the board, to maximise the overall returns as measured over rolling three-year periods. c. To ensure there are ready funds to meet liabilities as they fall due. • There are clear and regularly reviewed investment rules, and the club manages its investment risk through investing widely and in different asset classes to diversify the overall portfolio and produce reasonable returns with acceptable volatility. The club is exposed to equity price fluctuation risk, but the investment rules limit equity exposure. • The currency of investment is matched to the profile of the liabilities to which the club is exposed. The club makes use of forward currency contracts to hedge its exposure to fluctuations in the value of non-core currencies and to maintain the matching of the investment profile to the liability profile. • Interest rate risk exposure is measured and controlled through regular consideration of the appropriate duration of the fixed interest component of the portfolio. • The investment asset and currency benchmarks are modified from time to time to reflect the board's reassessment of market risk appetite, as informed by its assessment of the investment markets as well as by risk appetite and regulatory or rating agency considerations.
Liquidity risk	The risk arising from insufficient financial resources being available to meet liabilities as they fall due.	• The club continually monitors its cash and investments to ensure that it meets its liquidity requirements. • Adequate cash holdings are maintained at all times and the club's asset allocation strategy is designed in part to enable the ready availability of funds to meet insurance liabilities as they fall due. • The club regularly reviews the time period required to liquidate the investment portfolio. • The likely cash outflows in relation to specific large claims are projected and monitored. • Significant claim settlements through the IG Pool and associated reinsurance arrangements are subject to special settlement provisions that provide the club with access to funding for those large claims that are subject to reinsurance recoveries.
Operational risk	The risk resulting from inadequate or failed internal processes, people and systems, or from external events.	• The club has identified its operational risks and has in place appropriate controls to manage and mitigate such risks, consistent with good practice, regulatory guidance and legislation relating to human resources, financial crime, business continuity and information security. • As the club employs independent third-party managers to manage some of its day-to-day activities, an appropriate governance structure and control framework are also in place to monitor the club's outsourcing of its operations.

Report of the directors continued

Corporate governance

Overview

The club comprises members from the international shipping community and seeks to follow good governance principles that would generally be recognised throughout world markets. The club is principally regulated in Bermuda, with regulated operating insurance subsidiaries in the UK, Ireland and Singapore. The club has had particular regard for the requirements of these countries in arriving at its current practices.

Board responsibilities

The board's role, duties, composition and operation, along with its matters reserved is described in the board governance policies statement. The principal functions of the board are to:

- govern and direct the club's affairs
- ensure that the club's objectives are being fulfilled
- set the overall strategy and key policies
- set and review the club's risk appetite
- oversee risk management and compliance issues
- ensure that there is a suitable and clear allocation of responsibility between itself and the managers
- satisfy itself that the managers have an appropriate structure for the management of the club
- direct and supervise the managers and consider their reports on all significant aspects of the club's affairs
- ensure that there are suitable systems of control.

The directors are provided with up-to-date reports on the key financial indicators for the club and on the risks, controls, underwriting, claims, investment and general policy issues at each board meeting. The directors are provided with board meeting papers in sufficient time before each board meeting to enable them to understand the relevant issues and to focus upon decisions that need to be made. The board has delegated the implementation of its strategy and policies, and the management of the day-to-day operations of the club to the managers.

A formal management agreement between the club and the managers is in place and sets out their respective obligations and responsibilities. In addition, there is a service level agreement against which the board reviews the performance of the managers.

Governance review

In light of the transition to an in-house management structure, the board and managers are reviewing and assessing the governance structures of the club and will make changes as necessary to ensure that the club's governance structure is aligned with its business objectives, legal and regulatory requirements, and good practice. The review will create a governance structure that is effective and fit for purpose, with the appropriate committees, to provide clarity of decision-making, roles and responsibilities, and an appropriate and effective oversight of management and operations. A working group comprising the chairmen of the club and each subsidiary has been created to oversee the review.

Board membership

The great majority of directors are non-executive and are not involved in the day-to-day executive management of the club. By virtue of the bye-laws, directors are, for the most part, the owners or senior executives of the club's member companies.

The chairman is responsible for the direction and effectiveness of the board and the oversight of the club's affairs and strategy. There are two deputy chairmen whose roles are to assist the chairman in carrying out his role. The chairman and deputy chairmen are elected for a term of three years but may be re-elected for four further three-year terms.

The board has the benefit of four insurance expert directors, along with expert insurance and investment guidance provided by its managers. It also has access to additional independent insurance, regulatory, financial and investment expertise as required.

A Bermudian resident director with insurance and regulatory experience was appointed to the board in January 2016 and has continued to serve on the board.

At each annual general meeting (AGM), one-third of the directors must retire from office by rotation and put themselves up for re-election. All directors appointed since the date of the last AGM must put themselves forward for election.

Directors who have held office for a period of nine years, or more, must offer themselves for annual re-election to the board. Directors who are no longer eligible to be elected to the board according to the bye-laws must retire from the board at the next AGM.

Remuneration

Directors receive fees recommended by the club's Nomination and Governance Committee and agreed by the board. Directors who are employed by the managers do not receive directors' fees. A Remuneration Committee was created on 18 August 2020. This committee, along with the Nomination and Governance Committee, ensures that the personal performance objectives and the remuneration of the executive director are designed to promote the long-term success of the club.

The club's administrative functions are undertaken by the managers, who receive a management fee for their services which is agreed by the board annually based on a review by the Nomination and Governance Committee. The review, which is reported to the board, considers the managers' budgets, performance and costs, including a comparison with other clubs based upon available data. Full disclosure of the management fees paid by the club is provided in the club's financial statements. The board is keen to encourage greater transparency of administration costs by P&I clubs generally, although this does not appear to be a high priority for some clubs.

Insurance and indemnity

The club maintains liability insurance for its directors and officers which is renewed on an annual basis. The club also indemnifies its directors through its constitutional documents.

Committees of the board

Each of the board's four main committees – Nomination and Governance, Audit and Risk, Remuneration and Strategy – has written terms of reference, which are available upon request from the company secretary.

Nomination and Governance Committee

The Nomination and Governance Committee's main responsibilities include:

- identifying suitable candidates to join the board and its committees
- reviewing the overall composition of the board
- leading reviews of the board and its committees' effectiveness
- reviewing and making recommendations on the club's governance structure, policies and practices.

During the year, the committee reviewed succession planning for key board appointments, as well as board attendance and potential candidates for board membership. The committee does not generally use the services of an external consultancy firm or open advertising for the appointment of non-executive directors, as board candidates are generally sought from the members.

The committee also reviews the induction and training programmes for board and committee members.

The committee leads the review of the managers' performance and, in this respect, during the year, reviewed their performance against the specific requirements of a service level agreement, as well as their remuneration. The committee considered succession planning, objectives and individual remuneration for key executive management roles.

In accordance with the requirements of the Insurance Code of Conduct 2015, the committee considers the group governance map at each meeting.

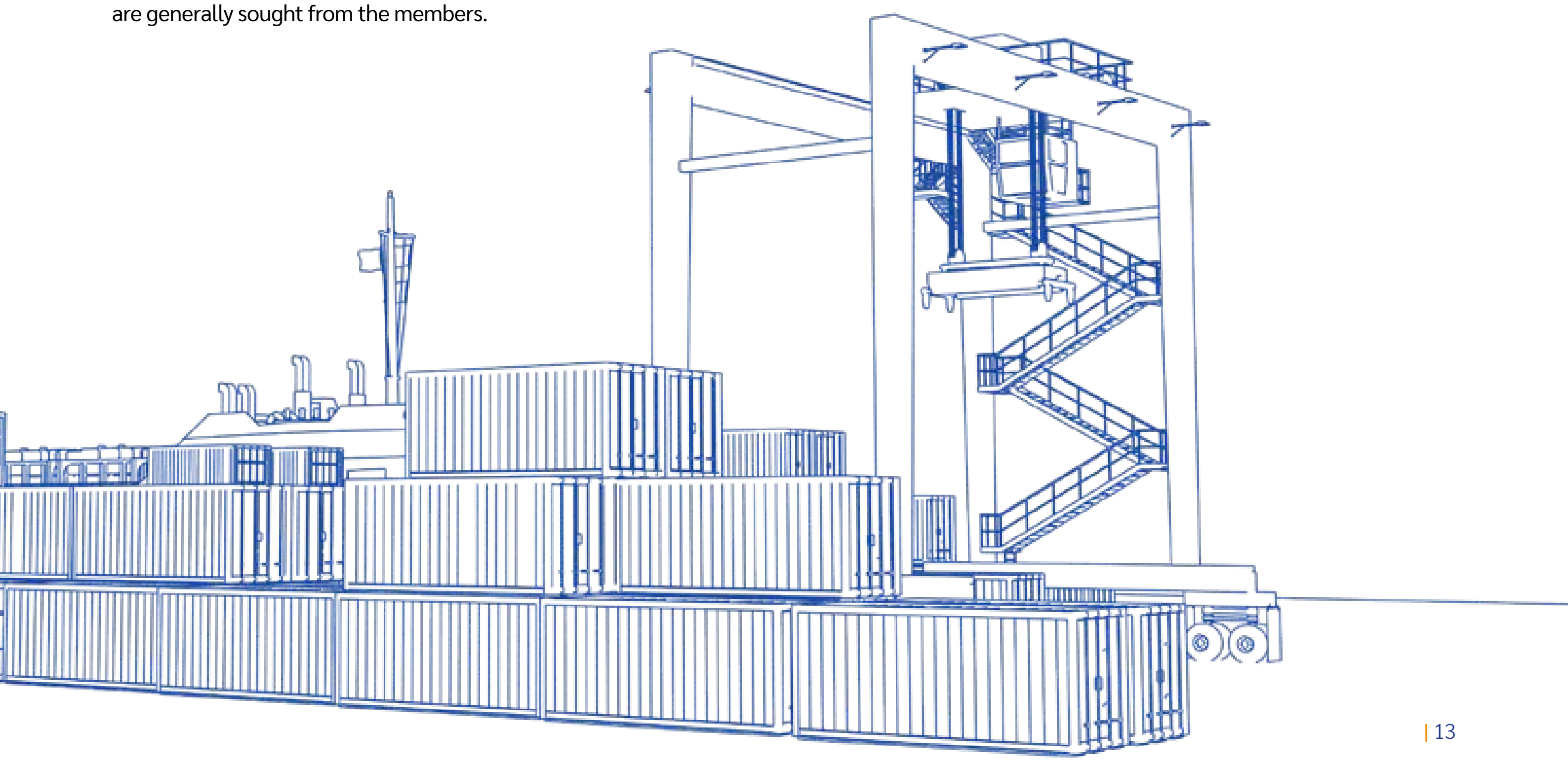
Ensuring that members are satisfied with the club's performance and that they are receiving fair treatment from the club are high priorities for the board. The club conducts a member and broker survey every other year, and the managers ordinarily aim to visit as many members as practically possible during the year to ensure that they are aware of the club's strategy and operations, and to identify any areas for concern. Given COVID-19 travel restrictions, these face to face meetings have in most cases been replaced with virtual meetings during the last year.

Audit and Risk Committee

The Audit and Risk Committee's role includes:

- the review of the financial statements of the club and its financial regulatory returns
- relations with, and reports from, the external and internal auditors
- oversight of the club's risk management framework and internal controls.

During the year, the committee reviewed the annual report and regulatory returns, and received a direct report from the external auditors' engagement leader and challenged him on the audit report.



Report of the directors continued

The committee reviewed the integrity and effectiveness of the club's financial controls, the operation and resources of the risk management, compliance and internal audit functions, and the risk management, compliance and internal audit reports. The club's principal risks and uncertainties and the effectiveness of the company's risk management and internal controls systems were reviewed by the committee and the board.

The committee receives a report on any whistleblowing incidents and complaints at each meeting.

The committee monitored the capital requirements of the club and its subsidiaries, reviewed the progress of the report on the club's Own Risk and Solvency Assessment (ORSA), and reviewed the development of the club's internal model, including its inputs, assumptions, methodology, uses, sensitivities and outputs.

Remuneration Committee

The Remuneration Committee was created on 18 August 2020. Its role includes:

- assessing the appropriateness of the group remuneration policy to ensure it is aligned with the club's interests
- consideration of the remuneration of the board's chairman, deputy chairmen, subsidiary and committee chairmen, and non-executive directors
- consideration of the remuneration of the executive director and officers of the club, including senior management with regulatory functions.

Strategy Committee

The Strategy Committee's role includes:

- considering and making recommendations to the board concerning the strategy to be adopted by the club
- reviewing the performance of the club in meeting its strategic objectives
- reviewing the club's business environment
- considering new strategic initiatives, alliances and potential mergers.

During the year, the committee discussed new products and services, and the effective marketing of them. The committee also considered the progress of business development initiatives and the managers' technology and data strategy.

The chairman's group

The chairman's group assists the chairman to discharge the responsibilities of his role and meets with the managers between board meetings. The group has met 16 times since the last report.

Risk management

Approach

The board, and its Audit and Risk Committee, set and review on a regular basis the club's risk appetite, the major business risks facing the club and their potential impact, and the systems and controls in place to manage and mitigate those risks.

During the year, the board reviewed the club's risk appetite statement, which is used to provide guidance to management. At the highest level, risk appetite is considered in terms of the likelihood that the club may be required to make an unbudgeted supplementary call on members, whether directly as a result of its mutual underwriting activities or through other activities such as investing in risk-bearing assets. The club uses its internal capital model in the assessment of aggregate levels of risk against risk appetite.

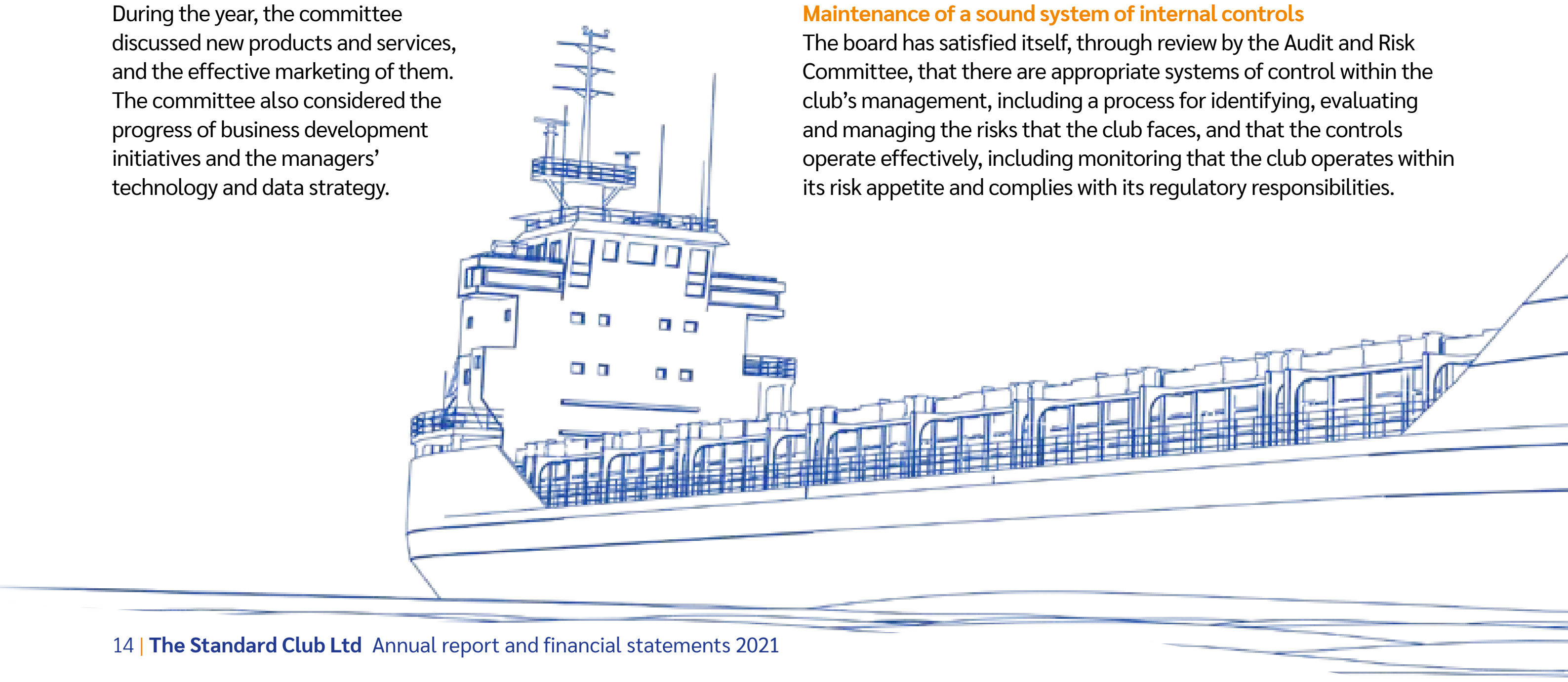
In addition, detailed measures of the club's appetite for each of the club's key risks have been established, with key risk indicators reported at each board meeting.

The club operates a 'three lines of defence' system of internal control, supplementing the management of risk by its business units through regular review of controls by the risk management function and tests of controls by risk and compliance functions in addition to internal audit assurance. The risk management system and processes are linked to the club's internal model, the outputs of which assist in the management of the business as well as in the assessment of the economic capital required to reflect the financial impact of business risks.

The principal risks facing the group and the risk mitigation actions, controls and processes by which they are managed are explained in this report.

Maintenance of a sound system of internal controls

The board has satisfied itself, through review by the Audit and Risk Committee, that there are appropriate systems of control within the club's management, including a process for identifying, evaluating and managing the risks that the club faces, and that the controls operate effectively, including monitoring that the club operates within its risk appetite and complies with its regulatory responsibilities.



Compliance and regulation

Approach

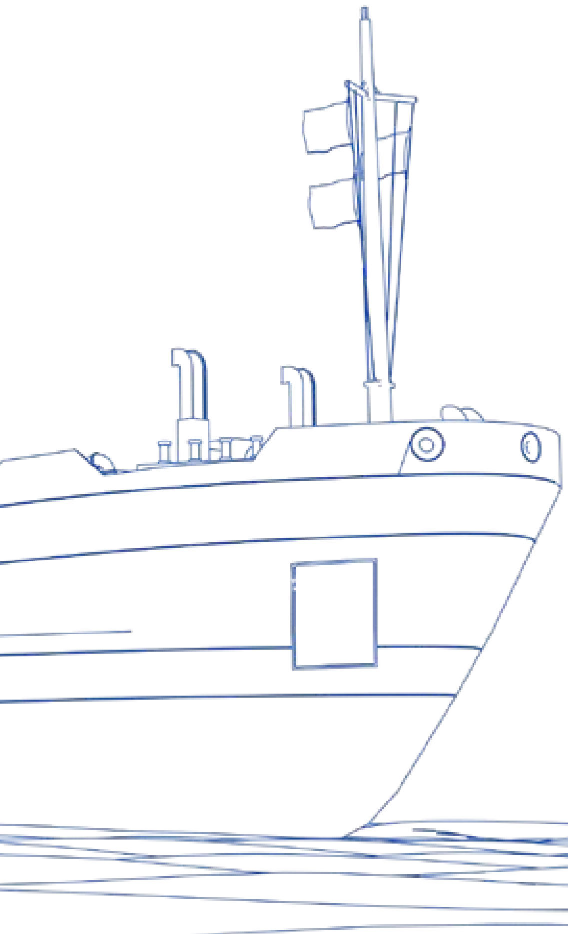
The club's compliance and regulatory affairs are overseen by the Audit and Risk Committee. The group chief risk officer reports to and attends in person all Audit and Risk Committee and board meetings. The group chief risk officer or any director may ask for a private 'in camera' session with the committee or board. The board agrees the compliance monitoring plan and oversees progress against the plan, considers the results of monitoring, upcoming regulatory risks and current priorities.

Internal audit

The club's internal audit function is led by a senior Charles Taylor manager. The internal audit department is an independent unit within Charles Taylor and is not involved in the day-to-day management of the club.

The head of internal audit, who attends the Audit and Risk Committee and board meetings in person, is directly accountable to the chairman of the committee, and has free and unrestricted access to the chairman of the club board. The head of internal audit has a private 'in camera' session with the committee at least once a year.
The internal audit reports submitted to each committee meeting summarise the audits undertaken and identify progress against the agreed audit timetable. The audits themselves are usually rated red, amber, yellow or green. Individual audit issues are categorised as high, medium or low impact. The committee is also kept informed of progress towards closure of high and medium impact audit issues.

Once a year, an assurance map is tabled for discussion, which sets out the main operational areas of the business and indicates the status of, and outlook for, the control environment.



The internal audit terms of reference are reviewed on an annual basis. The annual audit plan is risk-based. It reflects, among other things, the operational, financial, administrative and regulatory aspects of the club's business, taking as its starting point the club's risk register and internal audit's assessment of the risk environment. Some audits are carried out by external specialist consultants. The plan is flexible so that it can deal with any reprioritisation that may need to occur during the year.

Operating model

The day-to-day management of the club is currently outsourced to Charles Taylor. On 29 May 2020, Charles Taylor and the Standard Club announced their decision to work together to create a new operating model for the club whereby core management operations would be performed by an `in house' manager owned by the Standard Club. Under the new model, the same management team will remain in place, with the same individuals and teams continuing to service members' and brokers' needs and carrying out core management, underwriting, claims handling, loss prevention, finance, reserving and control activities, as part of the club's own organisation. New contractual agreements will be in place from August 2021 with Charles Taylor for the provision of support services including Standard Club's technology and services, investment management, internal audit and other support services. This change will enable the Standard Club to insource and manage its day-to-day operations, while retaining the entrepreneurial and member-centric culture that has led to its success over many decades. The outsourcing framework under which the new operating model will be governed are currently being reviewed as part of the transition phase to the new operating model.

Key policies

Introduction

The board maintains policies across a range of areas, including conflicts of interest, financial crime, and sanctions.

Conflicts of interest

The board has considered the potential conflicts of interest that exist within the club's and the board's operations and a policy has been adopted to address this. A register is maintained, identifying potential conflicts of interest that could affect the club, and this is considered at each board meeting.

In a mutual organisation, the members are also the insured parties. Negotiations relating to any matter concerning members or directors in their capacity as insureds are conducted at arm's length. Directors do not participate in board discussions on specific matters concerning their companies as insureds.

Procedures are in place to ensure that potential conflicts of interest between the club and the managers, between the club's members, and between members and other clients of the managers' group are identified and managed.

Prevention of financial crime and whistleblowing

The club and its managers have procedures in place to prevent the club being involved unwittingly in money laundering or inappropriate payments. They also have whistleblowing procedures in place to ensure that members of staff can raise matters of concern confidentially so that they may be appropriately investigated.

Report of the directors continued

The board has a whistleblowing policy, which is kept under review by the Audit and Risk Committee.

Sanctions compliance

The club is committed to ensuring that it complies with all applicable legislation relating to international sanctions and has implemented internal procedures and an automated screening process to ensure compliance. The club also aims to ensure that members are kept up to date with relevant sanctions information to assist them in ensuring that they too are compliant and do not inadvertently breach sanctions.

Business and ethical values and treating customers fairly

The club is committed to conducting its business affairs in a fair, proper and ethical manner, and in compliance with all applicable laws, regulations and professional standards. The managers operate under a set of corporate values which ensure that their work on behalf of the club is carried out with integrity and fairness. The board and the managers are committed to treating customers and all stakeholders fairly, and keep under review the quality of service that the club provides. There is a complaints process, which is published on the website.

Business continuity

The managers have full business continuity contingency plans, including disaster recovery, which they periodically test, to ensure that the club can continue to operate in the event of a serious incident, for example, a terrorist event or pandemic. Business records and documentation are stored electronically in the 'cloud' and are accessible remotely from anywhere in the world.

Due to the COVID-19 pandemic, personnel in all the managers' global offices have been working from home where required to do so by local regulation. In doing so, they have continued to provide the same level of excellent service to members throughout the year.

Environmental, social and governance

Environmental, social and governance related challenges are having a growing impact on most aspects of human life and the physical world and there is growing pressure on governments and industries worldwide to respond. The maritime industry, which includes the P&I clubs, is no exception. Referred to collectively as sustainability issues, they pose a wide range of complex inter-connected risks which, if not managed appropriately, could have an impact on the club's long-term viability and its stated goal of providing *"a range of P&I insurance and related covers that represent excellent and sustainable value"*.

Whilst on behalf of its members the club is already helping to underpin economic development and address sustainability issues by, for example, actively preventing and managing the consequences of maritime losses, the club's approach to sustainability is starting to become a focus for its stakeholders. In this respect, to support the long-term viability of the club and satisfy its stakeholders, the club is adopting a coordinated and strategic approach to managing sustainability issues.

The first part of this process starts in 2021 with a materiality assessment which will enable the club's board and management team to:

- better understand the impacts sustainability issues could have on the club and focus on those areas where it can bring about meaningful change;
- recognise and realise the opportunities that exist through planning for and responding to sustainability issues; and
- proactively meet the expectations of stakeholders and society generally.

The findings from the materiality assessment will be used to prepare a sustainability report which will be published on the club's website in due course.

In terms of the club's day-to-day operations, The managers have taken steps to reduce their carbon footprint and strive to minimise their energy consumption through their energy management policy and by promoting and building awareness of environmental responsibility amongst their employees. They communicate and engage with staff at all levels to identify, assess and reduce operational impact on the environment.

The shift to working from home has had a notable impact on our employee commuting emissions and business travel emissions giving rise to a significant reduction on last year. The global restrictions in air travel also created a significant decrease in emissions from international flights. As the restrictions around travel are eased, the managers will be looking at ways to preserve these carbon savings through the continued use of conferencing technologies. Furthermore, we will be actively encouraging staff to consider the environmental impacts of travel when determining whether a business trip is necessary.

The Minster Building, which accommodates the managers' London operations is powered by renewable energy. Furthermore, it is a paperless office which incorporates a number of design and other initiatives, including electronic document management systems, to reduce that office's environmental impact and carbon footprint. A similar approach is adopted in the managers' overseas offices and there is a target of purchasing electricity globally from renewable energy sources. Where practicable, the managers source their supplies from local businesses so as to minimise distribution and transport-related emissions. Suppliers are required, as far as reasonable, to have an appropriate environmental policy.

Equality of opportunity and gender

The managers have formal policies which aim to attract and retain a diverse and flexible workforce, and to promote equality of opportunity. As far as board appointments are concerned, the board believes that appointments should be based on merit and overall suitability for the role. When considering succession planning, the Nomination and Governance Committee bears in mind the balance of skills, knowledge, experience and diversity existing on the board.

Modern slavery and human trafficking

Given the nature of its business, the club considers that there is minimal risk that the club, its managers or the supply chains that support the club's business activities are involved in, or complicit in, slavery and human trafficking. The club and its managers are committed to making sure that the club's business and the businesses of its suppliers are free from modern slavery and human trafficking.

Directors' responsibilities

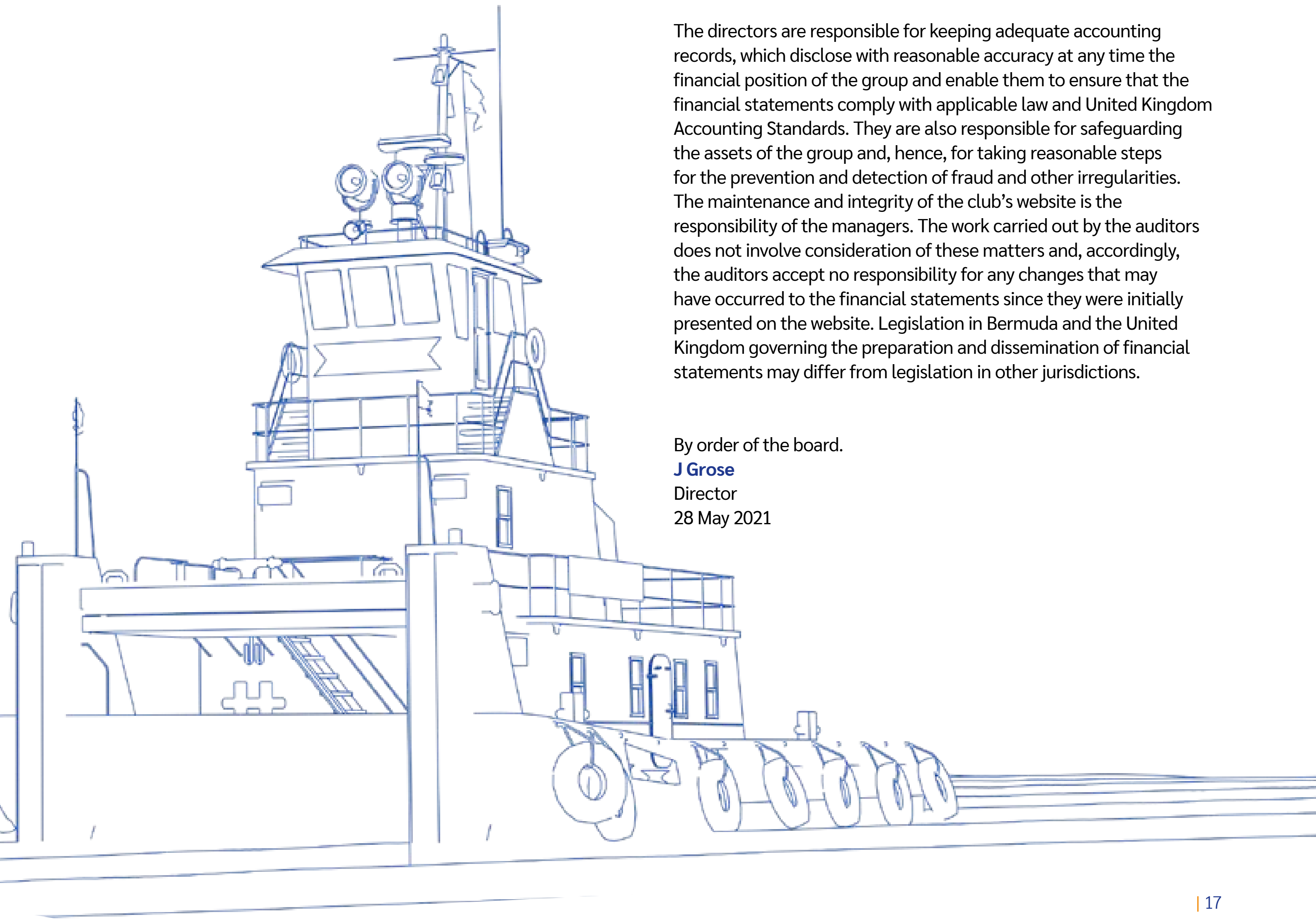
Statement of disclosure of information to auditors

Each person who is a director at the date of this report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the club's financial statements for the year ended 20 February 2021 of which the auditors are unaware
- each director has taken all steps that they ought to have taken in their duty as a director to make themselves aware of any relevant audit information and to establish that the club's auditors are aware of that information.

Directors' responsibilities statement

The following statement, which should be read in conjunction with the auditor's report, as set out on pages 18 and 19, is made with the view to distinguishing for members the respective responsibilities of the directors and auditors in relation to the financial statements.



The directors are responsible for preparing the report of the directors and the financial statements in accordance with applicable laws and regulations in Bermuda. The directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102: 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103: 'Insurance Contracts' (FRS 103), both issued by the Financial Reporting Council (FRC) and in compliance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) relating to insurance companies. The financial statements are required to give a true and fair view of the state of affairs of the group and of the income or expenditure of the group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business, in which case, there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping adequate accounting records, which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with applicable law and United Kingdom Accounting Standards. They are also responsible for safeguarding the assets of the group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities. The maintenance and integrity of the club's website is the responsibility of the managers. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in Bermuda and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board.
J Grose
Director
28 May 2021

Independent auditor’s report to the members of The Standard Club Ltd

Our opinion
We have audited the financial statements of The Standard Club Ltd Group (the group) for the year ended 20 February 2021 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Reserves, Consolidated Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and Financial Reporting Standard 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:
- give a true and fair view of the state of the group’s affairs as at 20 February 2021 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements 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 have provided no non-audit services prohibited by the FRC’s Ethical Standard to the group in the period.

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 financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’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 financial statements are authorised for issue.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 financial statements 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.

Opinions on other matters prescribed by the Companies Act 1981 (Bermuda)
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 1981 (Bermuda) requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Director's Responsibilities on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 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 economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditscopeukprivate. This description forms part of our auditor's report.

Use of our report

This report is made solely to the group's members, as a body, in accordance with Section 90 of the Companies Act 1981 (Bermuda). Our audit work has been undertaken so that we might state to the group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the group and the group's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP
Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

Financial highlights 2021

	2021 US$m	2020 US$m
Results for the financial year ended 20 February 2021		
Calls and premiums net of reinsurance	**228**	257
Total claims net of reinsurance and operating expenses	**(290)**	(367)
Balance of technical account for general business	**(62)**	(110)
Net investment and other comprehensive income	**29**	69
Total comprehensive income for the year	**(33)**	(41)
Outstanding claims liabilities		
Estimated known outstanding claims net of all recoveries	**523**	550
Incurred but not reported claims (IBNR)	**63**	96
Total estimated claims liabilities	**586**	646
Funds available for claims		
Open policy years	**298**	358
Closed policy years	**288**	288
Free reserves	**360**	394
Total balance sheet funds	**946**	1,040

Consolidated statement of comprehensive income

For the year ended 20 February 2021

	Note	2021 US$m	2020 US$m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums earned, including calls	4	**292.7**	353.5
Outward reinsurance premiums	5	**(64.4)**	(96.0)
Earned premiums, net of reinsurance		**228.3**	257.5
Total income		**228.3**	257.5
Expenditure			
Claims paid	7	**297.5**	399.5
Reinsurers' share	8	**(56.2)**	(132.6)
Net claims paid		**241.3**	266.9
Change in provision for claims		**6.8**	41.0
Reinsurers' share		**12.3**	1.2
Change in net provision for claims		**19.1**	42.2
Claims incurred, net of reinsurance		**260.4**	309.1
Net operating expenses	9	**30.0**	58.1
Total expenditure		**290.4**	367.2
Balance on the technical account for general business		**(62.1)**	(109.7)
Non-technical account			
Balance on the technical account for general business		**(62.1)**	(109.7)
Investment return net of expenses and charges	6	**35.0**	83.9
Exchange losses		**(2.2)**	(2.3)
Other charges including value adjustments		**(4.1)**	(8.6)
Shortfall of income over expenditure before taxation		**(33.4)**	(36.7)
Tax on shortfall of income over expenditure	10	**(0.7)**	(0.7)
Shortfall of income over expenditure for the financial year		**(34.1)**	(37.4)
Other comprehensive income:			
Currency translation movement		**0.7**	(3.6)
Total comprehensive expenses for the year transferred to contingency reserve		**(33.4)**	(41.0)

The income, expenditure and results for the year are wholly derived from continuing activities.

The notes on pages 25 to 46 are an integral part of these financial statements.

Consolidated balance sheet
At 20 February 2021

	Note	2021 US$m	2020 US$m
Assets			
Investment			
Other financial investments	12	**795.4**	890.6
Reinsurers' share of technical provisions			
Claims outstanding	11	**248.8**	282.8
Provision for unearned premiums	11	**14.7**	14.4
		263.5	297.2
Debtors			
Debtors arising out of direct insurance operations	15	**99.1**	114.2
Other debtors		**8.2**	16.6
		107.3	130.8
Other assets			
Cash at bank and in hand		**76.8**	85.1
		76.8	85.1
Prepayments and accrued income		**11.2**	13.0
Total assets		**1,254.2**	1,416.7
Liabilities			
Reserves			
Statutory reserve		**0.2**	1.2
Contingency reserve		**360.1**	392.5
		360.3	393.7
Technical provisions			
Gross claims outstanding	11	**834.6**	929.5
Provision for unearned premiums	11	**0.4**	7.7
		835.0	937.2
Provisions for other risks and charges			
Provision for loss on disposal of subsidiary		**–**	7.8
Creditors			
Creditors arising out of direct insurance operations		**47.1**	59.2
Other creditors including taxation and social security	16	**7.4**	13.8
		54.5	73.0
Accruals and deferred income		**4.4**	5.0
Total liabilities		**1,254.2**	1,416.7

The financial statements were approved by the board of directors on 20 May 2021 and were signed on its behalf by:

C d'Amico
Chairman

The notes on pages 25 to 46 are an integral part of these financial statements.

Statement of changes in reserves

Consolidated	Statutory reserves US$m	Contingency reserves US$m	Total reserves US$m
Balance as at 20 February 2019	1.2	433.5	434.7
Excess/(shortfall) of income over expenditure for the financial year	–	(37.4)	(37.4)
Other comprehensive income	–	(3.6)	(3.6)
Total comprehensive income for the year transferred to the contingency reserve	–	(41.0)	(41.0)
Balance as at 20 February 2020	1.2	392.5	393.7
Balance as at 20 February 2020	**1.2**	**392.5**	**393.7**
Excess/(shortfall) of income over expenditure for the financial year	**–**	**(34.1)**	**(34.1)**
Other comprehensive (expenses)/income net of tax	**–**	**0.7**	**0.7**
Total comprehensive income for the year transferred to the contingency reserve	**–**	**(33.4)**	**(33.4)**
Reclassification	**(1.0)**	**1.0**	**–**
Balance as at 20 February 2021	**0.2**	**360.1**	**360.3**

The notes on pages 25 to 46 are an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 20 February 2021

	2021 US$m	2020 US$m
Excess of income over expenditure before tax	**(33.4)**	(36.7)
Gains arising on realisation of investments	**(37.6)**	(36.7)
Losses arising on realisation of investments	**6.9**	6.9
Unrealised losses/(gains) on revaluation of investments	**10.5**	(35.7)
Depreciation	**(0.5)**	(0.7)
Decrease/(increase) in debtors	**5.9**	107.9
Increase/(decrease) in net technical provision	**19.2**	(7.1)
(Decrease)/increase in creditors	**(11.7)**	1.7
Taxation	**(0.7)**	(0.7)
Other charges including value adjustments	**4.1**	8.8
Exchange differences	**2.2**	2.2
Net cash flow generated from operating activities	**(35.1)**	9.9
Net cash from operating activities	**(35.1)**	9.9
Taxation paid	**–**	–
Net cash generated from operating activities	**(35.1)**	9.9
Cash flow from investing activities		
Disposal of subsidiary	**(30.9)**	–
Purchase of investments	**(775.4)**	(851.6)
Sale of investments	**818.0**	802.3
Net cash used in investing activities	**11.7**	(49.3)
Net decrease in cash and cash equivalents	**(23.4)**	(39.4)
Effect of exchange rate fluctuations on cash and cash equivalents	**1.6**	2.4
Cash and cash equivalents at the beginning of the year	**98.6**	135.6
Cash and cash equivalents at the end of the year	**76.8**	98.6
Cash and cash equivalents consist of:		
Cash at bank and in hand	**76.8**	85.1
Short-term deposits presented in other financial investments	**–**	13.5
Cash and cash equivalents at the end of the year	**76.8**	98.6

The notes on pages 25 to 46 are an integral part of these financial statements.

Notes to the financial statements

1. Constitution

The club is incorporated in Bermuda as a company limited by guarantee and has a statutory reserve but no share capital. The members of the club are liable for their rateable proportion of any deficiency of claims and expenses in excess of contributions and the board of directors decides whether any surplus is retained in the contingency reserve for the purposes of the club or returned to members. The address of its registered office is Swan Building, 2nd Floor, 26 Victoria Street, Hamilton HM12, Bermuda.

2. Accounting policies

(a) Basis of preparation

These group financial statements, which consolidate the financial statements of the club and its subsidiary undertakings, have been prepared under the Bermuda Companies Act 1981, and also under the provisions of Schedule 3 to the UK Companies Act 2006. The club and its subsidiary undertakings have applied uniform accounting policies and, on consolidation, all intra-group transactions, income and expenditure have been eliminated. The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102, ‘The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland’ (FRS 102) and Financial Reporting Standard 103, ‘Insurance Contracts’ (FRS 103).

The financial statements have been prepared under the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups.

The financial statements are prepared under the historical cost convention, as modified for the revaluation of investment properties and financial assets and liabilities (including derivative instruments) at fair value through income or expenditure.

The club has taken advantage of the exemption in Section 408 of the Companies Act 2006 and, as a result, does not present its individual statement of comprehensive income and the related notes that would have formed part of the financial statements.

The contingency reserve represents the free reserves of the club and is established in accordance with rule 20.6 of the rules of the club.

The financial statements are prepared on a going concern basis. The directors consider it appropriate to adopt the going concern basis of accounting in the preparation of these financial statements and, having reviewed forecasts for the next three years, are not aware of any material uncertainties to the company’s ability to continue to do so for at least 12 months from the date of these financial statements.

(b) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the group’s key sources of estimation uncertainty:

Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR), at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and, for some types of policies, IBNR claims form the majority of the liability in the statement of financial position. At the end of the reporting period, and as presented in note 11, the technical provisions for claims amounted to $834.6m gross of reinsurance recoveries.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and the Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the balance sheet date based on statistical methods.

Notes to the financial statements continued

2. Accounting policies continued
These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on actuarial techniques and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than straight line.

Estimates of future premiums
For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying these estimates is that past premium development can be used to project future premium development. At the end of the reporting period, and as presented in note 4, the gross premiums include an accrual for premiums due but not yet received of $3.4m.

Fair value of financial assets and derivatives determined using valuation techniques
Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk and model inputs such as estimated future cash flows based on management's best estimates and discount rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country-specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity, and financial conditions or counterparties. Discount rates are influenced by risk-free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Basis of consolidation
The consolidated financial statements include the financial information of the club and its subsidiary undertakings. Subsidiaries are fully consolidated from the date on which control is transferred to the club and de-consolidated from the date on which control ceases.

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

An undertaking is regarded as a subsidiary undertaking if the club has control over its operating and financial policies, generally determined by the ownership of more than 50% of its voting rights.

Associated undertakings are companies other than subsidiary undertakings in which the club holds 20% or more of the equity share capital for the long term and over which the club exercises significant influence. Associated undertakings are accounted for using the equity method of accounting.

Uniform accounting policies are applied to all subsidiary undertakings.

(d) Annual basis of accounting
The Consolidated Statement of Comprehensive Income is prepared on an annual accounting basis and includes all the premiums for policies incepting in the year, the cost of claims incurred and reinsurance for the current year, and any adjustments relating to earlier years together with operating expenses and investment income. All revenue transactions appear in the Consolidated Statement of Comprehensive Income.

The calls and premiums, reinsurance premiums payable, claims paid and related expenses, reinsurance recoveries and outstanding claims are allocated to the policy years to which they relate. Return on investments and operating expenses are allocated to the current policy year.

(e) Calls and premiums

Calls and premiums include gross calls less return premiums. These calls and premiums are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any premium adjustments relating to prior accounting periods.

(f) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

(g) Claims incurred

Claims incurred comprise all claims and related expenses paid in the year, and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses.

(h) Reinsurance recoveries

The liabilities of the club are reinsured above certain levels with similar associations under the International Group's Pooling Agreement and with market underwriters. The figures in the Consolidated Statement of Comprehensive Income relate to recoveries on claims incurred during the year.

Outstanding claims in the balance sheet are shown gross and the reinsurance recoveries are shown as an asset.

(i) Claims provisions and related reinsurance recoveries

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the club. The club takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. An allowance for future claims handling costs is included in the provision.

Claims estimates for the club are derived from a combination of loss ratio-based estimates and a variety of estimation techniques. These are generally based upon statistical analyses of historical experience, which assume that the development pattern of the current claims will be consistent with past experience. However, allowance is made for changes or uncertainties that may create distortions in the underlying statistics or that may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- changes in club processes that might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks.

The variety of estimation techniques assists in giving greater understanding of the trends inherent in the data being projected and in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each policy year.

Large claims impacting each relevant business class are generally assessed separately, being measured and/or projected on a case-by-case basis in order to allow for the possible distortive effect of the development and incidence of these large claims.

Pollution, wreck removal and occupational disease claims can have a very long delay between the occurrence and notification. In estimating the cost of these claims, the club considers the type of risks written historically that may give rise to exposure to these liabilities, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean-up techniques and industry benchmarks of the typical cost of such claims.

Notes to the financial statements continued

2. Accounting policies continued

Claims reserves are estimated on an undiscounted basis, apart from occupational disease claims. Due to the very long delay between the occurrence and the final settlement of a claim which has arisen due to an occupational disease exposure, such occupational disease claims provisions and IBNR thereon are discounted to take account of the expected investment income receivable between the balance sheet date and settlement on the assets held to cover these provisions.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, and are adjusted to reflect changes in the nature and extent of the club's reinsurance programme over time.

An assessment is also made of the recoverability of reinsurance with regard to market data on the financial strength of each of the reinsurance companies.

(j) Reinsurance premiums

Reinsurance premiums, less returns, are debited to the Consolidated Statement of Comprehensive Income in the financial year as and when charged to the club, together with a provision for any future costs of existing reinsurance policies.

(k) Investment return

Investment return comprises all investment income, realised investment gains and losses, and movements in unrealised gains and losses, net of investment expenses, charges and interest. Dividends are recorded on the date on which the shares are quoted ex-dividend and include imputed tax credits. Interest and expenses are accounted for on an accruals basis. Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. The investment return is reported in the non-technical account.

(l) Financial instruments

The group has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments.

Financial assets at fair value through income

The club classifies its investments as financial assets at fair value through income. As a result, gains and losses are taken to the Statement of Comprehensive Income, which reflects the management of the portfolio on a fair value basis. Fair values of investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors.

Derivative financial investments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The club does not engage in hedge accounting and changes in the fair value of all derivative investments are recognised immediately in the Consolidated Statement of Comprehensive Income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable settlement values. Amounts due from members and reinsurers are included in this category and are measured at cost less any provision for impairment in value.

(m) Foreign currencies
The group financial statements are presented in US dollars and rounded to millions.

The functional currency of the group and club is the US dollar, with the exception of the following companies whose functional currency is British pounds:
- Standard House Limited
- Standard Services Limited

The results and financial position of companies whose functional currency is pound sterling are translated into the presentation currency as follows:
- assets and liabilities are translated at the closing rate at the balance sheet date
- income and expenses are translated at the average rate of exchange during the year
- all resulting exchange differences are recognised in other comprehensive income.

Monetary assets and liabilities in foreign currencies are translated at the US dollar rate of exchange at the balance sheet date, with the resulting difference treated as an exchange gain or loss within the non-technical account.

Revenue transactions in foreign currencies are translated into US dollars at the rate applicable for the week in which the transaction takes place. Exchange differences are reported in the non-technical account.

Foreign currency contracts are entered into in order to hedge the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies, which are matched by holdings of those currencies. The open contracts have been revalued at year-end rates of exchange and the potential profit or loss included in the non-technical account.

(n) General administration expenses
General administration expenses, including managers' remuneration, are included on an accruals basis.

(o) Taxation
Taxation provided is that which became chargeable during the year.

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the Consolidated Statement of Comprehensive Income.

Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the Consolidated Statement of Comprehensive Income for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the Statement of Changes in Reserves. Deferred tax balances are not discounted.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is regarded as 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.

Notes to the financial statements continued

3. Segmental analysis by class

The segmental results of the five classes of the club plus the club's former share of The Standard Syndicate are set out as follows:

3.1 Statement of comprehensive income

As at 20 February 2021	Note	Total US$m	Class 1 P&I US$m	Class 2 Defence US$m	Class 3 Coastal & Inland US$m	Class 4 War US$m	Class 5 Strike & Delay US$m	Syndicate US$m
Technical account – general business								
Earned premiums, net of reinsurance								
Gross premiums earned, including calls	4	292.7	238.8	8.8	19.0	7.7	18.4	–
Outward reinsurance premiums	5	(64.4)	(54.2)	–	(2.9)	(4.9)	(2.4)	–
Earned premiums, net of reinsurance		228.3	184.6	8.8	16.1	2.8	16.0	–
Expenditure								
Gross claims incurred		304.3	260.5	11.6	16.0	–	16.2	–
Reinsurers' share		(43.9)	(42.3)	–	0.9	–	(2.5)	–
Claims incurred, net of reinsurance		260.4	218.2	11.6	16.9	–	13.7	–
Net operating expenses	9	30.0	23.4	1.1	1.6	0.9	3.0	–
Total expenditure		290.4	241.6	12.7	18.5	0.9	16.7	–
Balance on the technical account for general business		(62.1)	(57.0)	(3.9)	(2.4)	1.9	(0.7)	–
Non-technical account								
Balance on the technical account for general business		(62.1)	(57.0)	(3.9)	(2.4)	1.9	(0.7)	–
Investment return net of expenses and charges	6	35.0	44.4	2.5	(2.3)	1.2	1.0	(11.8)
Exchange (losses)/gains		(2.2)	(6.7)	0.1	4.0	–	0.4	–
Other income/(charges) including value adjustments		(4.1)	(3.8)	–	–	(0.3)	–	–
Excess/(shortfall) of income over expenditure before taxation		(33.4)	(23.1)	(1.3)	(0.7)	2.8	0.7	(11.8)
Tax on excess of income over expenditure	10	(0.7)	(0.6)	–	–	(0.1)	–	–
Excess/(shortfall) of income over expenditure for the financial year		(34.1)	(23.7)	(1.3)	(0.7)	2.7	0.7	(11.8)
Other comprehensive (expenses)/income net of tax		0.7	0.7	–	–	–	–	–
Total comprehensive (expenses)/ income for the year transferred to contingency reserve		(33.4)	(23.0)	(1.3)	(0.7)	2.7	0.7	(11.8)

The investment loss in the syndicate represents the removal of the net assets of The Standard Club Corporate Name Ltd on disposal in March 2020. This is exactly offset by the release of the provision for loss on disposal held in the P&I balance sheet at 20 February 2020 and proceeds from the sale of the corporate name.

As at 20 February 2020	Note	Total US$m	Class 1 P&I US$m	Class 2 Defence US$m	Class 3 Coastal & Inland US$m	Class 4 War US$m	Class 5 Strike & Delay US$m	Syndicate US$m
Technical account – general business								
Earned premiums, net of reinsurance								
Gross premiums earned, including calls	4	353.5	237.6	8.7	16.8	5.2	20.1	65.1
Outward reinsurance premiums	5	(96.0)	(66.7)	–	(2.3)	(3.5)	(2.8)	(20.7)
Earned premiums, net of reinsurance		257.5	170.9	8.7	14.5	1.7	17.3	44.4
Expenditure								
Gross claims incurred		440.5	364.3	9.8	11.1	–	(1.1)	56.4
Reinsurers' share		(131.4)	(130.1)	–	1.9	–	12.2	(15.4)
Claims incurred, net of reinsurance		309.1	234.2	9.8	13.0	–	11.1	41.0
Net operating expenses	9	58.1	25.7	1.7	1.8	0.4	5.1	23.4
Total expenditure		367.2	259.9	11.5	14.8	0.4	16.2	64.4
Balance on the technical account for general business		(109.7)	(89.0)	(2.8)	(0.3)	1.3	1.1	(20.0)
Non-technical account								
Balance on the technical account for general business		(109.7)	(89.0)	(2.8)	(0.3)	1.3	1.1	(20.0)
Investment return net of expenses and charges	6	83.9	68.3	5.0	4.4	1.3	1.1	3.8
Exchange (losses)/gains		(2.3)	(0.1)	(0.6)	(0.9)	–	(0.1)	(0.6)
Other income/(charges) including value adjustments		(8.6)	(8.5)	–	–	(0.3)	–	0.2
Excess/(shortfall) of income over expenditure before taxation		(36.7)	(29.3)	1.6	3.2	2.3	2.1	(16.6)
Tax on excess of income over expenditure	10	(0.7)	(0.7)	–	–	–	–	–
Excess/(shortfall) of income over expenditure for the financial year		(37.4)	(30.0)	1.6	3.2	2.3	2.1	(16.6)
Other comprehensive (expenses)/income net of tax		(3.6)	0.2	–	–	–	–	(3.8)
Total comprehensive (expenses)/ income for the year transferred to contingency reserve		(41.0)	(29.8)	1.6	3.2	2.3	2.1	(20.4)

Notes to the financial statements continued

3. Segmental analysis by class continued
3.2 Consolidated balance sheet

As at 20 February 2021	Total US$m	Class 1 P&I US$m	Class 2 Defence US$m	Class 3 Coastal & Inland US$m	Class 4 War US$m	Class 5 Strike & Delay US$m	Syndicate US$m
Assets							
Investments	**795.4**	**751.5**	–	**43.9**	–	–	–
Reinsurers' share of technical provisions	**263.5**	**260.9**	–	–	**0.2**	**2.4**	–
Debtors	**107.3**	**96.6**	**1.9**	**2.6**	**2.6**	**3.6**	–
Other assets	**76.8**	**54.1**	**1.5**	**11.3**	**2.3**	**7.6**	–
Prepayments and accrued income	**11.2**	**7.7**	**0.4**	**(0.1)**	**0.7**	**2.5**	–
Total assets	**1,254.2**	**1,170.8**	**3.8**	**57.7**	**5.8**	**16.1**	–
Liabilities							
Reserves	**360.3**	**219.2**	**71.1**	**31.0**	**17.7**	**21.3**	–
Technical provisions	**835.0**	**790.0**	**8.3**	**27.9**	**0.4**	**8.4**	–
Provisions for other risks and charges	–	–	–	–	–	–	–
Creditors	**54.5**	**158.6**	**(75.6)**	**(1.2)**	**(13.5)**	**(13.8)**	–
Accruals and deferred income	**4.4**	**3.0**	–	–	**1.2**	**0.2**	–
Total liabilities	**1,254.2**	**1,170.8**	**3.8**	**57.7**	**5.8**	**16.1**	–

As at 20 February 2020	Total US$m	Class 1 P&I US$m	Class 2 Defence US$m	Class 3 Coastal & Inland US$m	Class 4 War US$m	Class 5 Strike & Delay US$m	Syndicate US$m
Assets							
Investments	890.6	763.1	–	48.1	–	–	79.4
Reinsurers' share of technical provisions	297.2	272.3	–	–	0.2	0.8	23.9
Debtors	130.8	97.5	1.3	1.0	12.0	2.0	17.0
Other assets	85.1	56.1	2.5	3.1	1.5	0.7	21.2
Prepayments and accrued income	13.0	6.9	0.1	0.2	(8.4)	11.9	2.3
Total assets	1,416.7	1,195.9	3.9	52.4	5.3	15.4	143.8
Liabilities							
Reserves	393.7	242.2	72.4	31.7	15.0	20.6	11.8
Technical provisions	937.2	787.5	7.5	19.8	–	9.4	113.0
Provisions for other risks and charges	7.8	7.8	–	–	–	–	–
Creditors	73.0	157.2	(76.0)	0.9	(10.4)	(15.1)	16.4
Accruals and deferred income	5.0	1.2	–	–	0.7	0.5	2.6
Total liabilities	1,416.7	1,195.9	3.9	52.4	5.3	15.4	143.8

4. Gross premiums earned including calls

	2021 US$m	2020 US$m
Estimated total premium, other premiums and releases 2020/21 (2019/20)	**289.6**	298.8
Adjustments to previous policy years	**3.3**	(2.7)
Change in the gross provision for unearned premiums	**(0.2)**	57.4
Total calls and premiums	**292.7**	353.5

5. Outward reinsurance premiums

	2021 US$m	2020 US$m
International Group excess of loss	27.5	27.3
Adjustment to prior years	(1.6)	(0.8)
Other premiums	33.2	55.1
Adjustment to prior years	5.0	4.0
Change in the provision for unearned premiums, reinsurers' share	0.3	10.4
Reinsurance premiums earned	**64.4**	**96.0**

6. Investment return

	2021 US$m	2020 US$m
Investment income		
Shares and other variable-yield securities and unit trusts	10.1	9.8
Debt securities and other fixed-income securities	6.6	9.6
Deposit interest	1.7	2.3
Gains arising on realisation of investments	37.6	36.7
	56.0	58.4
Investment expenses and charges		
Investment management expenses	(3.6)	(3.3)
Losses on realisation of investments	(6.9)	(6.9)
	(10.5)	(10.2)
Movement in unrealised gains on investments	(11.3)	33.9
Movement in unrealised losses on investments	0.8	1.8
	(10.5)	35.7
Total investment return	**35.0**	**83.9**

7. Claims paid

	2021 US$m	2020 US$m
Members' claims	250.7	315.1
Other P&I clubs' Pool claims	46.8	33.4
Syndicate claims	–	51.0
Gross claims paid	**297.5**	**399.5**

8. Reinsurers' share of claims paid

	2021 US$m	2020 US$m
Claims recoverable from group GXL reinsurers	(8.0)	(14.8)
Claims recoverable from other reinsurers	(20.4)	(28.2)
Claims recoverable from the Pool	(27.8)	(89.6)
Reinsurers' share of claims paid	**(56.2)**	**(132.6)**

Notes to the financial statements continued

9. Net operating expenses

	2021 US$m	2020 US$m
Acquisition costs		
Management fee	12.6	14.4
General expenses	0.5	10.1
Change in deferred acquisition costs	–	9.3
Administrative expenses		
Management fee	10.7	11.1
General expenses	3.6	10.2
Safety and loss control	0.2	0.7
Directors' fees	1.7	1.4
Auditors' remuneration for audit services	0.6	0.7
Auditors' remuneration for other services	0.1	0.2
Net operating expenses	30.0	58.1

During the year the group (including its overseas subsidiaries) obtained the following services from the group's auditors as detailed below:

	2021 US$m	2020 US$m
Audit services		
Fees payable to the club's auditors for the audit of the parent company and consolidated financial statements	0.1	0.1
The audit of the club's subsidiaries, pursuant to legislation	0.5	0.6
Other services		
Fees payable to the club's auditors and its associates for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	0.1	0.2
	0.7	0.9

10. Tax on shortfall of income over expenditure

	2021 US$m	2020 US$m
Analysis of charge in the period		
Current tax on income for the period	0.7	1.0
Total current tax	0.7	1.0
Deferred tax		
Adjustments in respect of prior periods	–	(0.3)
Total deferred tax (note 11)	–	(0.3)
Tax on excess of income over expenditure	0.7	0.7

Factors affecting tax charge for the period

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (19%). The differences are explained below:

	2021 US$m	2020 US$m
(Shortfall)/excess of income over expenditure before taxation	**(33.4)**	(36.7)
Tax at 19% (2020: 19%)	**6.3**	7.0
Income not assessable for tax purposes	**(7.0)**	(8.0)
Adjustments in respect of prior years	**–**	0.3
Current tax charge for the period	**(0.7)**	(0.7)

The club is subject to corporation tax in the jurisdictions in which it does business, except in Bermuda, where there is no corporation tax. In the UK, corporation tax is limited to investment income owing to the mutual status of the club.

Factors affecting current and future tax charges

There are no factors affecting current and future tax charges.

11. Claims outstanding

The board closed the 2018/19 policy year at its meeting on 20 May 2021. The table below provides the position after closure.

	2021 US$m	2020 US$m
Open years		
Claims – own	**307.5**	517.9
Claims – Pool	**90.1**	83.3
Reinsurance recoveries – Pool	**(60.0)**	(166.9)
Reinsurance recoveries – GXL and other	**(39.5)**	(76.0)
Net claims provision for open years	**298.1**	358.3
Closed years		
Claims – own	**355.1**	265.7
Claims – Pool	**81.9**	62.6
Reinsurance recoveries – Pool	**(80.9)**	(3.6)
Reinsurance recoveries – GXL and other	**(68.4)**	(36.3)
Net claims provision for closed years	**287.7**	288.4
Total		
Claims – own	**662.6**	783.6
Claims – Pool	**172.0**	145.9
Gross outstanding claims	**834.6**	929.5
Reinsurance recoveries – Pool	**(140.9)**	(170.5)
Reinsurance recoveries – GXL and other	**(107.9)**	(112.3)
Reinsurance recoveries – total	**248.8**	282.8
Net claims provision	**585.8**	646.7

Claims outstanding includes provision for IBNR claims which is set by reference to, amongst other factors, standard actuarial techniques and projections. Also included in the provision is an estimate for the internal and external costs of handling the outstanding claims.

The provision for outstanding claims is net of amounts recoverable arising out of subrogation or salvage estimated at $32m.

Notes to the financial statements continued

11. Claims outstanding continued

11.1 Movement in insurance and reinsurance contracts

	2021 US$m	2020 US$m
Claims outstanding		
As at 21 February	**929.5**	883.6
Claims paid in the year	**(297.5)**	(399.5)
Claims incurred during the year	**202.6**	445.4
As at 20 February	**834.6**	929.5
Unearned premium		
As at 21 February	**7.7**	65.2
Calls and premiums written in the year	**292.9**	313.2
Calls and premiums earned in the year	**(300.2)**	(370.7)
As at 20 February	**0.4**	7.7
Total insurance liabilities and unearned premiums	**835.0**	937.2
Reinsurers' share of claims outstanding		
As at 21 February	**(282.8)**	(264.8)
Reinsurance recoveries made in the year	**56.2**	132.6
Reinsurance recoverable on claims incurred during the year	**(22.2)**	(150.6)
As at 20 February	**(248.8)**	(282.8)
Reinsurers' share of unearned premium		
As at 21 February	**(14.4)**	(23.5)
Reinsurance premiums written in the year	**(63.4)**	(85.8)
Reinsurance premiums earned in the year	**63.1**	94.9
As at 20 February	**(14.7)**	(14.4)
Total reinsurance assets and reinsurers' share of unearned premium	**(263.5)**	(297.2)
Total net technical provisions	**571.5**	640.0

11.2 Development claim tables

Claims (gross)

Policy year	2011/12 US$m	2012/13 US$m	2013/14 US$m	2014/15 US$m	2015/16 US$m	2016/17 US$m	2017/18 US$m	2018/19 US$m	2019/20 US$m	**2020/21 US$m**	**Total US$m**
Estimate of ultimate claims costs:											
– at end of policy year	446.7	343.0	373.7	353.7	332.1	249.1	273.3	461.1	332.0	**339.5**	
– one year later	651.8	320.9	403.0	304.1	306.5	252.6	282.8	596.3	308.6		
– two years later	824.6	308.9	433.7	275.4	311.4	232.0	275.8	506.2			
– three years later	972.0	306.1	533.5	289.8	294.7	232.7	237.0				
– four years later	958.4	308.4	509.9	301.1	296.9	220.4					
– five years later	964.3	313.2	462.0	286.8	299.1						
– six years later	957.9	249.0	464.9	288.2							
– seven years later	960.6	247.1	459.0								
– eight years later	976.9	242.5									
– nine years later	973.5										
Current estimate of cumulative claims	973.5	242.5	459.0	288.2	299.1	220.4	237.0	506.2	308.6	**339.5**	**3,874.0**
Cumulative payments to date	(952.8)	(238.1)	(442.9)	(255.5)	(299.9)	(191.8)	(184.8)	(329.0)	(154.3)	**(99.2)**	**(3,148.3)**
Liability recognised in the balance sheet	20.7	4.4	16.1	32.7	(0.8)	28.6	52.2	177.2	154.3	**240.3**	**725.7**
Provision in respect of prior years											**108.9**
Total provision included in the balance sheet											**834.6**

Claims (net)

Policy year	2011/12 US$m	2012/13 US$m	2013/14 US$m	2014/15 US$m	2015/16 US$m	2016/17 US$m	2017/18 US$m	2018/19 US$m	2019/20 US$m	**2020/21 US$m**	**Total US$m**
Estimate of ultimate claims costs:											
– at end of policy year	227.5	252.5	274.1	251.0	253.4	212.6	216.4	269.8	264.9	**280.0**	
– one year later	238.7	231.2	288.0	222.1	258.2	237.2	252.5	337.8	247.2		
– two years later	225.8	218.2	273.3	210.0	262.6	223.4	253.0	269.2			
– three years later	220.0	212.5	270.6	211.4	252.3	222.6	223.4				
– four years later	210.6	217.7	277.6	225.3	256.1	215.0					
– five years later	209.5	216.5	279.4	223.3	258.4						
– six years later	205.3	218.3	282.6	222.1							
– seven years later	219.2	218.0	284.1								
– eight years later	216.8	213.1									
– nine years later	218.6										
Current estimate of cumulative claims	218.6	213.1	284.1	222.1	258.4	215.0	223.4	269.2	247.2	**280.0**	**2,431.1**
Cumulative payments to date	(214.0)	(209.1)	(272.0)	(200.5)	(236.4)	(187.7)	(171.9)	(208.9)	(131.7)	**(99.2)**	**(1,931.4)**
Liability recognised in the balance sheet	4.6	4.0	12.1	21.6	22.0	27.3	51.5	60.3	115.5	**180.8**	**499.7**
Provision in respect of prior years											**86.1**
Total provision included in the balance sheet											**585.8**

Notes to the financial statements continued

12. Other financial investments

	2021 US$m	2020 US$m
Financial assets at fair value through statement of comprehensive income	**795.4**	890.6
Total financial assets at market value	**795.4**	890.6
Financial assets at fair value through statement of comprehensive income	**747.6**	832.2
Total financial assets at cost	**747.6**	832.2
At market value		
Shares and other variable-yield securities and units in unit trusts	**179.4**	206.8
Debt securities and other fixed-income securities	**616.1**	683.7
Open forward currency contracts	**(0.1)**	0.1
Total investments at market value	**795.4**	890.6
At cost		
Shares and other variable-yield securities and units in unit trusts	**163.4**	174.9
Debt securities and other fixed-income securities	**584.2**	657.3
Total investments at cost	**747.6**	832.2

Included in the carrying values above are amounts in respect of listed investments as follows:

	2021 US$m	2020 US$m
Shares and other variable-yield securities and unit trusts	**137.7**	173.1
Debt securities and other fixed-income securities	**616.1**	683.6
	753.8	856.7

Open forward currency contracts	2021 US$m	2020 US$m
Fair value (liability)/asset	**(0.1)**	0.1
Contract/notional amount	**–**	–

Open forward currency contracts represent potential losses or gains on forward contracts, which have been entered into to protect the assets of the club. These have been revalued at 20 February 2021 using exchange rates prevailing at that date. The total of the open forward contracts at any one time is limited by guidelines set by the board of directors and matched against currency and asset holdings in excess of the amount of the contracts.

Contractual amounts outstanding at the balance sheet date include forward currency contracts to transact the net equivalent of $(0.1m) (2020: $0.1m, as broken down by local currency in the following table:

	2021 Local currency US$m		2020 Local currency US$m	
	Purchase	Sell	Purchase	Sell
British pound sterling	3.1	(9.3)	11.9	(26.3)
Canadian dollar	–	(0.3)	2.3	–
European euro	1.6	(39.4)	22.5	(27.2)
Japanese yen	–	(0.6)	–	(2.6)
Mexican peso	–	(8.4)	–	–
Polish zloty	–	(9.4)	–	–
Swiss franc	–	–	–	(3.6)
US dollar	65.5	(3.0)	53.0	(30.0)

The forward currency contracts outstanding at year end expire by 3 March 2021 (2020: 24 February 2020).

During the year a loss of $0.6m (2020: $nil) relating to such contracts was recognised.

13. Management of insurance and financial risk

The club is exposed to a range of insurance and financial risks through its operations as a protection and indemnity insurer.

This section summarises these risks and the way the club manages those risks in addition to the risk management policies set out in the report of the directors.

13.1 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. This risk can be divided into premium risk (the risk that premiums charged will not be sufficient to meet all associated claims and expenses) and reserve risk (the risk that claims reserves will be inadequate to cover either known losses, and/or unknown or undeveloped losses, such as occupational disease). These risks are managed as follows:

13.1.1 Premium risk

Premium risk is managed by clear underwriting controls including risk assessment tools, pricing models and clear authority levels. This risk is monitored for undue concentrations of risk and consistency with the club's risk appetite as set by the board. The risk management process is aided by a dedicated loss prevention function, aimed at ensuring that the club underwrites only those shipowners who operate to an acceptable standard.

Premium risk is mitigated through the acquisition of appropriate reinsurance programmes, including the International Group pooling and reinsurance programme, and also the club's own non-pool, retention and stop loss reinsurances. Reinsurance strategy is set by the board in line with the board's risk appetite and is designed to mitigate the insurance risk through programmes tailored to the club's exposures.

Notes to the financial statements continued

13. Management of insurance and financial risk continued

13.1.2 Reserve risk

Reserve risk is managed by the prompt reserving of potential losses, regular review of individual estimates and overall reserve adequacy, as well as regular, systematic claims audits and the monitoring of consistency of estimating approaches, and the modelling of technical provisions by the club's actuarial function.

While the board considers that the liability for insurance claims recognised in these financial statements is adequate, it recognises that actual experience will differ from the expected outcome. The following table presents the sensitivity of the value of insurance liabilities disclosed in note 11 to movements in the assumptions used in the estimation of insurance liabilities. These sensitivities relate mainly to the P&I class, as this represents the club's largest exposure.

	Decrease		Increase	
Impact on profit – gross of reinsurance	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Increase/decrease in loss ratio by 5 percentage points	**14.6**	17.7	**(14.6)**	(17.7)
10% increase/decrease in the number of occupational disease claims	**3.2**	3.2	**(3.2)**	(3.2)
10% increase/decrease in claims handling expenses	**1.7**	1.7	**(1.7)**	(1.7)
10% increase/decrease in number of IBNR claims	**4.9**	4.9	**(4.9)**	(4.9)
Impact on profit – net of reinsurance	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Increase/decrease in loss ratio by 5 percentage points	**11.4**	12.9	**(11.4)**	(12.9)
10% increase/decrease in the number of occupational disease claims	**3.2**	3.2	**(3.2)**	(3.2)
10% increase/decrease in claims handling expenses	**1.7**	1.7	**(1.7)**	(1.7)
10% increase/decrease in number of IBNR claims	**2.2**	2.2	**(2.2)**	(2.2)

13.2 Financial risk

The club is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts), reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the club primarily faces due to the nature of its investment and liabilities are interest rate risk and equity price risk.

13.2.1 Market risk

– Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities.

Interest rate risk is managed through the club's investment strategy. Debt and fixed interest securities are predominantly invested in high quality corporate and government-backed bonds, with the club having defined investment guidelines that limit exposure in such holdings.

At the end of the financial year, approximately 79% (2020: 79%) of the club's investment portfolio was invested in fixed interest assets. The weighted duration of the investment portfolio was 3.5 years (2020: 4.2 years).

The club has no debt liability with interest payments that vary with changes in the interest rate.

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 cost to the club of $43.3m (2020: $43.2m).

– Equity price risk

The club is exposed as a result of its holdings in equity investments and hedge funds. The club has defined investment guidelines that limit exposure in such holdings.

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 $17.9m (2020: $20.7m).

– Currency risk
The club is exposed 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 pound 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.

The profile of the club's assets and liabilities, categorised by settlement currency, at their translated carrying amount, is set out below. Certain amounts, either due to their nature, notably reinsurers' share of outstanding claims, or the existence of forward contracts, may depend on a different underlying currency.

As at 20 February 2021	US$ US$m	GBP US$m	EUR US$m	Other US$m	Total US$m
Total assets	**1,103.8**	**68.7**	**30.3**	**51.4**	**1,254.2**
Total liabilities	**795.6**	**4.4**	**19.7**	**74.2**	**893.9**
Net asset position	**308.2**	**64.3**	**10.6**	**(22.8)**	**360.3**

As at 20 February 2020	US$ US$m	GBP US$m	EUR US$m	Other US$m	Total US$m
Total assets	1,219.6	81.8	64.1	51.2	1,416.7
Total liabilities	897.9	10.2	22.9	92.0	1,023.0
Net asset position	321.7	71.6	41.2	(40.8)	393.7

At 20 February 2021, had sterling strengthened by 10% against the US dollar with all other variables held constant, profit for the year would have been $6.4m higher (2020: $7.2m higher). Had the euro strengthened by 10% against the dollar, profit for the year would have been $1.0m higher (2020: $4.1m higher).

13.2.2 Credit risk
The risk that a counterparty will be unable to pay amounts in full when due. Key areas where the club is exposed are:
- reinsurers' share of insurance liabilities
- amounts due from reinsurers in respect of claims already paid
- amounts due from members
- counterparty risk with respect to cash and investments.

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

	2021 US$m	2020 US$m
Derivative financial instruments	**(0.1)**	0.1
Debt securities	**616.1**	683.7
Loans and receivables	**84.4**	102.9
Assets arising from reinsurance contracts held	**4.4**	27.9
Cash at bank and in hand	**76.8**	85.1
Total assets bearing credit risk	**781.6**	899.7
AAA	**261.8**	303.0
AA	**109.7**	77.5
A	**191.8**	234.0
BBB	**118.5**	122.1
BB	**1.1**	7.9
B	**11.1**	–
Below CCC or not rated	**87.6**	155.2
Total assets bearing credit risk	**781.6**	899.7

The concentration of credit risk is substantially unchanged compared with the prior year. No credit limits were exceeded during the period. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

Notes to the financial statements continued

13. Management of insurance and financial risk continued

13.2.3 Liquidity risk

The risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk is the obligation to pay claims to policyholders as they fall due. The club maintains holdings in short-term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand.

The following table provides a maturity analysis of the club's financial assets (classes 1 to 5 combined) representing the dates that contracts will mature, amounts are due for payment or assets could be realised without significant additional cost:

	Short-term assets US$m	Within 1 year US$m	1-2 years US$m	2-5 years US$m	Over 5 years US$m	Total US$m
As at 20 February 2021						
Shares and other variable-yield securities and units in unit trusts	**96.7**	**42.4**	**14.2**	**12.4**	**13.7**	**179.4**
Debt securities and other fixed-income securities	**589.8**	**26.3**	**–**	**–**	**–**	**616.1**
Forward currency contracts	**(0.1)**	**–**	**–**	**–**	**–**	**(0.1)**
Cash balances	**76.8**	**–**	**–**	**–**	**–**	**76.8**
Investment property	**–**	**–**	**–**	**–**	**–**	**–**
Debtors	**12.9**	**75.7**	**–**	**–**	**–**	**88.6**
Reinsurers' share of claims outstanding	**–**	**80.0**	**50.3**	**64.8**	**53.7**	**248.8**
	776.1	**224.4**	**64.5**	**77.2**	**67.4**	**1,209.6**
As at 20 February 2020						
Shares and other variable-yield securities and units in unit trusts	122.4	12.0	–	–	72.4	206.8
Debt securities and other fixed-income securities	655.1	28.6	–	–	–	683.7
Forward currency contracts	0.1	–	–	–	–	0.1
Cash balances	85.1	–	–	–	–	85.1
Investment property	–	–	–	–	–	–
Debtors	56.8	73.9	–	–	–	130.7
Reinsurers' share of claims outstanding	–	90.2	57.0	73.7	61.9	282.8
	919.5	204.7	57.0	73.7	134.3	1,389.2

The following is an analysis of the estimated timings of net cash flows by financial liability (classes 1 to 5 combined). The timing of cash flows are based on current estimates and historic trends and the actual timings of cash flows may be materially different from those disclosed below:

	Within 1 year US$m	1-2 years US$m	2-5 years US$m	Over 5 years US$m	Total US$m
As at 20 February 2021					
Gross outstanding claims	**268.6**	**168.8**	**217.2**	**180.0**	**834.6**
Creditors	**47.1**	**–**	**–**	**–**	**47.1**
	315.7	**168.8**	**217.2**	**180.0**	**881.7**
As at 20 February 2020					
Gross outstanding claims	296.4	187.3	242.3	203.5	929.5
Creditors	59.2	–	–	–	59.2
	355.6	187.3	242.3	203.5	988.7

13.2.4 Fair value estimations

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Listed quoted prices in active markets and external broker quotes which are publicly, readily and regularly available on an active market

Level 2 – Inputs other than quoted prices included within level 1 that are observable, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The following table presents the club's assets and liabilities measured at fair value at 20 February 2021 and at 20 February 2020.

Financial assets at fair value through profit or loss:

	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
As at 20 February 2021				
Shares and other variable-yield securities and units in unit trusts	**140.2**	**–**	**39.2**	**179.4**
Debt securities and other fixed-income securities	**445.1**	**171.0**	**–**	**616.1**
Forward currency contracts	**(0.1)**	**–**	**–**	**(0.1)**
	585.2	**171.0**	**39.2**	**795.4**
As at 20 February 2020				
Shares and other variable-yield securities and units in unit trusts	173.2	–	33.6	206.8
Debt securities and other fixed-income securities	530.6	153.1	–	683.7
Forward currency contracts	0.1	–	–	0.1
	703.9	153.1	33.6	890.6

13.3 Capital management

The club maintains an efficient capital structure from the use of members' funds (reserves) along with the ability to make unbudgeted calls, if required, consistent with the club's risk profile and the regulatory and market requirements of its business.

The club's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business
- to satisfy the requirements of its members and meet regulatory requirements
- to maintain an 'A' rating with Standard & Poor's
- to manage exposures to movement in exchange rates
- to retain financial flexibility by maintaining strong liquidity.

The club's principal regulators are the Bermuda Monetary Authority (BMA) and the club is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. The club manages capital in accordance with these rules and has embedded in its Asset Liability Management (ALM) framework the necessary tests to ensure continuous and full compliance with such regulations. Throughout the year the club complied with the BMA's capital requirements and the requirements in the other countries in which it operates.

Notes to the financial statements continued

13. Management of insurance and financial risk continued

13.4 COVID-19

The directors have been monitoring the development of the impact of COVID-19, directly on the club's business, and indirectly through the development of government policy and advice. The Standard Club continues to carry out detailed risk assessments which confirm that COVID-19 does not threaten the group's going concern. The main issues are as follows.

Operational

The club's managers have activated full business continuity contingency plans and shown the club can continue to operate in the event of a serious prolonged incident, such as the present pandemic. Business records and documentation are stored electronically, are regularly backed-up and are accessible remotely from anywhere in the world. Personnel in each of the managers' global offices have successfully transitioned to working from home and the club has been able to continue to provide the same level of service to its members.

Risks underwritten

The club insures only limited aspects of the effects of COVID-19. The marine protection and indemnity (P&I) policies which form the majority of the club's book provide cover for crew illness and death, crew repatriation and substitution, passenger illness and death, broader liabilities to passengers arising out threats to life, health or safety on board, third-party illness and death and additional quarantine expenses. The club also provides legal expenses cover for members (Defence), and cover for COVID-19 related delays. The aggregate of COVID-19 claims notified up to 30 April 2021 across all classes of business amounted to $20m.

Policyholders

Early in the pandemic, there was a concern that a major downturn in economic conditions would materially affect members and business partners of the club. The possible impacts on the club in the short term included pressure on cash flow and debt recovery, and in the medium term, pressure on premium, but with reduced levels of claims due to diminished levels of activity. In fact, premium and net claims impacts have been protected by the club's reinsurance contracts, so the main impact has been on the club's investment portfolio.

Investment portfolio

The club's investment portfolio suffered a loss in the early stages of the pandemic, albeit mitigated by a de-risking of the portfolio at the start of the year and suspension of club's investment benchmark. As markets recovered the club added some risk back to the portfolio, resulting in an overall investment surplus of 4.7% for the financial year.

Regulators and forecasts

The managers continue to model stressed future scenarios to assess the club's compliance with regulatory capital requirements in the context of the risk appetite determined by the Board. The directors recognise that as the foreseeable scenarios change, decisions may need to be made in relation to the scale of the club's activity and the level of capital maintained to support that activity.

Going concern

At the date of signing these financial statements, the directors' forecasts up to 20 February 2024 indicate that the club will be able to maintain liquidity and a surplus over its Solvency Capital requirement, and will be able to continue to trade as a going concern. Even in severely stressed scenarios, the conservative investment portfolio held by the club and the comprehensive reinsurance arrangements in place will limit the extent of any downside risk. The directors continue to monitor the position in case any stressed scenarios become more likely than is judged to be the case currently.

14. Investment in group undertakings and participating interests

	Classes of shares held	Year end	Principal business	% holding Group	Company
Standard Reinsurance (Bermuda) Limited, incorporated in Bermuda	Ordinary	20 Feb	Reinsurance	100	100
The Standard Club UK Ltd, incorporated in the United Kingdom[1]	Note 1	20 Feb	Marine mutual	75	75
The Standard Club Asia Ltd, incorporated in Singapore	Ordinary	20 Feb	Marine mutual	100	20
The Standard Club Ireland DAC, incorporated in Ireland	Ordinary	20 Feb	Marine mutual	100	100
Hydra Insurance Company Limited (Standard Cell), incorporated in Bermuda	Preferred	20 Feb	Reinsurance	100	100
Standard House Limited, incorporated in Bermuda	Ordinary	20 Feb	Property investment	100	–
Standard Hydor AS, incorporated in Norway[2]	Ordinary	31 Dec	Lloyd's Coverholder	50	50
Charles Taylor Managing Agency Limited, incorporated in the United Kingdom[3]	Ordinary	31 Dec	Lloyd's Managing Agent	49.9	49.9
The Standard Club Corporate Name Limited, incorporated in the United Kingdom[4]	Ordinary	31 Dec	Lloyd's Corporate Name	100	100
The Strike Club Europe Limited, incorporated in the United Kingdom[5]	Ordinary	31 Jan	Marine mutual	100	–
The Shipowners' Mutual Strike Insurance Association Europe, incorporated in Luxembourg	Note 2	31 Jan	Marine mutual	100	–
Standard Services Limited[6]	Ordinary	20 Feb	Service company	100	–

1 75% of voting control, no participating interest. No minority interest is shown in the group financial statements because the affairs of each class are managed on a unified basis throughout the group.
2 This holding was sold on 4 September 2020.
3 This holding was sold on 9 March 2020.
4 This holding was sold on 9 March 2020.
5 The Strike Club Europe Limited is a dormant company limited by guarantee and has $nil net assets.
6 Standard Services Limited was incorporated on 4 June 2020 and is a service company.

All subsidiary undertakings are consolidated in the financial statements.

15. Debtors arising out of direct insurance operations

Group	2021 US$m	2020 US$m
Members	**76.0**	74.2
Intermediaries	**0.1**	12.1
Reinsurers – Pool	**21.9**	17.3
Reinsurers – other	**1.1**	10.6
Debtors arising out of direct insurance operations	**99.1**	114.2

16. Other creditors including taxation and social security

Group	2021 US$m	2020 US$m
Corporation tax	**–**	–
Trade creditors	**0.7**	6.8
Other creditors	**6.7**	7.0
Other creditors including taxation and social security	**7.4**	13.8

Notes to the financial statements continued

17. Future commitments

As part of the plans to bring management of the club in-house, the club has committed to purchasing a number of Charles Taylor companies that currently provide management services to the Standard Group. Subject to certain conditions being satisfied, that transaction is expected to take place on or around 20 August 2021.

18. Letters of credit, bail bonds and guarantees

In the normal course of business, the club has provided letters of credit and guarantees on behalf of its members. These are secured by investments lodged with the club amounting to $26.5m (2020: $31.3m). The Standard Club Ltd has a parental guarantee in place with its subsidiaries Standard Reinsurance (Bermuda) Limited, The Standard Club UK Ltd and The Standard Club Asia Ltd.

19. Related party transactions

The club, which is limited by guarantee, has no share capital and is controlled by the members, who are also its insureds. All members enter into insurance contracts negotiated with the club's managers on arm's length terms. These transactions are therefore with related parties and are the only transactions between the club and the members. The aggregate of these transactions is disclosed in these financial statements.

All the directors (except four: one senior executive and employee of the managers; one Bermudian resident director; and two independent directors) are representatives or agents of member companies and other than the insurance and membership interests of the directors' companies, the directors have no financial interests in the club.

The club's managers' parent company, Charles Taylor plc, was acquired by Lovell Minnick Partners LLC and became Charles Taylor Limited on 21 January 2020. The acquisition did not immediately impact the current arrangement with the club and the managers continued to provide services according to the management services agreement currently in place. However, on 29 May 2020, Charles Taylor and Standard Club announced their decision to work together to create a new operating model for the club whereby core management operations would be performed by an 'in house' manager owned by Standard Club. Under the new model, the same individuals and teams will continue to service members' and brokers' needs and carry out core management, underwriting, claims handling, loss prevention, finance, reserving and control activities, but as part of the club's own organisation. Charles Taylor will provide a range of support services including information technology, investment management, internal audit and other support services under multi-year contracts.

As part of the process of bringing management in-house an advance party of key management staff transferred employment from Charles Taylor to The Standard Club in August 2020. The total cost of remuneration of those staff in the year was $3.5m (2020: $zero).

The club paid management fees to the managers for the year of $60.7m (2020: $55.3m).

20. Rates of exchange

	2021	2020
The following rates of exchange were applicable to US$1 at 20 February 2021 (2020)		
Australian dollar	**1.29**	1.49
Bermudian dollar	**1.00**	1.00
Canadian dollar	**1.27**	1.32
European euro	**0.83**	0.92
Japanese yen	**105.06**	109.77
Singapore dollar	**1.32**	1.39
Swiss franc	**0.89**	0.98
UK pound	**0.72**	0.77

Appendix I (unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I summary

	Appendix reference	Funds available and estimated future supplementary calls US$m	Estimated net claims and forecast of unreported claims US$m
At 20 February 2021			
Total closed policy years	III	**272.0**	**272.0**
Open policy years			
2020/21	II	157.4	157.4
2019/20	II	110.9	110.9
Total of open policy years		**268.3**	**268.3**
Reserves			
Contingency reserve	III	219.0	–
Statutory reserve		0.2	–
Total reserves		**219.2**	**–**
Funds available for outstanding and unreported claims		**759.5**	**540.3**

These appendices should be read in conjunction with the notes on the preceding pages.

Appendix II (unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I open policy years

		2020/21 One year from inception US$m	2019/20 Two years from inception US$m	2018/19 Three years from inception US$m
At 20 February 2021				
Calls and premiums – current year		240.8	(1.4)	–
Calls and premiums – prior year		–	241.6	255.8
Less: claims, reinsurance premiums, administration expenses and tax		(154.2)	(203.0)	(276.8)
		86.6	37.2	(21.0)
Investment income to date		37.1	67.5	9.6
Funds available	A	**123.7**	**104.7**	**(11.4)**
Estimated known outstanding claims and forecast of unreported claims		218.2	147.4	170.6
Estimated reinsurance recoveries		(60.8)	(36.5)	(132.5)
	B	**157.4**	**110.9**	**38.1**
Anticipated deficit at closure	A-B	(33.7)	(6.2)	–
Deficit on closure of 2018/19 year		–	–	(49.5)
Transferred from contingency reserve at 20 February 2020		–	9.3	50.5
Transferred from contingency reserve at 20 February 2021		33.7	(3.1)	(1.0)
		–	–	–
Product of a 10% supplementary call		**18.1**	**18.2**	**19.3**

Notes

Estimated known outstanding claims and the forecast of unreported claims of open years (excluding the 2018/19 year which was closed at the club's meeting on 20 May 2021) include the club's share of other clubs' Pool claims amounting to $90.1m.

Estimated reinsurance recoveries show the reinsurance recoveries to be made on reinsurance contracts net of provision for doubtful recoveries, and include anticipated pool recoveries of $60.1m, recoveries from group excess of loss reinsurers of $nil, and recoveries from other reinsurers of $37.2m.

Investment income

All investment income received in the year has been allocated to the 2020/21 policy year.

Fixed premium and non-poolable business

Of the $241m of calls and premiums on the 2020 P&I policy year, $60m represents non-poolable business which is all fixed premium. The comparative figures for 2019 are $241m and $59m, and for 2018 are $260m and $67m.

Appendix III (unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I closed policy years and contingency reserve

	Closed policy years		Contingency reserve	
	2021 US$m	2020 US$m	**2021 US$m**	2020 US$m
At 20 February 2020				
Balance available at 20 February 2020 (2019)	**268.7**	275.3	**242.0**	386.6
Transfers on closure of 2018/2019 (2017/2018) policy year	**38.1**	64.2	**1.0**	5.6
Premium adjustment	**–**	–	**–**	(0.2)
Claims paid net of reinsurance recoveries	**(41.2)**	(200.6)	**–**	–
	265.6	138.9	**243.0**	392.0
Transfer of anticipated deficit on open years	**–**	–	**(30.6)**	(20.2)
Other charges including value adjustments	**–**	–	**(3.8)**	–
(Improvement)/deterioration of claims in closed policy years	**(10.4)**	129.8	**10.4**	(129.8)
Balance available at 20 February 2021 (2020)	**255.2**	268.7	**219.0**	242.0

Closed policy years

The balance available for outstanding claims of closed policy years (including the 2018/19 year which was closed at the club's meeting on 20 May 2021) includes a provision for incurred but not reported claims (IBNR) of $30.2m (2020: $39.8m) and is shown net of Pool recoveries of $125.6m (2020: $20.3m), recoveries from group excess of loss reinsurers of $24.7m (2020: $11.3m) and other non-group reinsurance recoveries which amount to $43.6m (2020: $20.8m). The balance available including IBNR includes $81.9m (2020: $62.6m) in respect of the club's share of other clubs' outstanding Pool claims.

Managers and offices

* Information correct at the time of publication

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Company secretary
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Independent auditor's report to the members of The Standard Club Ltd

Our opinion

We have audited the financial statements of The Standard Club Ltd Group (the group) for the year ended 20 February 2021 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Reserves, Consolidated Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and Financial Reporting Standard 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 20 February 2021 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements 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 have provided no non-audit services prohibited by the FRC's Ethical Standard to the group in the period.

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 financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group'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 financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 financial statements 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.

Opinions on other matters prescribed by the Companies Act 1981 (Bermuda)

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 1981 (Bermuda) requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Director's Responsibilities on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 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 economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditscopeukprivate. This description forms part of our auditor's report.

Use of our report

This report is made solely to the group's members, as a body, in accordance with Section 90 of the Companies Act 1981 (Bermuda). Our audit work has been undertaken so that we might state to the group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the group and the group's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP
Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

Financial highlights 2021

	2021 US$m	2020 US$m
Results for the financial year ended 20 February 2021		
Calls and premiums net of reinsurance	**228**	257
Total claims net of reinsurance and operating expenses	**(290)**	(367)
Balance of technical account for general business	**(62)**	(110)
Net investment and other comprehensive income	**29**	69
Total comprehensive income for the year	**(33)**	(41)
Outstanding claims liabilities		
Estimated known outstanding claims net of all recoveries	**523**	550
Incurred but not reported claims (IBNR)	**63**	96
Total estimated claims liabilities	**586**	646
Funds available for claims		
Open policy years	**298**	358
Closed policy years	**288**	288
Free reserves	**360**	394
Total balance sheet funds	**946**	1,040

Consolidated statement of comprehensive income

For the year ended 20 February 2021

	Note	2021 US$m	2020 US$m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums earned, including calls	4	**292.7**	353.5
Outward reinsurance premiums	5	**(64.4)**	(96.0)
Earned premiums, net of reinsurance		**228.3**	257.5
Total income		**228.3**	257.5
Expenditure			
Claims paid	7	**297.5**	399.5
Reinsurers' share	8	**(56.2)**	(132.6)
Net claims paid		**241.3**	266.9
Change in provision for claims		**6.8**	41.0
Reinsurers' share		**12.3**	1.2
Change in net provision for claims		**19.1**	42.2
Claims incurred, net of reinsurance		**260.4**	309.1
Net operating expenses	9	**30.0**	58.1
Total expenditure		**290.4**	367.2
Balance on the technical account for general business		**(62.1)**	(109.7)
Non-technical account			
Balance on the technical account for general business		**(62.1)**	(109.7)
Investment return net of expenses and charges	6	**35.0**	83.9
Exchange losses		**(2.2)**	(2.3)
Other charges including value adjustments		**(4.1)**	(8.6)
Shortfall of income over expenditure before taxation		**(33.4)**	(36.7)
Tax on shortfall of income over expenditure	10	**(0.7)**	(0.7)
Shortfall of income over expenditure for the financial year		**(34.1)**	(37.4)
Other comprehensive income:			
Currency translation movement		**0.7**	(3.6)
Total comprehensive expenses for the year transferred to contingency reserve		**(33.4)**	(41.0)

The income, expenditure and results for the year are wholly derived from continuing activities.

The notes on pages 25 to 46 are an integral part of these financial statements.

Consolidated balance sheet
At 20 February 2021

	Note	2021 US$m	2020 US$m
Assets			
Investment			
Other financial investments	12	795.4	890.6
Reinsurers' share of technical provisions			
Claims outstanding	11	248.8	282.8
Provision for unearned premiums	11	14.7	14.4
		263.5	297.2
Debtors			
Debtors arising out of direct insurance operations	15	99.1	114.2
Other debtors		8.2	16.6
		107.3	130.8
Other assets			
Cash at bank and in hand		76.8	85.1
		76.8	85.1
Prepayments and accrued income		11.2	13.0
Total assets		1,254.2	1,416.7
Liabilities			
Reserves			
Statutory reserve		0.2	1.2
Contingency reserve		360.1	392.5
		360.3	393.7
Technical provisions			
Gross claims outstanding	11	834.6	929.5
Provision for unearned premiums	11	0.4	7.7
		835.0	937.2
Provisions for other risks and charges			
Provision for loss on disposal of subsidiary		–	7.8
Creditors			
Creditors arising out of direct insurance operations		47.1	59.2
Other creditors including taxation and social security	16	7.4	13.8
		54.5	73.0
Accruals and deferred income		4.4	5.0
Total liabilities		1,254.2	1,416.7

The financial statements were approved by the board of directors on 20 May 2021 and were signed on its behalf by:

C d'Amico
Chairman

The notes on pages 25 to 46 are an integral part of these financial statements.

Statement of changes in reserves

Consolidated	Statutory reserves US$m	Contingency reserves US$m	Total reserves US$m
Balance as at 20 February 2019	1.2	433.5	434.7
Excess/(shortfall) of income over expenditure for the financial year	–	(37.4)	(37.4)
Other comprehensive income	–	(3.6)	(3.6)
Total comprehensive income for the year transferred to the contingency reserve	–	(41.0)	(41.0)
Balance as at 20 February 2020	1.2	392.5	393.7
Balance as at 20 February 2020	**1.2**	**392.5**	**393.7**
Excess/(shortfall) of income over expenditure for the financial year	**–**	**(34.1)**	**(34.1)**
Other comprehensive (expenses)/income net of tax	**–**	**0.7**	**0.7**
Total comprehensive income for the year transferred to the contingency reserve	**–**	**(33.4)**	**(33.4)**
Reclassification	**(1.0)**	**1.0**	**–**
Balance as at 20 February 2021	**0.2**	**360.1**	**360.3**

The notes on pages 25 to 46 are an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 20 February 2021

	2021 US$m	2020 US$m
Excess of income over expenditure before tax	(33.4)	(36.7)
Gains arising on realisation of investments	(37.6)	(36.7)
Losses arising on realisation of investments	6.9	6.9
Unrealised losses/(gains) on revaluation of investments	10.5	(35.7)
Depreciation	(0.5)	(0.7)
Decrease/(increase) in debtors	5.9	107.9
Increase/(decrease) in net technical provision	19.2	(7.1)
(Decrease)/increase in creditors	(11.7)	1.7
Taxation	(0.7)	(0.7)
Other charges including value adjustments	4.1	8.8
Exchange differences	2.2	2.2
Net cash flow generated from operating activities	**(35.1)**	**9.9**
Net cash from operating activities	**(35.1)**	**9.9**
Taxation paid	–	–
Net cash generated from operating activities	**(35.1)**	**9.9**
Cash flow from investing activities		
Disposal of subsidiary	(30.9)	–
Purchase of investments	(775.4)	(851.6)
Sale of investments	818.0	802.3
Net cash used in investing activities	**11.7**	**(49.3)**
Net decrease in cash and cash equivalents	(23.4)	(39.4)
Effect of exchange rate fluctuations on cash and cash equivalents	1.6	2.4
Cash and cash equivalents at the beginning of the year	98.6	135.6
Cash and cash equivalents at the end of the year	**76.8**	**98.6**
Cash and cash equivalents consist of:		
Cash at bank and in hand	76.8	85.1
Short-term deposits presented in other financial investments	–	13.5
Cash and cash equivalents at the end of the year	**76.8**	**98.6**

The notes on pages 25 to 46 are an integral part of these financial statements.

Notes to the financial statements

1. Constitution

The club is incorporated in Bermuda as a company limited by guarantee and has a statutory reserve but no share capital. The members of the club are liable for their rateable proportion of any deficiency of claims and expenses in excess of contributions and the board of directors decides whether any surplus is retained in the contingency reserve for the purposes of the club or returned to members. The address of its registered office is Swan Building, 2nd Floor, 26 Victoria Street, Hamilton HM12, Bermuda.

2. Accounting policies

(a) Basis of preparation

These group financial statements, which consolidate the financial statements of the club and its subsidiary undertakings, have been prepared under the Bermuda Companies Act 1981, and also under the provisions of Schedule 3 to the UK Companies Act 2006. The club and its subsidiary undertakings have applied uniform accounting policies and, on consolidation, all intra-group transactions, income and expenditure have been eliminated. The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103).

The financial statements have been prepared under the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups.

The financial statements are prepared under the historical cost convention, as modified for the revaluation of investment properties and financial assets and liabilities (including derivative instruments) at fair value through income or expenditure.

The club has taken advantage of the exemption in Section 408 of the Companies Act 2006 and, as a result, does not present its individual statement of comprehensive income and the related notes that would have formed part of the financial statements.

The contingency reserve represents the free reserves of the club and is established in accordance with rule 20.6 of the rules of the club.

The financial statements are prepared on a going concern basis. The directors consider it appropriate to adopt the going concern basis of accounting in the preparation of these financial statements and, having reviewed forecasts for the next three years, are not aware of any material uncertainties to the company's ability to continue to do so for at least 12 months from the date of these financial statements.

(b) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the group's key sources of estimation uncertainty:

Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR), at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and, for some types of policies, IBNR claims form the majority of the liability in the statement of financial position. At the end of the reporting period, and as presented in note 11, the technical provisions for claims amounted to $834.6m gross of reinsurance recoveries.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and the Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the balance sheet date based on statistical methods.

Notes to the financial statements continued

2. Accounting policies continued

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on actuarial techniques and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than straight line.

Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying these estimates is that past premium development can be used to project future premium development. At the end of the reporting period, and as presented in note 4, the gross premiums include an accrual for premiums due but not yet received of $3.4m.

Fair value of financial assets and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk and model inputs such as estimated future cash flows based on management's best estimates and discount rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country-specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity, and financial conditions or counterparties. Discount rates are influenced by risk-free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Basis of consolidation

The consolidated financial statements include the financial information of the club and its subsidiary undertakings. Subsidiaries are fully consolidated from the date on which control is transferred to the club and de-consolidated from the date on which control ceases.

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

An undertaking is regarded as a subsidiary undertaking if the club has control over its operating and financial policies, generally determined by the ownership of more than 50% of its voting rights.

Associated undertakings are companies other than subsidiary undertakings in which the club holds 20% or more of the equity share capital for the long term and over which the club exercises significant influence. Associated undertakings are accounted for using the equity method of accounting.

Uniform accounting policies are applied to all subsidiary undertakings.

(d) Annual basis of accounting

The Consolidated Statement of Comprehensive Income is prepared on an annual accounting basis and includes all the premiums for policies incepting in the year, the cost of claims incurred and reinsurance for the current year, and any adjustments relating to earlier years together with operating expenses and investment income. All revenue transactions appear in the Consolidated Statement of Comprehensive Income.

The calls and premiums, reinsurance premiums payable, claims paid and related expenses, reinsurance recoveries and outstanding claims are allocated to the policy years to which they relate. Return on investments and operating expenses are allocated to the current policy year.

(e) Calls and premiums

Calls and premiums include gross calls less return premiums. These calls and premiums are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any premium adjustments relating to prior accounting periods.

(f) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

(g) Claims incurred

Claims incurred comprise all claims and related expenses paid in the year, and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses.

(h) Reinsurance recoveries

The liabilities of the club are reinsured above certain levels with similar associations under the International Group's Pooling Agreement and with market underwriters. The figures in the Consolidated Statement of Comprehensive Income relate to recoveries on claims incurred during the year.

Outstanding claims in the balance sheet are shown gross and the reinsurance recoveries are shown as an asset.

(i) Claims provisions and related reinsurance recoveries

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the club. The club takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. An allowance for future claims handling costs is included in the provision.

Claims estimates for the club are derived from a combination of loss ratio-based estimates and a variety of estimation techniques. These are generally based upon statistical analyses of historical experience, which assume that the development pattern of the current claims will be consistent with past experience. However, allowance is made for changes or uncertainties that may create distortions in the underlying statistics or that may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- changes in club processes that might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks.

The variety of estimation techniques assists in giving greater understanding of the trends inherent in the data being projected and in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each policy year.

Large claims impacting each relevant business class are generally assessed separately, being measured and/or projected on a case-by-case basis in order to allow for the possible distortive effect of the development and incidence of these large claims.

Pollution, wreck removal and occupational disease claims can have a very long delay between the occurrence and notification. In estimating the cost of these claims, the club considers the type of risks written historically that may give rise to exposure to these liabilities, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean-up techniques and industry benchmarks of the typical cost of such claims.

Notes to the financial statements continued

2. Accounting policies continued

Claims reserves are estimated on an undiscounted basis, apart from occupational disease claims. Due to the very long delay between the occurrence and the final settlement of a claim which has arisen due to an occupational disease exposure, such occupational disease claims provisions and IBNR thereon are discounted to take account of the expected investment income receivable between the balance sheet date and settlement on the assets held to cover these provisions.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, and are adjusted to reflect changes in the nature and extent of the club's reinsurance programme over time.

An assessment is also made of the recoverability of reinsurance with regard to market data on the financial strength of each of the reinsurance companies.

(j) Reinsurance premiums

Reinsurance premiums, less returns, are debited to the Consolidated Statement of Comprehensive Income in the financial year as and when charged to the club, together with a provision for any future costs of existing reinsurance policies.

(k) Investment return

Investment return comprises all investment income, realised investment gains and losses, and movements in unrealised gains and losses, net of investment expenses, charges and interest. Dividends are recorded on the date on which the shares are quoted ex-dividend and include imputed tax credits. Interest and expenses are accounted for on an accruals basis. Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. The investment return is reported in the non-technical account.

(l) Financial instruments

The group has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments.

Financial assets at fair value through income

The club classifies its investments as financial assets at fair value through income. As a result, gains and losses are taken to the Statement of Comprehensive Income, which reflects the management of the portfolio on a fair value basis. Fair values of investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors.

Derivative financial investments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The club does not engage in hedge accounting and changes in the fair value of all derivative investments are recognised immediately in the Consolidated Statement of Comprehensive Income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable settlement values. Amounts due from members and reinsurers are included in this category and are measured at cost less any provision for impairment in value.

(m) Foreign currencies
The group financial statements are presented in US dollars and rounded to millions.

The functional currency of the group and club is the US dollar, with the exception of the following companies whose functional currency is British pounds:
- Standard House Limited
- Standard Services Limited

The results and financial position of companies whose functional currency is pound sterling are translated into the presentation currency as follows:
- assets and liabilities are translated at the closing rate at the balance sheet date
- income and expenses are translated at the average rate of exchange during the year
- all resulting exchange differences are recognised in other comprehensive income.

Monetary assets and liabilities in foreign currencies are translated at the US dollar rate of exchange at the balance sheet date, with the resulting difference treated as an exchange gain or loss within the non-technical account.

Revenue transactions in foreign currencies are translated into US dollars at the rate applicable for the week in which the transaction takes place. Exchange differences are reported in the non-technical account.

Foreign currency contracts are entered into in order to hedge the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies, which are matched by holdings of those currencies. The open contracts have been revalued at year-end rates of exchange and the potential profit or loss included in the non-technical account.

(n) General administration expenses
General administration expenses, including managers' remuneration, are included on an accruals basis.

(o) Taxation
Taxation provided is that which became chargeable during the year.

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the Consolidated Statement of Comprehensive Income.

Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the Consolidated Statement of Comprehensive Income for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the Statement of Changes in Reserves. Deferred tax balances are not discounted.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is regarded as 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.

Notes to the financial statements continued

3. Segmental analysis by class

The segmental results of the five classes of the club plus the club's former share of The Standard Syndicate are set out as follows:

3.1 Statement of comprehensive income

As at 20 February 2021	Note	Total US$m	Class 1 P&I US$m	Class 2 Defence US$m	Class 3 Coastal & Inland US$m	Class 4 War US$m	Class 5 Strike & Delay US$m	Syndicate US$m
Technical account – general business								
Earned premiums, net of reinsurance								
Gross premiums earned, including calls	4	292.7	238.8	8.8	19.0	7.7	18.4	–
Outward reinsurance premiums	5	(64.4)	(54.2)	–	(2.9)	(4.9)	(2.4)	–
Earned premiums, net of reinsurance		228.3	184.6	8.8	16.1	2.8	16.0	–
Expenditure								
Gross claims incurred		304.3	260.5	11.6	16.0	–	16.2	–
Reinsurers' share		(43.9)	(42.3)	–	0.9	–	(2.5)	–
Claims incurred, net of reinsurance		260.4	218.2	11.6	16.9	–	13.7	–
Net operating expenses	9	30.0	23.4	1.1	1.6	0.9	3.0	–
Total expenditure		290.4	241.6	12.7	18.5	0.9	16.7	–
Balance on the technical account for general business		(62.1)	(57.0)	(3.9)	(2.4)	1.9	(0.7)	–
Non-technical account								
Balance on the technical account for general business		(62.1)	(57.0)	(3.9)	(2.4)	1.9	(0.7)	–
Investment return net of expenses and charges	6	35.0	44.4	2.5	(2.3)	1.2	1.0	(11.8)
Exchange (losses)/gains		(2.2)	(6.7)	0.1	4.0	–	0.4	–
Other income/(charges) including value adjustments		(4.1)	(3.8)	–	–	(0.3)	–	–
Excess/(shortfall) of income over expenditure before taxation		(33.4)	(23.1)	(1.3)	(0.7)	2.8	0.7	(11.8)
Tax on excess of income over expenditure	10	(0.7)	(0.6)	–	–	(0.1)	–	–
Excess/(shortfall) of income over expenditure for the financial year		(34.1)	(23.7)	(1.3)	(0.7)	2.7	0.7	(11.8)
Other comprehensive (expenses)/income net of tax		0.7	0.7	–	–	–	–	–
Total comprehensive (expenses)/ income for the year transferred to contingency reserve		(33.4)	(23.0)	(1.3)	(0.7)	2.7	0.7	(11.8)

The investment loss in the syndicate represents the removal of the net assets of The Standard Club Corporate Name Ltd on disposal in March 2020. This is exactly offset by the release of the provision for loss on disposal held in the P&I balance sheet at 20 February 2020 and proceeds from the sale of the corporate name.

As at 20 February 2020	Note	Total US$m	Class 1 P&I US$m	Class 2 Defence US$m	Class 3 Coastal & Inland US$m	Class 4 War US$m	Class 5 Strike & Delay US$m	Syndicate US$m
Technical account – general business								
Earned premiums, net of reinsurance								
Gross premiums earned, including calls	4	353.5	237.6	8.7	16.8	5.2	20.1	65.1
Outward reinsurance premiums	5	(96.0)	(66.7)	–	(2.3)	(3.5)	(2.8)	(20.7)
Earned premiums, net of reinsurance		257.5	170.9	8.7	14.5	1.7	17.3	44.4
Expenditure								
Gross claims incurred		440.5	364.3	9.8	11.1	–	(1.1)	56.4
Reinsurers' share		(131.4)	(130.1)	–	1.9	–	12.2	(15.4)
Claims incurred, net of reinsurance		309.1	234.2	9.8	13.0	–	11.1	41.0
Net operating expenses	9	58.1	25.7	1.7	1.8	0.4	5.1	23.4
Total expenditure		367.2	259.9	11.5	14.8	0.4	16.2	64.4
Balance on the technical account for general business		(109.7)	(89.0)	(2.8)	(0.3)	1.3	1.1	(20.0)
Non-technical account								
Balance on the technical account for general business		(109.7)	(89.0)	(2.8)	(0.3)	1.3	1.1	(20.0)
Investment return net of expenses and charges	6	83.9	68.3	5.0	4.4	1.3	1.1	3.8
Exchange (losses)/gains		(2.3)	(0.1)	(0.6)	(0.9)	–	(0.1)	(0.6)
Other income/(charges) including value adjustments		(8.6)	(8.5)	–	–	(0.3)	–	0.2
Excess/(shortfall) of income over expenditure before taxation		(36.7)	(29.3)	1.6	3.2	2.3	2.1	(16.6)
Tax on excess of income over expenditure	10	(0.7)	(0.7)	–	–	–	–	–
Excess/(shortfall) of income over expenditure for the financial year		(37.4)	(30.0)	1.6	3.2	2.3	2.1	(16.6)
Other comprehensive (expenses)/income net of tax		(3.6)	0.2	–	–	–	–	(3.8)
Total comprehensive (expenses)/ income for the year transferred to contingency reserve		(41.0)	(29.8)	1.6	3.2	2.3	2.1	(20.4)

Notes to the financial statements continued

3. Segmental analysis by class continued
3.2 Consolidated balance sheet

As at 20 February 2021	Total US$m	Class 1 P&I US$m	Class 2 Defence US$m	Class 3 Coastal & Inland US$m	Class 4 War US$m	Class 5 Strike & Delay US$m	Syndicate US$m
Assets							
Investments	**795.4**	**751.5**	–	**43.9**	–	–	–
Reinsurers' share of technical provisions	**263.5**	**260.9**	–	–	**0.2**	**2.4**	–
Debtors	**107.3**	**96.6**	**1.9**	**2.6**	**2.6**	**3.6**	–
Other assets	**76.8**	**54.1**	**1.5**	**11.3**	**2.3**	**7.6**	–
Prepayments and accrued income	**11.2**	**7.7**	**0.4**	**(0.1)**	**0.7**	**2.5**	–
Total assets	**1,254.2**	**1,170.8**	**3.8**	**57.7**	**5.8**	**16.1**	–
Liabilities							
Reserves	**360.3**	**219.2**	**71.1**	**31.0**	**17.7**	**21.3**	–
Technical provisions	**835.0**	**790.0**	**8.3**	**27.9**	**0.4**	**8.4**	–
Provisions for other risks and charges	–	–	–	–	–	–	–
Creditors	**54.5**	**158.6**	**(75.6)**	**(1.2)**	**(13.5)**	**(13.8)**	–
Accruals and deferred income	**4.4**	**3.0**	–	–	**1.2**	**0.2**	–
Total liabilities	**1,254.2**	**1,170.8**	**3.8**	**57.7**	**5.8**	**16.1**	–

As at 20 February 2020	Total US$m	Class 1 P&I US$m	Class 2 Defence US$m	Class 3 Coastal & Inland US$m	Class 4 War US$m	Class 5 Strike & Delay US$m	Syndicate US$m
Assets							
Investments	890.6	763.1	–	48.1	–	–	79.4
Reinsurers' share of technical provisions	297.2	272.3	–	–	0.2	0.8	23.9
Debtors	130.8	97.5	1.3	1.0	12.0	2.0	17.0
Other assets	85.1	56.1	2.5	3.1	1.5	0.7	21.2
Prepayments and accrued income	13.0	6.9	0.1	0.2	(8.4)	11.9	2.3
Total assets	1,416.7	1,195.9	3.9	52.4	5.3	15.4	143.8
Liabilities							
Reserves	393.7	242.2	72.4	31.7	15.0	20.6	11.8
Technical provisions	937.2	787.5	7.5	19.8	–	9.4	113.0
Provisions for other risks and charges	7.8	7.8	–	–	–	–	–
Creditors	73.0	157.2	(76.0)	0.9	(10.4)	(15.1)	16.4
Accruals and deferred income	5.0	1.2	–	–	0.7	0.5	2.6
Total liabilities	1,416.7	1,195.9	3.9	52.4	5.3	15.4	143.8

4. Gross premiums earned including calls

	2021 US$m	2020 US$m
Estimated total premium, other premiums and releases 2020/21 (2019/20)	**289.6**	298.8
Adjustments to previous policy years	**3.3**	(2.7)
Change in the gross provision for unearned premiums	**(0.2)**	57.4
Total calls and premiums	**292.7**	353.5

5. Outward reinsurance premiums

	2021 US$m	2020 US$m
International Group excess of loss	27.5	27.3
Adjustment to prior years	(1.6)	(0.8)
Other premiums	33.2	55.1
Adjustment to prior years	5.0	4.0
Change in the provision for unearned premiums, reinsurers' share	0.3	10.4
Reinsurance premiums earned	64.4	96.0

6. Investment return

	2021 US$m	2020 US$m
Investment income		
Shares and other variable-yield securities and unit trusts	10.1	9.8
Debt securities and other fixed-income securities	6.6	9.6
Deposit interest	1.7	2.3
Gains arising on realisation of investments	37.6	36.7
	56.0	58.4
Investment expenses and charges		
Investment management expenses	(3.6)	(3.3)
Losses on realisation of investments	(6.9)	(6.9)
	(10.5)	(10.2)
Movement in unrealised gains on investments	(11.3)	33.9
Movement in unrealised losses on investments	0.8	1.8
	(10.5)	35.7
Total investment return	35.0	83.9

7. Claims paid

	2021 US$m	2020 US$m
Members' claims	250.7	315.1
Other P&I clubs' Pool claims	46.8	33.4
Syndicate claims	–	51.0
Gross claims paid	297.5	399.5

8. Reinsurers' share of claims paid

	2021 US$m	2020 US$m
Claims recoverable from group GXL reinsurers	(8.0)	(14.8)
Claims recoverable from other reinsurers	(20.4)	(28.2)
Claims recoverable from the Pool	(27.8)	(89.6)
Reinsurers' share of claims paid	(56.2)	(132.6)

Notes to the financial statements continued

9. Net operating expenses

	2021 US$m	2020 US$m
Acquisition costs		
Management fee	12.6	14.4
General expenses	0.5	10.1
Change in deferred acquisition costs	–	9.3
Administrative expenses		
Management fee	10.7	11.1
General expenses	3.6	10.2
Safety and loss control	0.2	0.7
Directors’ fees	1.7	1.4
Auditors’ remuneration for audit services	0.6	0.7
Auditors’ remuneration for other services	0.1	0.2
Net operating expenses	**30.0**	58.1

During the year the group (including its overseas subsidiaries) obtained the following services from the group’s auditors as detailed below:

	2021 US$m	2020 US$m
Audit services		
Fees payable to the club’s auditors for the audit of the parent company and consolidated financial statements	0.1	0.1
The audit of the club’s subsidiaries, pursuant to legislation	0.5	0.6
Other services		
Fees payable to the club’s auditors and its associates for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	0.1	0.2
	0.7	0.9

10. Tax on shortfall of income over expenditure

	2021 US$m	2020 US$m
Analysis of charge in the period		
Current tax on income for the period	0.7	1.0
Total current tax	0.7	1.0
Deferred tax		
Adjustments in respect of prior periods	–	(0.3)
Total deferred tax (note 11)	–	(0.3)
Tax on excess of income over expenditure	0.7	0.7

Factors affecting tax charge for the period

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (19%). The differences are explained below:

	2021 US$m	2020 US$m
(Shortfall)/excess of income over expenditure before taxation	**(33.4)**	(36.7)
Tax at 19% (2020: 19%)	6.3	7.0
Income not assessable for tax purposes	(7.0)	(8.0)
Adjustments in respect of prior years	–	0.3
Current tax charge for the period	**(0.7)**	(0.7)

The club is subject to corporation tax in the jurisdictions in which it does business, except in Bermuda, where there is no corporation tax. In the UK, corporation tax is limited to investment income owing to the mutual status of the club.

Factors affecting current and future tax charges

There are no factors affecting current and future tax charges.

11. Claims outstanding

The board closed the 2018/19 policy year at its meeting on 20 May 2021. The table below provides the position after closure.

	2021 US$m	2020 US$m
Open years		
Claims – own	307.5	517.9
Claims – Pool	90.1	83.3
Reinsurance recoveries – Pool	(60.0)	(166.9)
Reinsurance recoveries – GXL and other	(39.5)	(76.0)
Net claims provision for open years	**298.1**	358.3
Closed years		
Claims – own	355.1	265.7
Claims – Pool	81.9	62.6
Reinsurance recoveries – Pool	(80.9)	(3.6)
Reinsurance recoveries – GXL and other	(68.4)	(36.3)
Net claims provision for closed years	**287.7**	288.4
Total		
Claims – own	662.6	783.6
Claims – Pool	172.0	145.9
Gross outstanding claims	834.6	929.5
Reinsurance recoveries – Pool	(140.9)	(170.5)
Reinsurance recoveries – GXL and other	(107.9)	(112.3)
Reinsurance recoveries – total	248.8	282.8
Net claims provision	**585.8**	646.7

Claims outstanding includes provision for IBNR claims which is set by reference to, amongst other factors, standard actuarial techniques and projections. Also included in the provision is an estimate for the internal and external costs of handling the outstanding claims.

The provision for outstanding claims is net of amounts recoverable arising out of subrogation or salvage estimated at $32m.

Notes to the financial statements continued

11. Claims outstanding continued

11.1 Movement in insurance and reinsurance contracts

	2021 US$m	2020 US$m
Claims outstanding		
As at 21 February	**929.5**	883.6
Claims paid in the year	**(297.5)**	(399.5)
Claims incurred during the year	**202.6**	445.4
As at 20 February	**834.6**	929.5
Unearned premium		
As at 21 February	**7.7**	65.2
Calls and premiums written in the year	**292.9**	313.2
Calls and premiums earned in the year	**(300.2)**	(370.7)
As at 20 February	**0.4**	7.7
Total insurance liabilities and unearned premiums	**835.0**	937.2
Reinsurers' share of claims outstanding		
As at 21 February	**(282.8)**	(264.8)
Reinsurance recoveries made in the year	**56.2**	132.6
Reinsurance recoverable on claims incurred during the year	**(22.2)**	(150.6)
As at 20 February	**(248.8)**	(282.8)
Reinsurers' share of unearned premium		
As at 21 February	**(14.4)**	(23.5)
Reinsurance premiums written in the year	**(63.4)**	(85.8)
Reinsurance premiums earned in the year	**63.1**	94.9
As at 20 February	**(14.7)**	(14.4)
Total reinsurance assets and reinsurers' share of unearned premium	**(263.5)**	(297.2)
Total net technical provisions	**571.5**	640.0

11.2 Development claim tables

Claims (gross)

Policy year	2011/12 US$m	2012/13 US$m	2013/14 US$m	2014/15 US$m	2015/16 US$m	2016/17 US$m	2017/18 US$m	2018/19 US$m	2019/20 US$m	**2020/21 US$m**	**Total US$m**
Estimate of ultimate claims costs:											
– at end of policy year	446.7	343.0	373.7	353.7	332.1	249.1	273.3	461.1	332.0	**339.5**	
– one year later	651.8	320.9	403.0	304.1	306.5	252.6	282.8	596.3	308.6		
– two years later	824.6	308.9	433.7	275.4	311.4	232.0	275.8	506.2			
– three years later	972.0	306.1	533.5	289.8	294.7	232.7	237.0				
– four years later	958.4	308.4	509.9	301.1	296.9	220.4					
– five years later	964.3	313.2	462.0	286.8	299.1						
– six years later	957.9	249.0	464.9	288.2							
– seven years later	960.6	247.1	459.0								
– eight years later	976.9	242.5									
– nine years later	973.5										
Current estimate of cumulative claims	973.5	242.5	459.0	288.2	299.1	220.4	237.0	506.2	308.6	**339.5**	**3,874.0**
Cumulative payments to date	(952.8)	(238.1)	(442.9)	(255.5)	(299.9)	(191.8)	(184.8)	(329.0)	(154.3)	**(99.2)**	**(3,148.3)**
Liability recognised in the balance sheet	20.7	4.4	16.1	32.7	(0.8)	28.6	52.2	177.2	154.3	**240.3**	**725.7**
Provision in respect of prior years											**108.9**
Total provision included in the balance sheet											**834.6**

Claims (net)

Policy year	2011/12 US$m	2012/13 US$m	2013/14 US$m	2014/15 US$m	2015/16 US$m	2016/17 US$m	2017/18 US$m	2018/19 US$m	2019/20 US$m	**2020/21 US$m**	**Total US$m**
Estimate of ultimate claims costs:											
– at end of policy year	227.5	252.5	274.1	251.0	253.4	212.6	216.4	269.8	264.9	**280.0**	
– one year later	238.7	231.2	288.0	222.1	258.2	237.2	252.5	337.8	247.2		
– two years later	225.8	218.2	273.3	210.0	262.6	223.4	253.0	269.2			
– three years later	220.0	212.5	270.6	211.4	252.3	222.6	223.4				
– four years later	210.6	217.7	277.6	225.3	256.1	215.0					
– five years later	209.5	216.5	279.4	223.3	258.4						
– six years later	205.3	218.3	282.6	222.1							
– seven years later	219.2	218.0	284.1								
– eight years later	216.8	213.1									
– nine years later	218.6										
Current estimate of cumulative claims	218.6	213.1	284.1	222.1	258.4	215.0	223.4	269.2	247.2	**280.0**	**2,431.1**
Cumulative payments to date	(214.0)	(209.1)	(272.0)	(200.5)	(236.4)	(187.7)	(171.9)	(208.9)	(131.7)	**(99.2)**	**(1,931.4)**
Liability recognised in the balance sheet	4.6	4.0	12.1	21.6	22.0	27.3	51.5	60.3	115.5	**180.8**	**499.7**
Provision in respect of prior years											**86.1**
Total provision included in the balance sheet											**585.8**

Notes to the financial statements continued

12. Other financial investments

	2021 US$m	2020 US$m
Financial assets at fair value through statement of comprehensive income	**795.4**	890.6
Total financial assets at market value	**795.4**	890.6
Financial assets at fair value through statement of comprehensive income	**747.6**	832.2
Total financial assets at cost	**747.6**	832.2
At market value		
Shares and other variable-yield securities and units in unit trusts	**179.4**	206.8
Debt securities and other fixed-income securities	**616.1**	683.7
Open forward currency contracts	**(0.1)**	0.1
Total investments at market value	**795.4**	890.6
At cost		
Shares and other variable-yield securities and units in unit trusts	**163.4**	174.9
Debt securities and other fixed-income securities	**584.2**	657.3
Total investments at cost	**747.6**	832.2

Included in the carrying values above are amounts in respect of listed investments as follows:

	2021 US$m	2020 US$m
Shares and other variable-yield securities and unit trusts	**137.7**	173.1
Debt securities and other fixed-income securities	**616.1**	683.6
	753.8	856.7

Open forward currency contracts	2021 US$m	2020 US$m
Fair value (liability)/asset	**(0.1)**	0.1
Contract/notional amount	**–**	–

Open forward currency contracts represent potential losses or gains on forward contracts, which have been entered into to protect the assets of the club. These have been revalued at 20 February 2021 using exchange rates prevailing at that date. The total of the open forward contracts at any one time is limited by guidelines set by the board of directors and matched against currency and asset holdings in excess of the amount of the contracts.

Contractual amounts outstanding at the balance sheet date include forward currency contracts to transact the net equivalent of $(0.1m) (2020: $0.1m, as broken down by local currency in the following table:

	2021 Local currency US$m		2020 Local currency US$m	
	Purchase	Sell	Purchase	Sell
British pound sterling	**3.1**	**(9.3)**	11.9	(26.3)
Canadian dollar	**–**	**(0.3)**	2.3	–
European euro	**1.6**	**(39.4)**	22.5	(27.2)
Japanese yen	**–**	**(0.6)**	–	(2.6)
Mexican peso	**–**	**(8.4)**	–	–
Polish zloty	**–**	**(9.4)**	–	–
Swiss franc	**–**	**–**	–	(3.6)
US dollar	**65.5**	**(3.0)**	53.0	(30.0)

The forward currency contracts outstanding at year end expire by 3 March 2021 (2020: 24 February 2020).

During the year a loss of $0.6m (2020: $nil) relating to such contracts was recognised.

13. Management of insurance and financial risk

The club is exposed to a range of insurance and financial risks through its operations as a protection and indemnity insurer.

This section summarises these risks and the way the club manages those risks in addition to the risk management policies set out in the report of the directors.

13.1 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. This risk can be divided into premium risk (the risk that premiums charged will not be sufficient to meet all associated claims and expenses) and reserve risk (the risk that claims reserves will be inadequate to cover either known losses, and/or unknown or undeveloped losses, such as occupational disease). These risks are managed as follows:

13.1.1 Premium risk

Premium risk is managed by clear underwriting controls including risk assessment tools, pricing models and clear authority levels. This risk is monitored for undue concentrations of risk and consistency with the club's risk appetite as set by the board. The risk management process is aided by a dedicated loss prevention function, aimed at ensuring that the club underwrites only those shipowners who operate to an acceptable standard.

Premium risk is mitigated through the acquisition of appropriate reinsurance programmes, including the International Group pooling and reinsurance programme, and also the club's own non-pool, retention and stop loss reinsurances. Reinsurance strategy is set by the board in line with the board's risk appetite and is designed to mitigate the insurance risk through programmes tailored to the club's exposures.

Notes to the financial statements continued

13. Management of insurance and financial risk continued

13.1.2 Reserve risk

Reserve risk is managed by the prompt reserving of potential losses, regular review of individual estimates and overall reserve adequacy, as well as regular, systematic claims audits and the monitoring of consistency of estimating approaches, and the modelling of technical provisions by the club's actuarial function.

While the board considers that the liability for insurance claims recognised in these financial statements is adequate, it recognises that actual experience will differ from the expected outcome. The following table presents the sensitivity of the value of insurance liabilities disclosed in note 11 to movements in the assumptions used in the estimation of insurance liabilities. These sensitivities relate mainly to the P&I class, as this represents the club's largest exposure.

	Decrease		Increase	
Impact on profit – gross of reinsurance	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Increase/decrease in loss ratio by 5 percentage points	**14.6**	17.7	**(14.6)**	(17.7)
10% increase/decrease in the number of occupational disease claims	**3.2**	3.2	**(3.2)**	(3.2)
10% increase/decrease in claims handling expenses	**1.7**	1.7	**(1.7)**	(1.7)
10% increase/decrease in number of IBNR claims	**4.9**	4.9	**(4.9)**	(4.9)

Impact on profit – net of reinsurance	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Increase/decrease in loss ratio by 5 percentage points	**11.4**	12.9	**(11.4)**	(12.9)
10% increase/decrease in the number of occupational disease claims	**3.2**	3.2	**(3.2)**	(3.2)
10% increase/decrease in claims handling expenses	**1.7**	1.7	**(1.7)**	(1.7)
10% increase/decrease in number of IBNR claims	**2.2**	2.2	**(2.2)**	(2.2)

13.2 Financial risk

The club is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts), reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the club primarily faces due to the nature of its investment and liabilities are interest rate risk and equity price risk.

13.2.1 Market risk

– Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities.

Interest rate risk is managed through the club's investment strategy. Debt and fixed interest securities are predominantly invested in high quality corporate and government-backed bonds, with the club having defined investment guidelines that limit exposure in such holdings.

At the end of the financial year, approximately 79% (2020: 79%) of the club's investment portfolio was invested in fixed interest assets. The weighted duration of the investment portfolio was 3.5 years (2020: 4.2 years).

The club has no debt liability with interest payments that vary with changes in the interest rate.

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 cost to the club of $43.3m (2020: $43.2m).

– Equity price risk

The club is exposed as a result of its holdings in equity investments and hedge funds. The club has defined investment guidelines that limit exposure in such holdings.

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 $17.9m (2020: $20.7m).

– Currency risk
The club is exposed 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 pound 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.

The profile of the club's assets and liabilities, categorised by settlement currency, at their translated carrying amount, is set out below. Certain amounts, either due to their nature, notably reinsurers' share of outstanding claims, or the existence of forward contracts, may depend on a different underlying currency.

As at 20 February 2021	US$ US$m	GBP US$m	EUR US$m	Other US$m	Total US$m
Total assets	**1,103.8**	**68.7**	**30.3**	**51.4**	**1,254.2**
Total liabilities	**795.6**	**4.4**	**19.7**	**74.2**	**893.9**
Net asset position	**308.2**	**64.3**	**10.6**	**(22.8)**	**360.3**

As at 20 February 2020	US$ US$m	GBP US$m	EUR US$m	Other US$m	Total US$m
Total assets	1,219.6	81.8	64.1	51.2	1,416.7
Total liabilities	897.9	10.2	22.9	92.0	1,023.0
Net asset position	321.7	71.6	41.2	(40.8)	393.7

At 20 February 2021, had sterling strengthened by 10% against the US dollar with all other variables held constant, profit for the year would have been $6.4m higher (2020: $7.2m higher). Had the euro strengthened by 10% against the dollar, profit for the year would have been $1.0m higher (2020: $4.1m higher).

13.2.2 Credit risk
The risk that a counterparty will be unable to pay amounts in full when due. Key areas where the club is exposed are:
- reinsurers' share of insurance liabilities
- amounts due from reinsurers in respect of claims already paid
- amounts due from members
- counterparty risk with respect to cash and investments.

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

	2021 US$m	2020 US$m
Derivative financial instruments	**(0.1)**	0.1
Debt securities	**616.1**	683.7
Loans and receivables	**84.4**	102.9
Assets arising from reinsurance contracts held	**4.4**	27.9
Cash at bank and in hand	**76.8**	85.1
Total assets bearing credit risk	**781.6**	899.7
AAA	**261.8**	303.0
AA	**109.7**	77.5
A	**191.8**	234.0
BBB	**118.5**	122.1
BB	**1.1**	7.9
B	**11.1**	–
Below CCC or not rated	**87.6**	155.2
Total assets bearing credit risk	**781.6**	899.7

The concentration of credit risk is substantially unchanged compared with the prior year. No credit limits were exceeded during the period. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

Notes to the financial statements continued

13. Management of insurance and financial risk continued

13.2.3 Liquidity risk

The risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk is the obligation to pay claims to policyholders as they fall due. The club maintains holdings in short-term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand.

The following table provides a maturity analysis of the club's financial assets (classes 1 to 5 combined) representing the dates that contracts will mature, amounts are due for payment or assets could be realised without significant additional cost:

	Short-term assets US$m	Within 1 year US$m	1-2 years US$m	2-5 years US$m	Over 5 years US$m	Total US$m
As at 20 February 2021						
Shares and other variable-yield securities and units in unit trusts	**96.7**	**42.4**	**14.2**	**12.4**	**13.7**	**179.4**
Debt securities and other fixed-income securities	**589.8**	**26.3**	**–**	**–**	**–**	**616.1**
Forward currency contracts	**(0.1)**	**–**	**–**	**–**	**–**	**(0.1)**
Cash balances	**76.8**	**–**	**–**	**–**	**–**	**76.8**
Investment property	**–**	**–**	**–**	**–**	**–**	**–**
Debtors	**12.9**	**75.7**	**–**	**–**	**–**	**88.6**
Reinsurers' share of claims outstanding	**–**	**80.0**	**50.3**	**64.8**	**53.7**	**248.8**
	776.1	**224.4**	**64.5**	**77.2**	**67.4**	**1,209.6**
As at 20 February 2020						
Shares and other variable-yield securities and units in unit trusts	122.4	12.0	–	–	72.4	206.8
Debt securities and other fixed-income securities	655.1	28.6	–	–	–	683.7
Forward currency contracts	0.1	–	–	–	–	0.1
Cash balances	85.1	–	–	–	–	85.1
Investment property	–	–	–	–	–	–
Debtors	56.8	73.9	–	–	–	130.7
Reinsurers' share of claims outstanding	–	90.2	57.0	73.7	61.9	282.8
	919.5	204.7	57.0	73.7	134.3	1,389.2

The following is an analysis of the estimated timings of net cash flows by financial liability (classes 1 to 5 combined). The timing of cash flows are based on current estimates and historic trends and the actual timings of cash flows may be materially different from those disclosed below:

	Within 1 year US$m	1-2 years US$m	2-5 years US$m	Over 5 years US$m	Total US$m
As at 20 February 2021					
Gross outstanding claims	**268.6**	**168.8**	**217.2**	**180.0**	**834.6**
Creditors	**47.1**	**–**	**–**	**–**	**47.1**
	315.7	**168.8**	**217.2**	**180.0**	**881.7**
As at 20 February 2020					
Gross outstanding claims	296.4	187.3	242.3	203.5	929.5
Creditors	59.2	–	–	–	59.2
	355.6	187.3	242.3	203.5	988.7

13.2.4 Fair value estimations

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Listed quoted prices in active markets and external broker quotes which are publicly, readily and regularly available on an active market

Level 2 – Inputs other than quoted prices included within level 1 that are observable, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The following table presents the club's assets and liabilities measured at fair value at 20 February 2021 and at 20 February 2020.

Financial assets at fair value through profit or loss:

	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
As at 20 February 2021				
Shares and other variable-yield securities and units in unit trusts	**140.2**	**–**	**39.2**	**179.4**
Debt securities and other fixed-income securities	**445.1**	**171.0**	**–**	**616.1**
Forward currency contracts	**(0.1)**	**–**	**–**	**(0.1)**
	585.2	**171.0**	**39.2**	**795.4**
As at 20 February 2020				
Shares and other variable-yield securities and units in unit trusts	173.2	–	33.6	206.8
Debt securities and other fixed-income securities	530.6	153.1	–	683.7
Forward currency contracts	0.1	–	–	0.1
	703.9	153.1	33.6	890.6

13.3 Capital management

The club maintains an efficient capital structure from the use of members' funds (reserves) along with the ability to make unbudgeted calls, if required, consistent with the club's risk profile and the regulatory and market requirements of its business.

The club's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business
- to satisfy the requirements of its members and meet regulatory requirements
- to maintain an 'A' rating with Standard & Poor's
- to manage exposures to movement in exchange rates
- to retain financial flexibility by maintaining strong liquidity.

The club's principal regulators are the Bermuda Monetary Authority (BMA) and the club is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. The club manages capital in accordance with these rules and has embedded in its Asset Liability Management (ALM) framework the necessary tests to ensure continuous and full compliance with such regulations. Throughout the year the club complied with the BMA's capital requirements and the requirements in the other countries in which it operates.

Notes to the financial statements continued

13. Management of insurance and financial risk continued

13.4 COVID-19

The directors have been monitoring the development of the impact of COVID-19, directly on the club's business, and indirectly through the development of government policy and advice. The Standard Club continues to carry out detailed risk assessments which confirm that COVID-19 does not threaten the group's going concern. The main issues are as follows.

Operational

The club's managers have activated full business continuity contingency plans and shown the club can continue to operate in the event of a serious prolonged incident, such as the present pandemic. Business records and documentation are stored electronically, are regularly backed-up and are accessible remotely from anywhere in the world. Personnel in each of the managers' global offices have successfully transitioned to working from home and the club has been able to continue to provide the same level of service to its members.

Risks underwritten

The club insures only limited aspects of the effects of COVID-19. The marine protection and indemnity (P&I) policies which form the majority of the club's book provide cover for crew illness and death, crew repatriation and substitution, passenger illness and death, broader liabilities to passengers arising out threats to life, health or safety on board, third-party illness and death and additional quarantine expenses. The club also provides legal expenses cover for members (Defence), and cover for COVID-19 related delays. The aggregate of COVID-19 claims notified up to 30 April 2021 across all classes of business amounted to $20m.

Policyholders

Early in the pandemic, there was a concern that a major downturn in economic conditions would materially affect members and business partners of the club. The possible impacts on the club in the short term included pressure on cash flow and debt recovery, and in the medium term, pressure on premium, but with reduced levels of claims due to diminished levels of activity. In fact, premium and net claims impacts have been protected by the club's reinsurance contracts, so the main impact has been on the club's investment portfolio.

Investment portfolio

The club's investment portfolio suffered a loss in the early stages of the pandemic, albeit mitigated by a de-risking of the portfolio at the start of the year and suspension of club's investment benchmark. As markets recovered the club added some risk back to the portfolio, resulting in an overall investment surplus of 4.7% for the financial year.

Regulators and forecasts

The managers continue to model stressed future scenarios to assess the club's compliance with regulatory capital requirements in the context of the risk appetite determined by the Board. The directors recognise that as the foreseeable scenarios change, decisions may need to be made in relation to the scale of the club's activity and the level of capital maintained to support that activity.

Going concern

At the date of signing these financial statements, the directors' forecasts up to 20 February 2024 indicate that the club will be able to maintain liquidity and a surplus over its Solvency Capital requirement, and will be able to continue to trade as a going concern. Even in severely stressed scenarios, the conservative investment portfolio held by the club and the comprehensive reinsurance arrangements in place will limit the extent of any downside risk. The directors continue to monitor the position in case any stressed scenarios become more likely than is judged to be the case currently.

14. Investment in group undertakings and participating interests

	Classes of shares held	Year end	Principal business	% holding Group	% holding Company
Standard Reinsurance (Bermuda) Limited, incorporated in Bermuda	Ordinary	20 Feb	Reinsurance	100	100
The Standard Club UK Ltd, incorporated in the United Kingdom[1]	Note 1	20 Feb	Marine mutual	75	75
The Standard Club Asia Ltd, incorporated in Singapore	Ordinary	20 Feb	Marine mutual	100	20
The Standard Club Ireland DAC, incorporated in Ireland	Ordinary	20 Feb	Marine mutual	100	100
Hydra Insurance Company Limited (Standard Cell), incorporated in Bermuda	Preferred	20 Feb	Reinsurance	100	100
Standard House Limited, incorporated in Bermuda	Ordinary	20 Feb	Property investment	100	–
Standard Hydor AS, incorporated in Norway[2]	Ordinary	31 Dec	Lloyd's Coverholder	50	50
Charles Taylor Managing Agency Limited, incorporated in the United Kingdom[3]	Ordinary	31 Dec	Lloyd's Managing Agent	49.9	49.9
The Standard Club Corporate Name Limited, incorporated in the United Kingdom[4]	Ordinary	31 Dec	Lloyd's Corporate Name	100	100
The Strike Club Europe Limited, incorporated in the United Kingdom[5]	Ordinary	31 Jan	Marine mutual	100	–
The Shipowners' Mutual Strike Insurance Association Europe, incorporated in Luxembourg	Note 2	31 Jan	Marine mutual	100	–
Standard Services Limited[6]	Ordinary	20 Feb	Service company	100	–

1 75% of voting control, no participating interest. No minority interest is shown in the group financial statements because the affairs of each class are managed on a unified basis throughout the group.
2 This holding was sold on 4 September 2020.
3 This holding was sold on 9 March 2020.
4 This holding was sold on 9 March 2020.
5 The Strike Club Europe Limited is a dormant company limited by guarantee and has $nil net assets.
6 Standard Services Limited was incorporated on 4 June 2020 and is a service company.

All subsidiary undertakings are consolidated in the financial statements.

15. Debtors arising out of direct insurance operations

Group	2021 US$m	2020 US$m
Members	**76.0**	74.2
Intermediaries	**0.1**	12.1
Reinsurers – Pool	**21.9**	17.3
Reinsurers – other	**1.1**	10.6
Debtors arising out of direct insurance operations	**99.1**	114.2

16. Other creditors including taxation and social security

Group	2021 US$m	2020 US$m
Corporation tax	**–**	–
Trade creditors	**0.7**	6.8
Other creditors	**6.7**	7.0
Other creditors including taxation and social security	**7.4**	13.8

Notes to the financial statements continued

17. Future commitments

As part of the plans to bring management of the club in-house, the club has committed to purchasing a number of Charles Taylor companies that currently provide management services to the Standard Group. Subject to certain conditions being satisfied, that transaction is expected to take place on or around 20 August 2021.

18. Letters of credit, bail bonds and guarantees

In the normal course of business, the club has provided letters of credit and guarantees on behalf of its members. These are secured by investments lodged with the club amounting to $26.5m (2020: $31.3m). The Standard Club Ltd has a parental guarantee in place with its subsidiaries Standard Reinsurance (Bermuda) Limited, The Standard Club UK Ltd and The Standard Club Asia Ltd.

19. Related party transactions

The club, which is limited by guarantee, has no share capital and is controlled by the members, who are also its insureds. All members enter into insurance contracts negotiated with the club's managers on arm's length terms. These transactions are therefore with related parties and are the only transactions between the club and the members. The aggregate of these transactions is disclosed in these financial statements.

All the directors (except four: one senior executive and employee of the managers; one Bermudian resident director; and two independent directors) are representatives or agents of member companies and other than the insurance and membership interests of the directors' companies, the directors have no financial interests in the club.

The club's managers' parent company, Charles Taylor plc, was acquired by Lovell Minnick Partners LLC and became Charles Taylor Limited on 21 January 2020. The acquisition did not immediately impact the current arrangement with the club and the managers continued to provide services according to the management services agreement currently in place. However, on 29 May 2020, Charles Taylor and Standard Club announced their decision to work together to create a new operating model for the club whereby core management operations would be performed by an 'in house' manager owned by Standard Club. Under the new model, the same individuals and teams will continue to service members' and brokers' needs and carry out core management, underwriting, claims handling, loss prevention, finance, reserving and control activities, but as part of the club's own organisation. Charles Taylor will provide a range of support services including information technology, investment management, internal audit and other support services under multi-year contracts.

As part of the process of bringing management in-house an advance party of key management staff transferred employment from Charles Taylor to The Standard Club in August 2020. The total cost of remuneration of those staff in the year was $3.5m (2020: $zero).

The club paid management fees to the managers for the year of $60.7m (2020: $55.3m).

20. Rates of exchange

	2021	2020
The following rates of exchange were applicable to US$1 at 20 February 2021 (2020)		
Australian dollar	**1.29**	1.49
Bermudian dollar	**1.00**	1.00
Canadian dollar	**1.27**	1.32
European euro	**0.83**	0.92
Japanese yen	**105.06**	109.77
Singapore dollar	**1.32**	1.39
Swiss franc	**0.89**	0.98
UK pound	**0.72**	0.77

Appendix I (unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I summary

	Appendix reference	Funds available and estimated future supplementary calls US$m	Estimated net claims and forecast of unreported claims US$m
At 20 February 2021			
Total closed policy years	III	**272.0**	**272.0**
Open policy years			
2020/21	II	157.4	157.4
2019/20	II	110.9	110.9
Total of open policy years		**268.3**	**268.3**
Reserves			
Contingency reserve	III	219.0	–
Statutory reserve		0.2	–
Total reserves		**219.2**	**–**
Funds available for outstanding and unreported claims		**759.5**	**540.3**

These appendices should be read in conjunction with the notes on the preceding pages.

Appendix II (unaudited)
Funds available for outstanding and unreported claims

Class 1 – P&I open policy years

		2020/21 One year from inception US$m	2019/20 Two years from inception US$m	2018/19 Three years from inception US$m
At 20 February 2021				
Calls and premiums – current year		240.8	(1.4)	–
Calls and premiums – prior year		–	241.6	255.8
Less: claims, reinsurance premiums, administration expenses and tax		(154.2)	(203.0)	(276.8)
		86.6	37.2	(21.0)
Investment income to date		37.1	67.5	9.6
Funds available	A	**123.7**	**104.7**	**(11.4)**
Estimated known outstanding claims and forecast of unreported claims		218.2	147.4	170.6
Estimated reinsurance recoveries		(60.8)	(36.5)	(132.5)
	B	**157.4**	**110.9**	**38.1**
Anticipated deficit at closure	A-B	(33.7)	(6.2)	–
Deficit on closure of 2018/19 year		–	–	(49.5)
Transferred from contingency reserve at 20 February 2020		–	9.3	50.5
Transferred from contingency reserve at 20 February 2021		33.7	(3.1)	(1.0)
		–	–	–
Product of a 10% supplementary call		**18.1**	**18.2**	**19.3**

Notes
Estimated known outstanding claims and the forecast of unreported claims of open years (excluding the 2018/19 year which was closed at the club's meeting on 20 May 2021) include the club's share of other clubs' Pool claims amounting to $90.1m.

Estimated reinsurance recoveries show the reinsurance recoveries to be made on reinsurance contracts net of provision for doubtful recoveries, and include anticipated pool recoveries of $60.1m, recoveries from group excess of loss reinsurers of $nil, and recoveries from other reinsurers of $37.2m.

Investment income
All investment income received in the year has been allocated to the 2020/21 policy year.

Fixed premium and non-poolable business
Of the $241m of calls and premiums on the 2020 P&I policy year, $60m represents non-poolable business which is all fixed premium.
The comparative figures for 2019 are $241m and $59m, and for 2018 are $260m and $67m.

Appendix III (unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I closed policy years and contingency reserve

	Closed policy years		Contingency reserve	
	2021 US$m	2020 US$m	**2021 US$m**	2020 US$m
At 20 February 2020				
Balance available at 20 February 2020 (2019)	**268.7**	275.3	**242.0**	386.6
Transfers on closure of 2018/2019 (2017/2018) policy year	**38.1**	64.2	**1.0**	5.6
Premium adjustment	**–**	–	**–**	(0.2)
Claims paid net of reinsurance recoveries	**(41.2)**	(200.6)	**–**	–
	265.6	138.9	**243.0**	392.0
Transfer of anticipated deficit on open years	**–**	–	**(30.6)**	(20.2)
Other charges including value adjustments	**–**	–	**(3.8)**	–
(Improvement)/deterioration of claims in closed policy years	**(10.4)**	129.8	**10.4**	(129.8)
Balance available at 20 February 2021 (2020)	**255.2**	268.7	**219.0**	242.0

Closed policy years

The balance available for outstanding claims of closed policy years (including the 2018/19 year which was closed at the club's meeting on 20 May 2021) includes a provision for incurred but not reported claims (IBNR) of $30.2m (2020: $39.8m) and is shown net of Pool recoveries of $125.6m (2020: $20.3m), recoveries from group excess of loss reinsurers of $24.7m (2020: $11.3m) and other non-group reinsurance recoveries which amount to $43.6m (2020: $20.8m). The balance available including IBNR includes $81.9m (2020: $62.6m) in respect of the club's share of other clubs' outstanding Pool claims.

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* Information correct at the time of publication

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The Standard P&I Club

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