The Standard Club Ltd

Review of the year

2013

The Standard

The Standard Club is a mutual insurance association, owned by its shipowner members and controlled by a board of directors drawn from the membership. The club insures shipowners, operators and charterers for their liabilities to third parties arising out of ship operations.

The Standard prides itself on the quality of its service to its members, and sets great store on responsiveness and support at all times, especially in times of crisis. Just as important is the emphasis on financial strength and stability through the club's strong balance sheet and financial resilience.

www.standard-club.com

Financial highlights 2013

Calls and premiums

$294m

2012: $286m

Excess of income over expenditure for the year

$10m

2012: $3m

Free reserves

$363m

2012: $353m

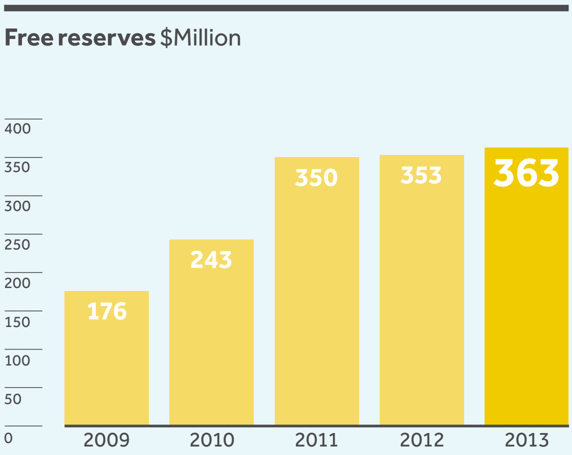
Total balance sheet funds

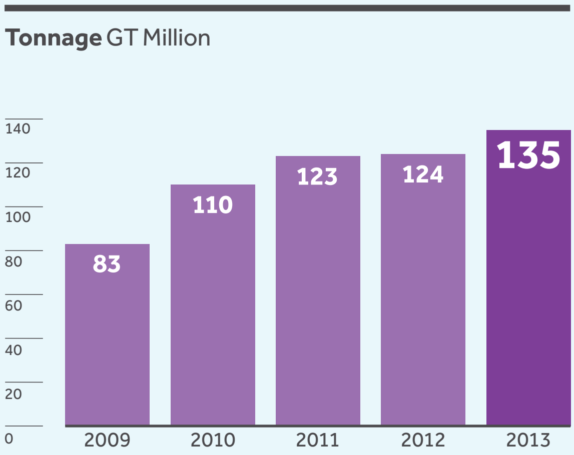
$917m

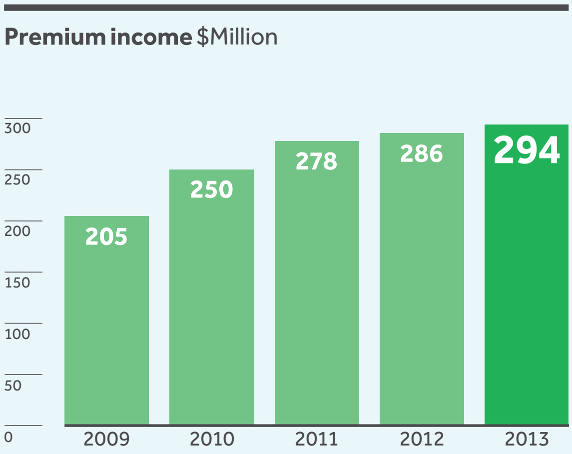
2012: $876m

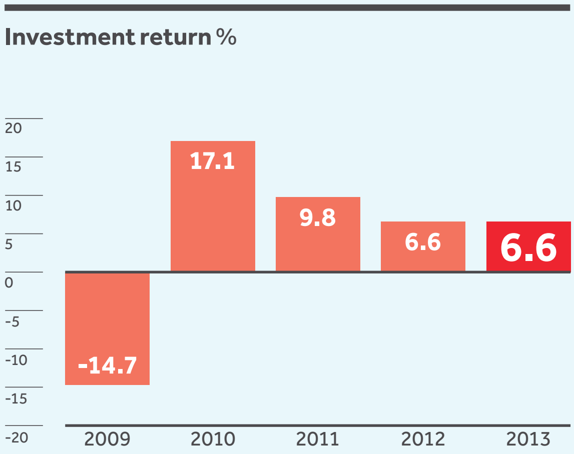
	2013 US$m	2012 US$m
Results for the financial year ended 20 February 2013		
Calls and premiums	**294**	286
Reinsurance premiums	**(63)**	(65)
Calls and premiums net of reinsurance	**231**	221
Total claims net of reinsurance and operating expenses	**(271)**	(265)
Balance of technical account for general business	**(40)**	(44)
Net investment income	**50**	47
Excess of income over expenditure for the year	**10**	3
Outstanding claims liabilities		
Estimated known outstanding claims net of all recoveries	**376**	351
Incurred but not reported claims (IBNR)	**178**	172
Total estimated claims liabilities	**554**	523
Funds available for claims		
Open policy years	**299**	275
Closed policy years	**255**	248
Free reserves	**363**	353
Total balance sheet funds	**917**	876

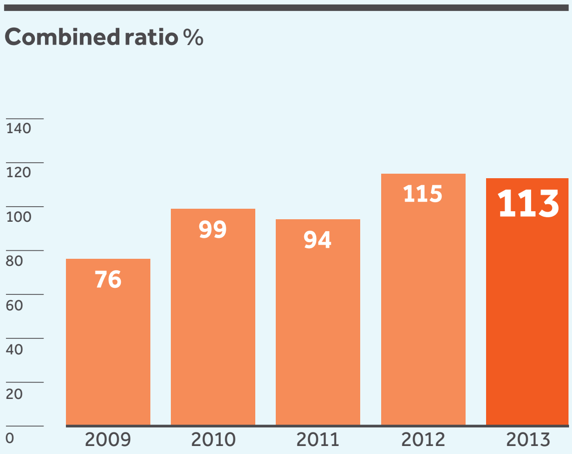
The club at a glance

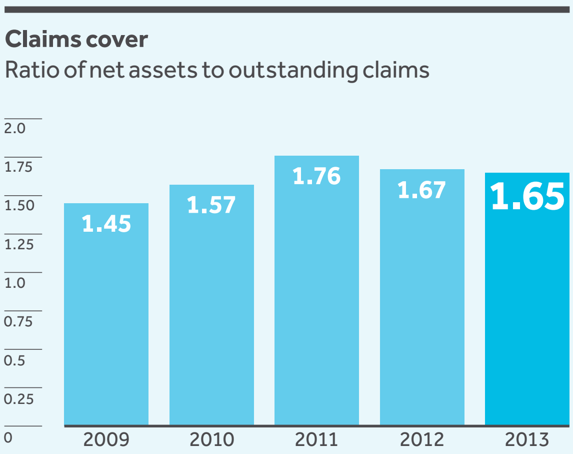




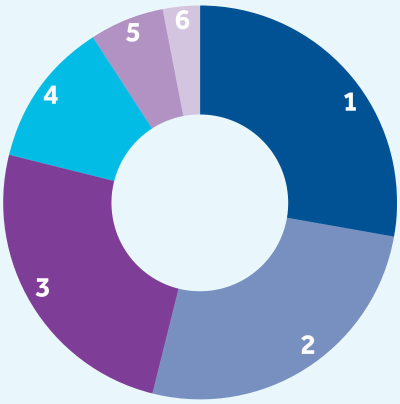






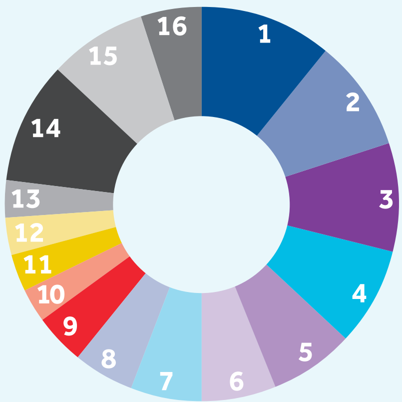


Ship types entered
Owned tonnage



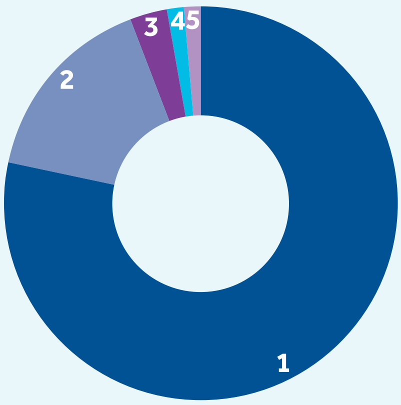
1	Tankers	**28%**
2	Dry bulk	**26%**
3	Container & general cargo	**25%**
4	Offshore	**12%**
5	Passenger & ferry	**6%**
6	Other	**3%**

Country of management
Owned tonnage



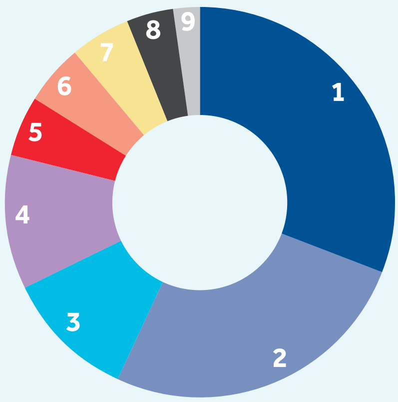
1	Greece	**11%**
2	Japan	**9%**
3	USA	**9%**
4	Germany	**8%**
5	Italy	**7%**
6	Canada	**6%**
7	Republic of Korea	**6%**
8	Singapore	**5%**
9	United Kingdom	**4%**
10	The Netherlands	**3%**
11	Qatar	**3%**
12	Monaco	**3%**
13	Turkey	**3%**
14	Rest of World	**10%**
15	Rest of Europe	**8%**
16	Rest of Asia	**5%**

Asset allocation
As at 20 February 2013



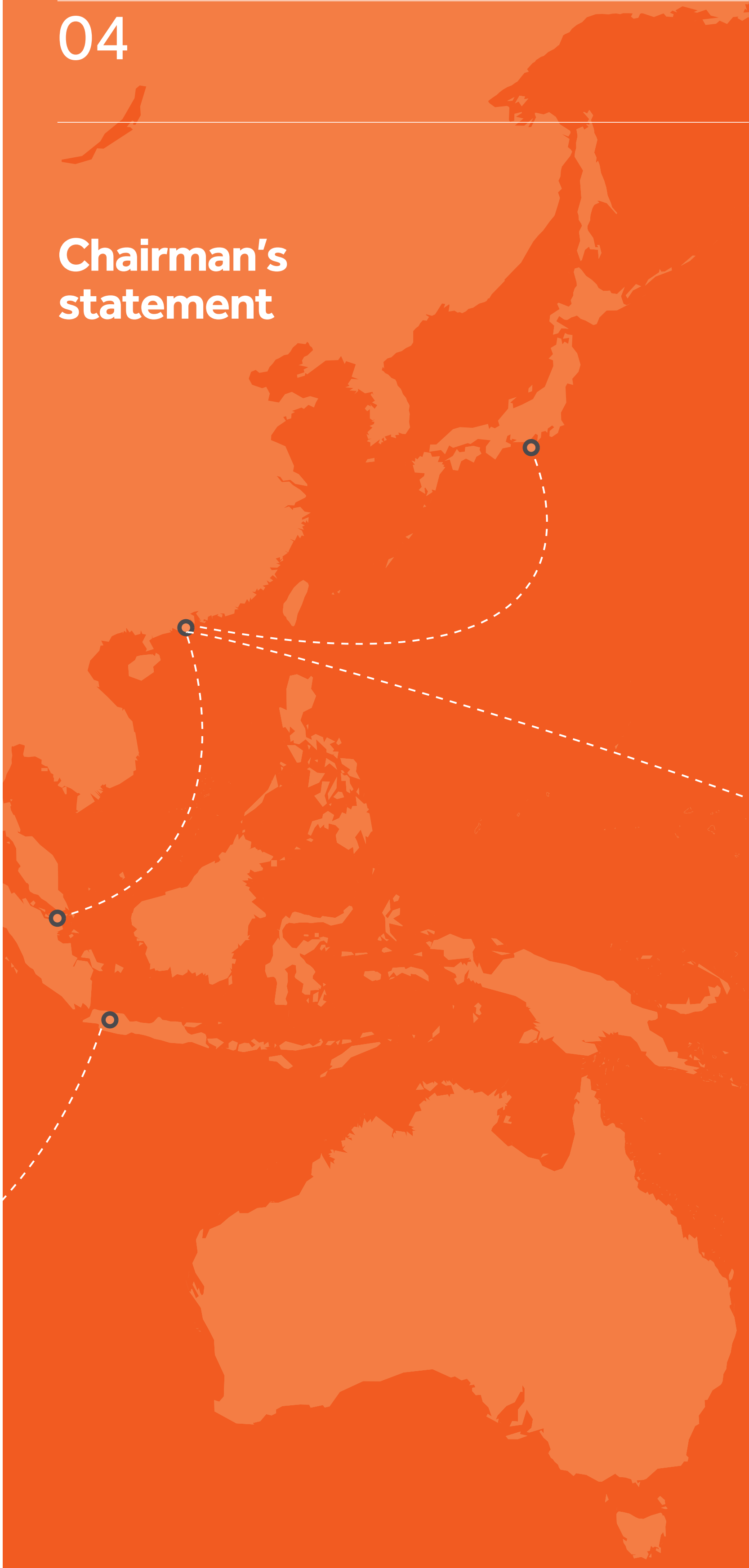
1	Bonds	**79.3%**
2	Equities	**15.9%**
3	Alternatives	**3.0%**
4	Gold	**1.2%**
5	Cash	**0.6%**

P&I claims by type
2008–2012 capped at $8m



1	Cargo	**31%**
2	Personal injury	**26%**
3	Collision	**11%**
4	Fixed and floating objects	**11%**
5	Damage to hull	**5%**
6	Fines	**5%**
7	Pollution	**5%**
8	Wreck	**4%**
9	Other	**2%**

Chairman's statement



I am pleased to report that the club remains in good health and we are again reporting an increase in the free reserves. This time it has been a modest increase and it has been achieved, as before, by a good investment return producing a useful contribution in a challenging underwriting environment.

The club's key focus is on support for its members. This is evidenced in a number of ways, reflected in the club's approach to underwriting, claims and service.

A decision was taken last October to moderate the club's underwriting needs by setting a general increase lower than technically required in acknowledgement of the continuing tough market conditions in which members are operating. This club's average premium per ton is lower than that in the P&I market as a whole, and, while that is a crude measure, it is evidence of the value for money that the club seeks to deliver. We believe that it is right for the club to seek to balance the needs of the members individually with those of the club as a whole. During the year the club's tonnage continued to grow at a steady pace, increasing slightly our market share, but consistent with our focus on quality of operation and our modest appetite for growth.

The approach that we take to claims reflects the fact that they are the essence of what the club is all about. It is when members have casualties that they most need the club's support, and we seek to help them to the maximum extent that we are able, both in terms of the approach to how claims are handled and in the reimbursement of eventual losses.

We believe that members value the service that the club provides, and we see it as part of our strategy to see where we can deliver additional covers and services to members to complement their core P&I cover.

We look to see where we can add value and reduce cost in our members' activities. This includes the service that the club provides ancillary to the financial indemnity involved in cover for claims incurred by members. Our essential approach is to see how we can solve members' insurance problems and needs efficiently. One example of this is the provision of insurance certification to allow members to evidence financial security, an increasingly pervasive aspect of international liability regimes. The clubs are well-placed to be able to assist in this, provided there is the will to do so, and, in this respect, we believe that minority interests should be assisted as well as the dominant ones, and wherever we can we will reduce the frictional costs of these arrangements.

We believe that members value the service that the club provides, and we see it as part of our strategy to see where we can deliver additional covers and services to members to complement their core P&I cover from the club. We have launched several new covers this year which have proved to be of interest and value to members and we shall continue to see where we add value, consistent with our core aim of delivering good value, sustainable P&I insurance to the membership.

The structure and associated governance arrangements that we put in place last year have proved to work effectively and have provided members with a more cost-effective and robust platform for the club's operations. There is always more to do to continuously improve governance and controls, but I am satisfied that the club operates in a way that is sustainable and protects members' interests. The continued delay in the implementation of Solvency II is in some ways helpful, but introduces uncertainties that are unwelcome; however, it does not seem that the new solvency regime will be in force for at least another two years. In the meantime, we continue to manage the club so as to ensure that the club will be compliant when (or if) the regime eventually enters force.

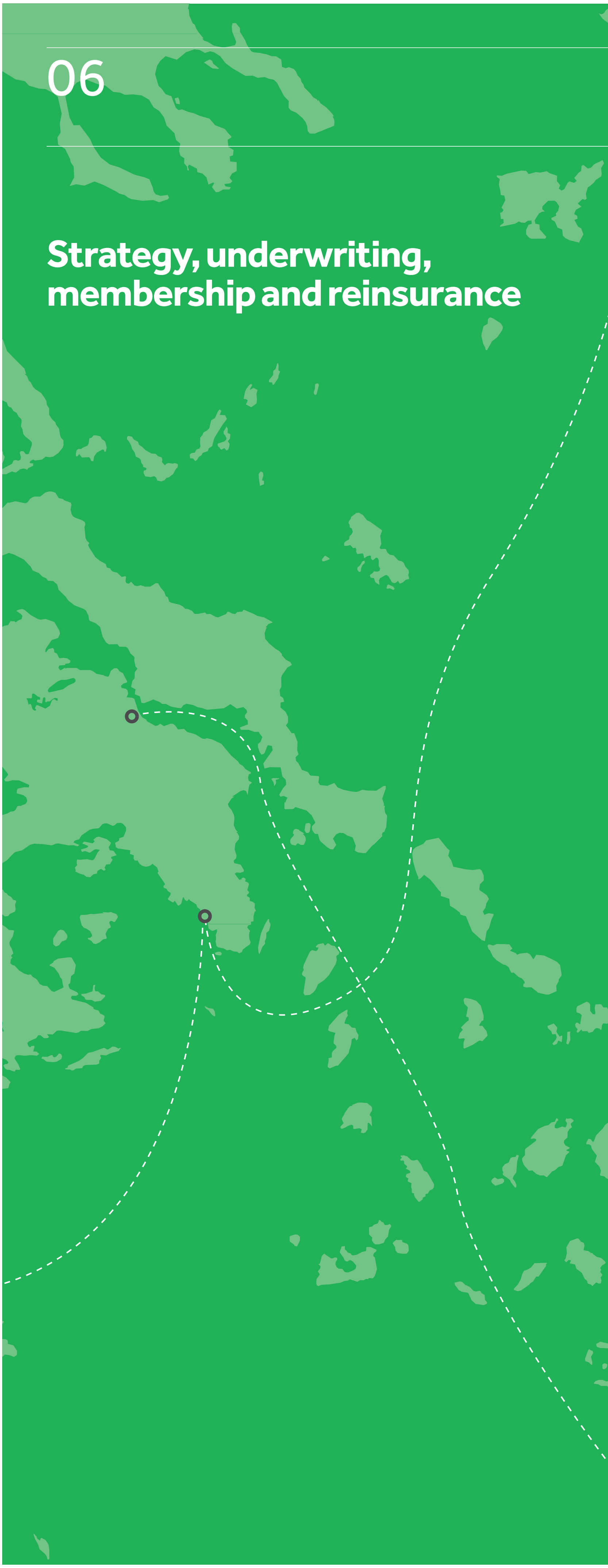
Although the underwriting result for the year was negative, this was to some extent caused by one of the worst years on record in the International Group's Pool, although we did not ourselves experience as many large claims during the year as we might have expected. Nonetheless we continue to see liability claims inflation outstripping underlying inflation, and there is some evidence that current shipping market conditions may be exacerbating the incidence of claims.

Once again we can report an investment return that is among the best in our industry, and we rank highest over most periods spanning the last 15 years. The club's investment portfolio is well-diversified and is positioned defensively, but it has again out-performed its benchmark. The investment return provides an important subsidy to premium income and demonstrates that members' funds are being utilised efficiently.

During the year, we said farewell from the board to Bill Thomson, after many years' valuable service to the club, and who sadly passed away very soon after his retirement. We have welcomed Barnabas Hurst-Bannister, Stefano Goberti, Emanuele Lauro and Yoshihiko Nakagami, and are already benefiting from their contributions to the club's affairs.

Ricardo Menendez Ross
Chairman

Strategy, underwriting, membership and reinsurance



Club strategy

The board kept the club's strategy under review during the year. The strategy is to deliver on the club's core objectives:

- sustainable P&I cover at reasonable cost
- first-class service to members
- financial strength
- growth, consistent with quality

In addition, the board believes that the club should pursue opportunities to extend the range of covers offered to the club's members, provided that this does not undermine the solid financial attributes of the club, and that any development is consistent with the club's existing emphasis on the quality of its members' operations and with the high standard of service provided to them.

New covers

During the year, the club has launched new covers for Kidnap and Ransom, Traders and Intermediaries risks. We are pleased that good interest has been shown in these new products. We have also recently launched a new Standard Club Hull product, combining the relationships, knowledge and skills resident within the club and its managers with hull insurance capacity provided by leading London market hull underwriters. We believe that club-type service allied to existing hull underwriting expertise will be an attractive option for both members and insurers.

Underwriting result

The financial year had an overall underwriting deficit with a combined ratio of 113%. A significant contributor this year to the underwriting deficit is the record level of Pool claims experienced in the International Group in the most recent policy year. The incidence and value of such claims considerably exceeded the club's forecast at the inception of the year.

Claims in the closed years generally remain stable. The 2010/11 policy year was closed at the 10 May 2013 board meeting with a combined ratio of 100%. However, in general, in recent years premium levels have been insufficient to cover the cost of claims and other outgoings. This is reflected in underwriting deficits projected for the 2011/12 and 2012/13 policy years and also, at the present time, for the current year. Nevertheless, the original Estimated Total Premium is not expected to be exceeded in any of the open years.

Great attention is paid to ensuring that the membership continues to meet the club's underwriting criteria from an operating quality perspective.

Membership and tonnage

The club's tonnage grew from 124 mgt at 20 February 2012 to 135 mgt at 20 February 2013, a 9% year-on-year increase, although the overall tonnage was largely unchanged on the renewal date itself this year.

During the year and at renewal this year 64 new members from 15 countries joined the club, representing all sectors of the shipping industry. Overall, the club has 755 member groups entered in its P&I class (including 448 in the small ships sector in the Standard London class).

The club monitors the spread of risk represented by the membership, which is measured in a variety of ways, to ensure that no sector by nationality, trade, ship type or premium type, or single member, becomes overweight relative to the whole.

Key performance indicators

The board monitors the progress of the club by reference to the following KPIs:

Key performance indicators	2013	2012
Tonnage gt m	**135**	124
Gross premium $m	**294**	286
Free reserves $m	**363**	353
Claims cover[1]	**1.65**	1.67
Combined ratio[2] %	**113**	115
Investment return[3] %	**6.6**	6.6

1 Ratio of net assets to outstanding claims
2 The ratio of total expenditure to total income, as set out in the technical account/general business section of the income and expenditure account. A ratio below 100% indicates an underwriting surplus
3 Return for 12 months to 20 February

Ship quality, operational standards and loss prevention

Great attention is paid to ensuring that the membership continues to meet the club's underwriting criteria from an operating quality perspective. The club continues to invest in loss prevention, including the Member Risk Review and survey programmes, to ensure the quality of risks insured.

The club's Safety and Loss Advisory Committee, which met three times this year, and the Standard Asia Safety and Loss Committee, which met twice, continue to make a strong contribution to the club's risk management and loss prevention guidance.

The Member Risk Review programme has been successful in enabling the club to assess the risk that new members present and better understand their operations. It also provides an opportunity for the managers to meet members' senior technical and operational representatives. As in previous years, a big concern continues to be the 'human element', and human error remains a major factor in many claims. Poor training, lack of management guidance or supervision, too-rapid promotion, complacency and a failure to follow procedures continue to cause accidents.

European Commission enquiry/IGA

As reported to members during the year, the EC case team decided to close its file on its investigation into the IG system and the operation of the IGA. The IG has, however, taken the opportunity to make some changes to the IGA, particularly in relation to release calls, that will assist in providing greater transparency to members.

TS21

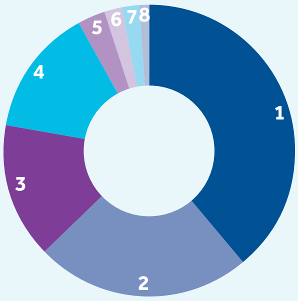
The club's joint venture with Tokio Marine and Nichido Fire, TS21, continues to prosper with increasing membership and satisfactory underwriting results. We are pleased that the club's Japanese membership now has board representation through the appointment of Mr Yoshihiko Nakagami.

Defence class

Defence continues to be a difficult class to underwrite successfully but the club is aware of the benefits that shipowners derive from Defence class support in a very difficult freight market. Claims levels remain high, necessitating a commensurate general increase in premiums, but there are very faint signs of moderation in claims activity.

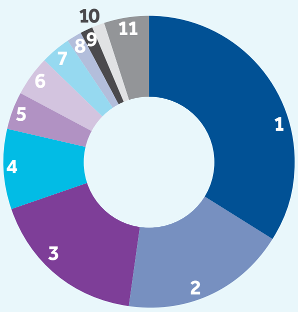
London Class
Ship types entered, owned tonnage

1	Short sea – dry	**39%**
2	Dry barge	**24%**
3	Tank barge	**15%**
4	Short sea – wet	**14%**
5	Tugs, pushboats	**3%**
6	Passenger	**2%**
7	Work	**2%**
8	Specialist	**1%**



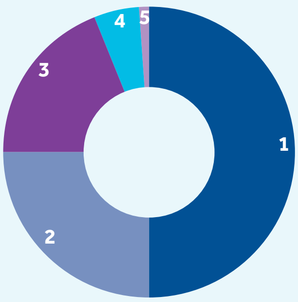
London Class
Country of management, owned tonnage

1	Russia	**35%**
2	The Netherlands	**19%**
3	Germany	**18%**
4	Turkey	**9%**
5	Hungary	**4%**
6	Belgium	**4%**
7	Slovakia	**3%**
8	Italy	**1%**
9	United Kingdom	**1%**
10	Baltic States	**1%**
11	Rest of Europe	**5%**



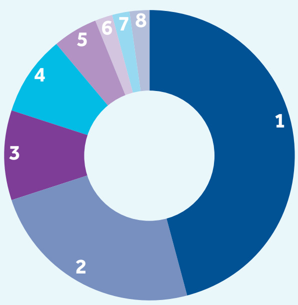
Standard Asia
Ship types entered, owned tonnage

1	Dry bulk	**50%**
2	Tanker	**25%**
3	Container & general cargo	**19%**
4	Offshore	**5%**
5	Other	**1%**



Standard Asia
Country of management, owned tonnage

1	Republic of Korea	**46%**
2	Singapore	**24%**
3	Hong Kong	**10%**
4	Indonesia	**9%**
5	Taiwan	**5%**
6	Australia	**2%**
7	Thailand	**2%**
8	Japan	**2%**



London class
The London class specialises in insuring small ships operating in the inland waterways system and the harbours and coastal waters of Europe. The specialised knowledge of the liabilities and legal regimes of this class of business that has been built up over many years of experience allows members to benefit from a service tailor-made to their particular operations. London class business is underwritten in a fiercely competitive environment, but the underwriting results continue to demonstrate a good degree of stability. The London class benefits from a specific reinsurance programme consisting of quota-share and excess of loss elements provided by the club's main P&I class.

Standard Asia
Standard Asia continues to be a success and the club's Asian business has increased again this year. Growth has come mainly from existing members acquiring new tonnage, but there has also been some completely new business.

Standard Offshore
The offshore membership of the club has continued to grow. Market conditions, however, remained challenging as new entrants in the market continue to provide robust competition. Despite a very tough renewal, the club was successful in achieving the continued placement of its non-Pool reinsurance contract up to a limit of $1bn.

War Risks class
The War Risks class provides war risks cover principally for British flagged and British controlled ships, although in recent years cover has been extended to non-British flagged ships. The class is a member of the Combined Group of War Risks Associations whose primary role is to arrange collective reinsurance for member clubs through the Pool and reinsurance arrangements.

Club retention and the Pool

The individual club retention increased to $9m from 20 February 2013.

The Pool retention increased to $70m, and the Pool now has three layers: $9m to $45m; $45m to $60m; and $60m to $70m. Each layer has a different contribution formula. The International Group has continued its review of the pooling mechanism, aimed at ensuring fairness between clubs and ensuring that exposures generated are manageable. As a result, some adjustments have been introduced to the contribution calculation systems for the various layers.

The International Group reinsurance programme

This year's renewal was an extremely tough one, with the overall premium payable increasing by around 40%. Passenger ships were subject to a particularly high increase in their share of the overall cost. There was no change to the essential structure of the programme this year, other than the retention increases referred to above, and Hydra, the IG's captive, took an increase in its aggregate retention under its own reinsurance contract from $250m to $300m.

Non-Pool reinsurance programme

A large proportion of the club's members benefit from the club's non-poolable covers, but the biggest users of the non-Pool programme are those involved in the offshore energy and specialist sectors, whose risks are largely excluded from the Pool, and the club's chartered business. This year's renewal took place against the background of a difficult reinsurance market with premium increases required, but the club was able to agree renewal with the same maximum limit of $1bn.

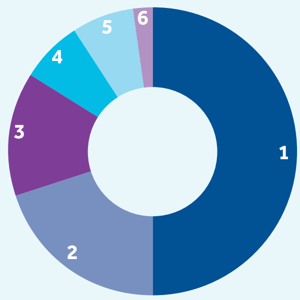
Retention reinsurance

The club has some protection against the larger claims within its retention. As a general principle, however, the club's preference is to buy reinsurance that will respond in the short term – that is, high-level excess of loss for large claims – rather than covers that will only mature into payable claims from reinsurers in many years' time, such as low-level stop-loss.

Although the club would prefer to pitch its reinsurance buying at a level where the club does not expect to make claims, there have nonetheless been losses to reinsurers on some contracts. The club is very grateful for the support shown by its reinsurers, and the club values highly the relationship that the club has with them.

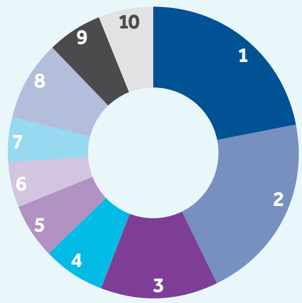
Standard Offshore
Ship types entered, owned tonnage

1	Production	**50%**
2	Installation/ construction	**20%**
3	FSO	**14%**
4	Drilling	**7%**
5	Supply support	**7%**
6	Accommodation	**2%**



Standard Offshore
Country of management, owned tonnage

1	The Netherlands	**22%**
2	Monaco	**21%**
3	Italy	**13%**
4	Denmark	**7%**
5	United Kingdom	**6%**
6	Singapore	**5%**
7	USA	**5%**
8	Rest of World	**9%**
9	Rest of Asia	**6%**
10	Rest of Europe	**6%**



Claims, legal and service

The claims environment

Although in the past year the club has not experienced quite so many large claims as in recent years, we have continued to experience claims inflation beyond increases in commodity prices. Levels of compensation for injury and death continue to rise throughout the world – dramatically so in some emerging markets. New environmental legislation imposes higher levels of fines and more onerous clean-up requirements in many parts of the world. Wreck removal expenses have risen dramatically in recent years as technological advances facilitate ever more ambitious operations in challenging environments and at water depths that would have been impossible until fairly recently.

The emergence of new risk scenarios has always been a feature of the P&I claims environment. New trends in claims are closely monitored and we are committed to the club's loss prevention programme which is designed to assist members in addressing new legal or operational challenges.

Notwithstanding the continued difficult claims environment facing the club, claims projections for all past policy years remain fairly stable.

Pool claims

There were 20 Pool claims in the 2012/13 year notified to the IG by 20 February 2013. The aggregate value of them within the Pooling layer amounted to $369m. These figures compare to 12 Pool claims valued at $231m at the same stage for the previous year.

Piracy

Piracy remains a problem; although attacks in the Indian Ocean have reduced in the last year, attacks in West Africa have increased. The club believes that it has a role to play in combating and dealing with the consequences of piracy and now offers kidnap and ransom cover to its members. At the same time, best management practice advice is being disseminated, detailing the measures that can be taken to successfully evade and resist pirate attacks. The club is also advising this is consistent with national and flag requirements.

Sanctions

The EU increased sanctions against Syria and continues to ban the import of crude oil or petroleum products from Syria into the EU. Sanctions against Iran have also been strengthened. The list of EU designated entities continues to include Islamic Republic of Iran Shipping Lines (IRISL), Iranian politicians, ministries, banks, oil and gas companies and Iranian companies engaged in drilling, refining and distribution (including the National Iranian Tanker Company (NITC)). The US Treasury Department's Office of Foreign Assets Control continues to add individuals and entities to its list of designated entities, including foreign companies and ships associated with NITC and IRISL. The new US Iran Threat Reduction and Syria Human Rights Act of 2012 penalises owners and insurers of ships used to transport crude oil from Iran to another country, or those who own or operate ships in a manner to conceal the provenance of Iranian crude or refined petroleum products. Club rules continue to state that no claims will be covered if they arise out of an unlawful, prohibited or sanctionable carriage, trade, voyage or operation or if the provision of insurance is unlawful, prohibited or sanctionable.

Blue Cards and evidence of financial security

Although we reported last year that there was no appetite within the IG to extend P&I cover to include primary P&I war risks, we are pleased that during the year we have been able to ensure that the club provides its passenger ship members with the blue cards necessary to evidence insurance cover under the EU's Passenger Liability Regulation, including for war (or, rather, terrorism) risks. The club considers it to be an article of faith that it exists to support its members and to find solutions to their liability insurance needs. We do not believe that the solution found for the provision of blue cards was the most cost-effective that might have been possible, but was the best possible available for the time being, given constraints in the P&I market.

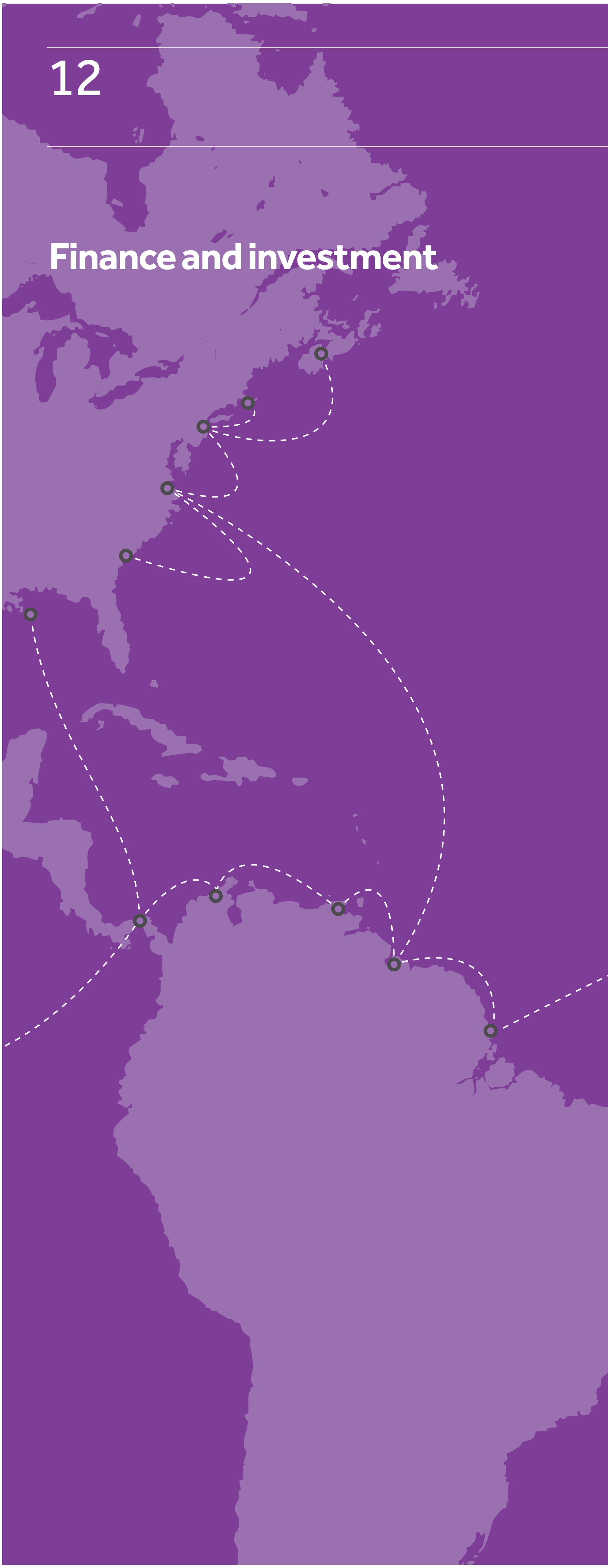
The club will also review generally the provision of evidence of financial security for all members in all trades to ensure that members benefit from the most cost-effective solutions.

Service quality

The quality of the service offered to members and members' satisfaction with the club are priorities for the board. Members are looked after by dedicated teams, each of whose responsibilities include underwriting, claims management, documentation and credit control. These teams are intended to give members the focused and personal attention that ensures that an individually tailored, solution-based approach is brought to members' insurance requirements. The managers' network of offices in London, Bermuda, New York, Singapore, Hong Kong, Piraeus and Tokyo – supplemented by assistance from the managers' offices in other locations – forms an integrated management structure and enables the club to provide on-the-spot service delivery. Emphasis is placed on strong and constructive personal relationships with members and good teamwork.

The board monitors club performance generally by reference to key performance indicators, reviewed at each board meeting, and the managers' service levels are measured at least once a year against specific criteria identified by the board and set out in a service level agreement.

The club is committed to recruiting the highest quality people and providing them with ongoing development in order to deliver outstanding service to the membership.



Finance and investment

Free reserves, solvency and capital

The club's free reserves increased to $363m at the year end (2012: $353m). The free reserves represent the surpluses built up out of open and closed policy years, and the core capital of the club. The increase reflected a good investment return offset by an underwriting deficit.

The board reviewed the strategic purposes and appropriate level for the free reserves and agreed that the level of free reserves should be sufficient to meet the following criteria:

1. to ensure that the club has sufficient capital to reflect its business risks and to comply with regulatory requirements;
2. to 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 stressed scenarios;
3. to 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; and
4. to maintain an S&P or similar rating of A or above.

The board recognises the need to ensure that the free reserves reflect the club's size. Both the tonnage and the free reserves have increased modestly this year. The reserves are within the target strategic range set by the board. This is set by reference to various solvency tests, and the board will ensure that the free reserves continue to be aligned with the volume of, and 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.

The club's subsidiary, The Standard Club Europe Ltd, is continuing to make good progress towards compliance with Solvency II. During the year, the implementation date for Solvency II was deferred and it looks unlikely that it will come into force before 2016.

The club has continued to develop its internal model in order to enable it to make assessments of its own capital needs as well as giving it the option of seeking to use it, in part, to assess its capital needs for regulatory purposes. The internal model is used to inform important business planning issues including setting the renewal pricing strategy, reinsurance purchasing and establishing projections of the club's prospective result against which actual performance can be measured.

The model, from a regulatory perspective, is intended to be used primarily for insurance risk (underwriting risk, reserve risk and reinsurer counterparty failure risk) rather than for market risk (that is, investment and related risks) or operational risk; although all risks are modelled for internal business monitoring and planning purposes.

The ability of the club to make supplementary calls remains an important part of the resources available to meet its capital requirements. The Solvency II Framework Directive envisages that mutual insurers, such as the club, will be able to apply to their regulator to have the right to make supplementary calls included as tier 2 capital.

Release calls

An actuarial assessment is being undertaken to establish the spread of possible results for the club and their probabilities, allowing for variations arising from insurance (comprising underwriting and reserve) risk, market risk, credit risk, liquidity risk, and operational risk. Applying the spread of results to the current level of free reserves establishes a probability that free reserves might fall to or below the point where a supplementary call may be required. The release will be set by reference to the average supplementary call that might be needed, weighted by the probability of it arising. The results of the assessment will be published on the club's website.

Investments

In the year to 20 February 2013, the club's investment assets, excluding Standard House, returned approximately 6.6%. This estimated return is the combined return of the Standard family of clubs for the whole financial year.

The portfolio's strategy is designed to ensure that risk is kept within the board's appetite. The goal is to have a sufficient spread of assets to allow value to be achieved whilst at the same time diversifying risk.

As at 20 February 2013, the investment portfolio was allocated approximately as follows:

- Sovereign bonds including bills 50.9%
- Corporate bonds 28.4%
- Equities 15.9%
- Alternatives 3.0%
- Gold 1.2%
- Cash 0.6%

The approximate currency allocation at 20 February 2013 was:

- North American currencies (including gold) 69.8%
- European currencies 8.9%
- Sterling 11.2%
- Australian dollar 0.1%
- Asian currencies 9.3%
- Other currencies 0.7%

The main change in asset allocation over the year was the decrease in the cash holding along with a small decrease in the equity allocation. There was an offsetting increase in the allocation to bonds including sovereign bills, emerging market bonds, inflation-protected bonds and corporate credit. In terms of currencies, the allocation to the Eurozone and, to a lesser extent USD, was decreased whilst that to sterling and Asian currencies was increased.

Charles Taylor

The Standard

www.ctplc.com

www.standard-club.com

Looking forward to 2014

While the club is in robust health, we believe that 2013 will be a challenging year. We forecast another difficult underwriting year; that large claims, including Pool claims, will remain at historically high levels; and that repeating the strong investment performances that we have achieved in recent years will be difficult.

Nonetheless, the club is committed to supporting its members in every way that it can, not just by providing financial security through insurance for members' liability needs, but also by delivering a high level of service and strong support on claims. While the club is committed to safe shipping operation and loss prevention, the club exists to pay claims, not to find reasons not to do so. This will remain at the core of our approach.