The Standard Club Ltd

Annual report and financial statements

2013

The Standard

Chairman's statement and key facts

The directors

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Independent auditors' report

Financial statements

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www.standard-club.com

1 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

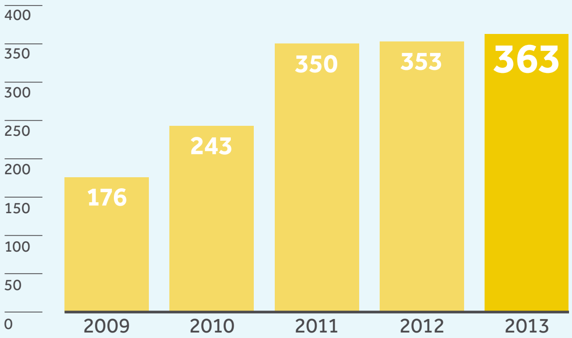
$917m

2012: $876m

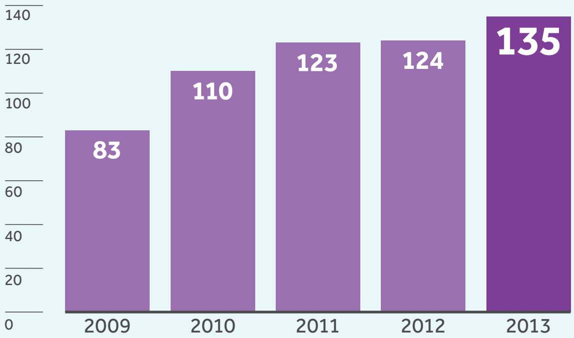
	2013 US$m	2012 US$m
Results for the financial year ended 20 February 2013		
Calls and premiums	**294**	286
Reinsurance premiums	**(63)**	(65)
Calls and premiums net of reinsurance	**231**	221
Total claims net of reinsurance and operating expenses	**(271)**	(265)
Balance of technical account for general 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

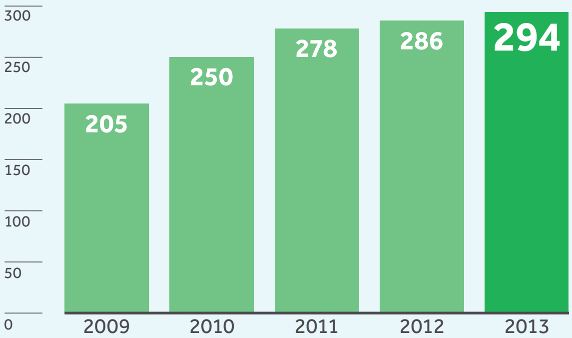
Free reserves $Million



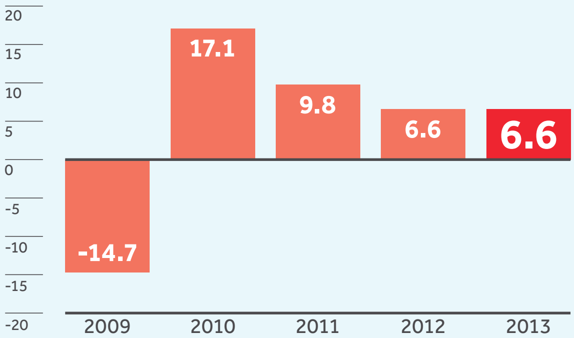
Tonnage GT Million



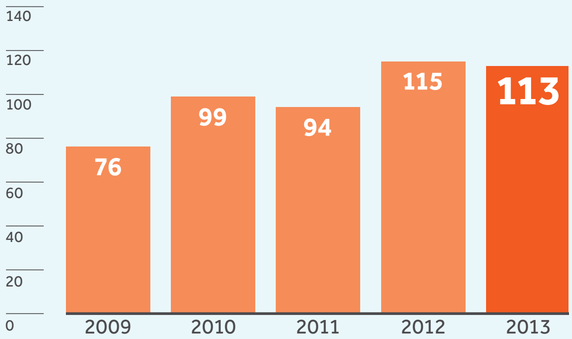
Premium income $Million



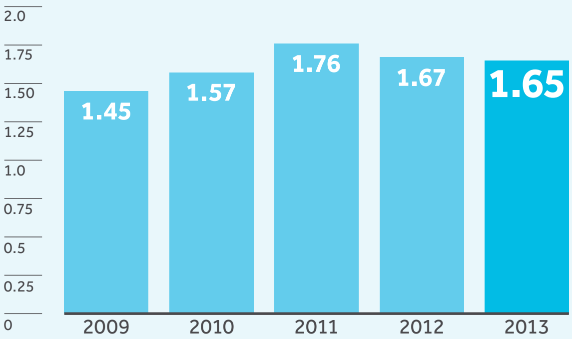
Investment return %



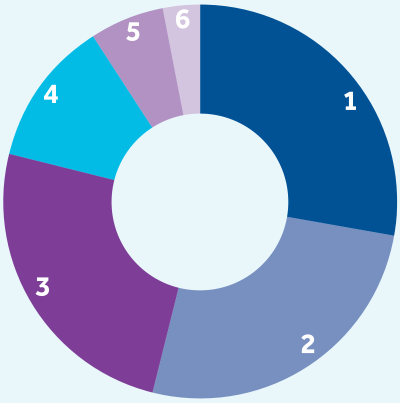
Combined ratio %



Claims cover
Ratio of net assets to outstanding claims

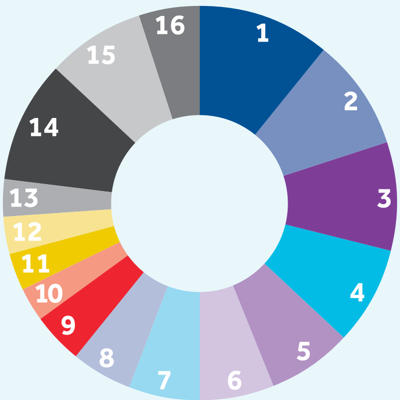


Ship types entered
Owned tonnage



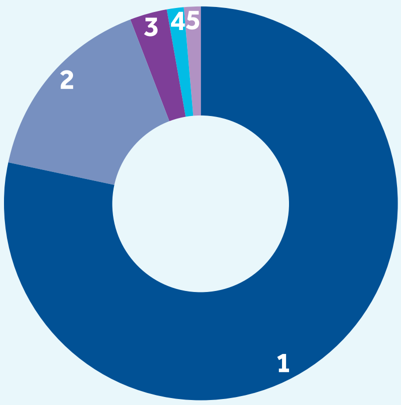
1	Tankers	28%
2	Dry bulk	26%
3	Container & general cargo	25%
4	Offshore	12%
5	Passenger & ferry	6%
6	Other	3%

Country of management
Owned tonnage



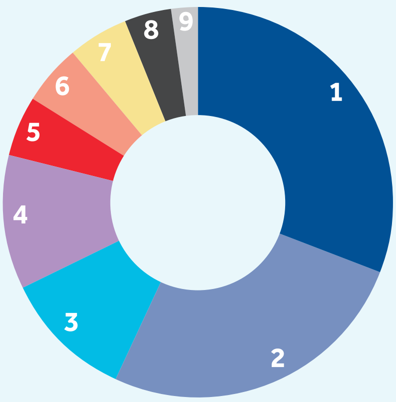
1	Greece	11%
2	Japan	9%
3	USA	9%
4	Germany	8%
5	Italy	7%
6	Canada	6%
7	Republic of Korea	6%
8	Singapore	5%
9	United Kingdom	4%
10	The Netherlands	3%
11	Qatar	3%
12	Monaco	3%
13	Turkey	3%
14	Rest of World	10%
15	Rest of Europe	8%
16	Rest of Asia	5%

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

2 The directors

The directors

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

R Menendez Ross[1,2,3,4]
President and Chairman
Ultrapetrol SA

The Hon. Sir John W Swan KBE JP
Vice-President
Bermuda

R M Jones[1,3,4]
Deputy Chairman
CSL Group Inc

C Peraticos[2,3]
Deputy Chairman
Pleiades Shipping Agents SA

N Aksoy
Turkish Cargo Lines, Akmar Shipping Group

L D'Amato
Fratelli D'Amato SpA

C d'Amico[2]
D'Amico Societa di Navigazione SpA

A Bensler[2]
Teekay Corporation

G Bozzini
Saipem SpA
(Resigned 9 June 2012)

R Clarke[1,3]
British Columbia Ferry Services, Inc

P Clerici
Coeclerici SpA

M J Cox[1,3]
Matson Navigation Co Inc

J N Das
The Shipping Corporation of India Ltd

S Goberti
Saipem SpA
(Appointed 29 January 2013)

G Jaegers
Reederei Jaegers GmbH
(Appointed 10 May 2012)

B Harinsuit[2,4]
Harinsuit Transportation Co Ltd

B J Hurst-Bannister[1,3]
Independent Director
(Appointed 12 October 2012)

E L Johnsen[1]
International Shipholding Corporation

D C C Koo[1,4]
Valles Steamship Co Ltd

E Lauro
Scorpio Ship Management S.A.M.
(Appointed 10 May 2013)

A Martinos
Minerva Marine Inc

Y Nakagami
Iino Kaiun
(Appointed 10 May 2013)

D Ofer
Zodiac Maritime Agencies Ltd

J B Rae-Smith
Swire Pacific Offshore Ltd

J F Reinhart[2]
Maersk Line Ltd

S S Teo[4]
Pacific International Lines (Pte) Ltd

W D Thomson
Bermuda
(Resigned 29 January 2013)

A J Groom[3]
Manager

D G Marock[3]
Manager

1 Member of Audit and Risk Committee
2 Member of Nomination and Governance Committee
3 Director of Standard Europe
4 Director of Standard Asia

3 Report of the directors

Business review

The directors have pleasure in presenting the audited consolidated financial statements of the club for the year ended 20 February 2013.

Principal activities

The principal activity of The Standard Club Ltd was to act as a holding company for subsidiaries which provide insurance and reinsurance of marine protection & indemnity (P&I) and related risks, war risks, and defence risks, on behalf of the members. At 20 February 2013 there were approximately 135m gross tons of shipping entered in the club.

Directors

Since the last report and up to the date of signing the financial statements, the directors of the club who were in office are shown on page 7 of this report. The board was pleased to welcome Barnabas Hurst-Bannister, Stefano Goberti, Emanuele Lauro and Yoshihiko Nakagami. As directors appointed during the year, they offer themselves for re-election at the AGM. The directors who retire by rotation in accordance with the bye-laws and who, being eligible, have also offered themselves for re-election, are Art Bensler, Matthew Cox, Alistair Groom, Bhumindr Harinsuit, Roger Jones, Andreas Martinos, Constantine Peraticos and John Reinhart. The board said farewell to Giulio Bozzini and Bill Thomson, who had served on it since 1985.

Meetings of the board

Since the date of the last report, the board met on three occasions: on 12 October 2012 in Seoul, on 29 January 2013 in Paris, and on 10 May 2013 in Vienna. The board reviewed the club's strategy, risks, financial and underwriting performance, significant claims, new members admitted to the club, new ships attaching, reinsurance arrangements, regulatory and tax matters, industry developments, control and governance matters, and investment strategy and results. The principal issues discussed by the board, and the decisions reached, are set out in this report.

The Audit and Risk Committee and Nomination and Governance Committee both met on three occasions since the date of the last report. A Solvency II working group of the Audit and Risk Committee was also formed to monitor the club's progress on becoming Solvency II compliant. An informal strategy working group continued to review club strategy. The chairman's group, consisting of the chairman and deputy chairmen, has also held regular discussions with the managers during the year to monitor the club's performance between board meetings.

Summary financial results and balance sheet

As set out in the income and expenditure account, there is a surplus of income over expenditure of $10m (2012: $3m). Total reserves available for claims stand at $917m (2012: $876m). The amount set aside to meet outstanding claims and IBNR was $554m at 20 February 2013 (2012: $523m).

Business review continued

Income and expenditure account
Revenue from calls, premiums and releases amounted to $294m (2012: $286m). Paid claims, net of reinsurance recoveries were $214m (2012: $178m). Pool and reinsurance recoveries amounted to $166m (2012: $108m).

Average expense ratio
The average expense ratio for the club's P&I class for the five years ended 20 February 2013 is 13.2% (2012: 13.4%). The ratio has been calculated in accordance with the Schedule and Guidelines issued by the International Group 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.

Appendices to the report – P&I Class
The appendices to the report set out details of the open policy years together with the closed policy year balances. The board closed the 2010/11 policy year at its meeting on 10 May 2013 on the basis of the financial position at 20 February 2013. The total open policy year balance at 20 February 2013 amounted to $276m after closure of the 2010/11 policy year. Included in this balance are estimated reinsurance recoveries of $353m. The estimate of net outstanding claims liabilities for the closed years amounted to $236m (including liabilities for the 2010/11 policy year).

Free reserves
These represent the surpluses built up out of open and closed policy years and represent the core capital of the club. The club's free reserves increased to $363m at the year end (2012: $353m). This 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 the level of free reserves or capital to be held 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.

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

Future outlook

The club's financial position means that it is satisfactorily positioned to continue to offer the full range of P&I, war risks, defence and related covers to its members, albeit that it is still facing challenging underwriting conditions.

Strategy and business plan

During the year, the board continued to review the club's future strategy. The board believes that the club should continue to seek growth in its core business areas, and should examine opportunities to extend the range of products offered, 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. Over the past 12 months the club has launched several additional covers either underwritten by the club but backed by reinsurance, or, in the case of hull cover, sponsored by the club but provided by market reinsurers. The board has set up a strategy committee to lead on a continuing review of the club's strategy during the future year.

Corporate governance

The club comprises members from the international shipping community and seeks to follow good governance principles that would be generally recognised throughout world markets.

The club and its subsidiaries are regulated in Bermuda, the UK, Singapore and Australia as insurance operations, and the club has had particular regard for the requirements of these countries in arriving at its current practices.

Board responsibilities

The board's governance of the club is set out in the board governance policies statement. This sets out, amongst other things, the board's role and matters reserved for the board, and the board's duties, composition and operation. The principal functions of the board include to:

- govern and direct the club's affairs;
- ensure that the club's objectives are being fulfilled;
- set 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; and
- ensure that there are suitable systems of control.

At each board meeting, the directors are provided with up-to-date reports on the key financial indicators for the club, and on risk, controls, underwriting, claims, investment and general policy issues. 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 to the managers the implementation of the board's strategy and policies, and management of the day-to-day operations. A formal management agreement between the club and the managers 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.

Board membership

The great majority of directors are non-executive and are not involved in day-to-day executive management of the club and are, by virtue of the bye-laws, owners or senior executives of 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 role is to assist the chairman in carrying out his role. The chairman and deputy chairmen are elected for terms of three years but may be re-elected for four further terms. An independent insurance market professional was elected to the board during the year. The board also has the benefit of expert insurance and investment guidance from its managers and personnel within the managers' group, as well as access to independent insurance, regulatory, financial and investment expertise as required.

One third of the directors must retire from office by rotation at each annual general meeting (AGM) and all directors appointed since the date of the last AGM must put themselves forward for re-election. Directors must retire from the board at the next AGM if they are no longer eligible to be elected to the board according to the bye-laws.

Nomination and Governance Committee

The committee's main responsibilities are set out in written terms of reference which are available on the club's website and include identifying suitable candidates for board membership and membership of board committees, reviewing the overall composition of the board, leading reviews of the board's effectiveness and reviewing and making recommendations on the club's governance structure, policies and practices. During the year, the committee reviewed the make-up and balance of the skills on the board, 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 board induction and training processes. The committee also leads the review of the managers' performance, and in this respect during the year reviewed their performance against the specific requirements of an updated service level agreement, as well as the managers' remuneration. The committee also discussed succession planning and conducted a comprehensive review of the club's governance policies during the year.

Board evaluation

The performance of the board, its committees, and the chairman are reviewed periodically and the Nomination and Governance Committee conducted an evaluation of the board's effectiveness last summer. Each member of the board was asked to complete a detailed questionnaire focusing on the balance of skills within the board, the attributes required and induction process for new appointments, board practices and procedures and decision-making processes to improve efficiency and effectiveness. The responses to the questionnaires and the findings of the review meetings were reviewed by the Nomination and Governance Committee who reported its recommendations to the board.

Member engagement

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. A formal member survey, one having been carried out in 2011, was not conducted during the past year, although informal regular monitoring of member satisfaction is carried out to gauge the members' views of the club and identify any areas for improvement. The results of this monitoring process are reviewed by the Nomination and Governance Committee. In addition to this process, the managers aim to visit as many members as practically possible every year to ensure that they are aware of the club's strategy and operations and to identify any areas for concern. A formal member survey will again be conducted during 2013.

Audit and Risk Committee

The Audit and Risk Committee's role includes the review of the financial statements of the club, its financial regulatory returns, relations with and reports from the external and internal auditors, and oversight of the club's risk management and internal controls.

The main responsibilities are set out in written terms of reference which are available on the club's website. During the year the committee gave consideration to the appointment of the external auditors and the nature and scope of the year-end audit. It reviewed the annual report. It considered compliance with accounting standards, the independence and effectiveness of the external auditors, and the scope and extent of non-audit services provided by them. It received a direct report from the external auditor's engagement leader and challenged her on the audit report.

Corporate governance 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 Standard Club Ltd, as the parent company, is not itself directly subject to the (still developing) European Solvency II regime, but takes a close interest in the subject, given that its principal insuring subsidiary is subject to it. The committee monitored the capital requirements of the club, reviewed the progress of the club's group Own Risk and Solvency Assessment, and reviewed the development of the club's internal model, including its inputs, assumptions, methodology, sensitivities and outputs.

Maintenance of a sound system of internal controls

The board has satisfied itself, through a comprehensive review by the Audit and Risk Committee, that there are suitable and 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 controls operate effectively, including monitoring that the club operates within its risk appetite and complies with its regulatory responsibilities.

The club adopts the 'three lines of defence' system of internal control, supplementing operational management with risk management and compliance monitoring and internal audit assurance, through regular reviews and tests of controls to ensure their adequacy. Risk management, compliance and internal audit report to every meeting of the board's Audit and Risk Committee.

Risk management

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

During the year, the board has continued to revise its risk appetite statement to provide guidance to the management. Detailed measures of the club's appetite for all key risks have been established, with key risk indicators reported at each board meeting.

The managers have a comprehensive risk management system, which provides an effective method of monitoring and controlling risks, and continuously assess business risks and the effectiveness of control processes in place. The club's risk management processes and systems are designed to ensure that management and the club's business units regularly review the risks in the risk register to ensure that outstanding risk mitigation actions or controls are occurring in a timely manner and are properly followed up.

The club has developed a framework for identifying and managing those risks and their impact on economic capital. The risk management system and processes are linked into the club's internal model whose outputs assist in the management of the business as well as in the assessment of the capital required to reflect the financial impact of these business risks.

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

Compliance and regulation

The club's compliance and regulatory obligations are overseen by the Audit and Risk Committee. The board agrees the compliance monitoring plan, and the managers' compliance function submits reports to all meetings of the Audit and Risk Committee, including details of work carried out pursuant to the compliance monitoring plan and any issues arising therefrom, in particular highlighting areas of particular compliance and regulatory concern. These include financial crime, sanctions, conflicts and fair treatment of members. The managers also report any incidents where controls have either failed or nearly failed or where risks have materialised or have come close to doing so.

Internal audit

An internal audit function operates within the club. The function is managed and led by a senior manager who reports directly to the Audit and Risk Committee as well as to the Charles Taylor Group's chief operating officer. The managers' internal audit department is independent of the personnel involved with the day-to-day management of the club.

The board has direct access to the head of internal audit, who also attends most Audit and Risk Committee and board meetings in person. Internal Audit reports provided to those meetings summarise the findings of the audits together with a schedule of the outstanding audit issues and progress against the agreed audit timetable.

The audit timetable and audit universe are designed to be risk-focused and to cover the full range of the club's operations. They reflect, amongst other things, the operational, financial and administrative aspects of the club's businesses, taking as their points of reference the internal procedures, the controls recorded in the risk register and any reported incidents. Some audits may be carried out by external consultants or by staff from outside the internal audit function.

Remuneration

The club does not have a formal remuneration committee. Directors receive fees agreed by the club membership in general meeting, (other than the fees of independent directors which are agreed by the board), and which are appropriate to their non-executive status. The fees paid to the directors are in line with those paid in other P&I clubs. Directors who are employed by the managers do not receive director's fees. However, the performance-related elements of their remuneration are reviewed by the Charles Taylor Group's Remuneration Committee to ensure that they are stretching and designed to promote the long-term success of the business.

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. This follows a review by the Nomination and Governance Committee, reporting to the board, of the managers' budgets, performance and cost, including a comparison with other clubs. The club's financial statements provide full disclosure of the management fees paid; 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 with a cover limit of £30m, which is renewed on an annual basis. The club also indemnifies its directors through its constitutional documents.

Conflicts of interest

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

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, and between the club's members, and between members and other clients of the managers' group, are identified and managed.

Corporate governance continued

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 have adopted a set of corporate values to ensure that their work on behalf of the club is carried out with integrity and fairness, which have been communicated to all staff.

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 system, which is published on the website.

Prevention of financial crime and whistleblowing

The managers have procedures to prevent the club being involved unwittingly in money laundering or in inappropriate payments. They also have in place whistleblowing procedures to ensure that members of their staff can raise matters of concern confidentially so that they may be appropriately investigated. This has now been extended to the club's members, correspondents and advisors, and details can be found on the club's website www.standard-club.com.

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 does its best to ensure that members are kept up to date with relevant sanctions information to assist them in ensuring they too are compliant and do not inadvertently breach sanctions.

Health and safety

The club strongly supports and encourages safe working practices on board the ships that it insures. The managers have a strong health and safety culture, and have adopted appropriate policies to ensure that the management of the club is carried out in a way that protects the health and safety of all those who work for the club managers.

Business continuity

The managers have full business continuity contingency plans, which they periodically test, to ensure that the club can continue to operate in the event of a serious incident, such as, for example, a terrorist event. Business records and documentation are stored electronically, are regularly backed-up and are accessible remotely. Various aspects of business continuity testing were carried out during the year which confirmed that the business was able to continue functioning, including all key processes, and further tests will be carried out in the forthcoming year.

Environmental policy

The day-to-day business of the club is carried out by its managers, who are committed to minimising the impact on the environment of their business operations and to achieving best practice in areas in which they do have an environmental impact. The managers have taken steps to reduce their carbon footprint, and strive to minimise their energy consumption through their energy management policy and by encouraging staff to use energy thoughtfully. Where possible, the managers use energy-efficient business appliances and computers, thereby giving rise to energy savings and a reduction in emissions. Standard House, which accommodates the managers' London operations, incorporates a number of design and other initiatives to reduce that office's environmental impact and carbon footprint. Electronic document management systems have been implemented. 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. In order to reduce travel-related emissions, the club has invested in video-conferencing facilities. As part of their environmental policy, the managers have also implemented recycling programmes.

The club requires its members to comply with all relevant environmental regulations, standards and laws, and supports them in developing and maintaining best practice in their operating procedures and practices in order to minimise the impact of their businesses on the environment. The club translates environmental policy into practical guidelines that assist the implementation of good practice amongst its membership. It regularly audits members' ships and management to monitor compliance with environmental regulations, and to evaluate and encourage the implementation of good operating procedures. The club encourages members to be 'best in class' and looks at initiatives to help them achieve this. It will not accept for entry or continue to insure members who consistently fail to comply with acceptable standards of responsible operation.

Equality of opportunity and gender diversity policy

The Charles Taylor Group has formal policies to promote equality of opportunity, including gender. As far as board appointments are concerned, the board believes that appointment should be based on merit and overall suitability for the role. The board is keen in the longer term to see gender diversity on the board, but recognises that this is difficult to achieve in the short term, given that in the shipping business in general and, in particular, in the club's membership, from which most directors necessarily come, there are limited current opportunities to improve gender diversity.

Principal risks and uncertainties

How we manage 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 at each of its meetings the risks facing the club, their potential impact, and management and mitigation of those risks. 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.

All risks are evaluated to assess their probability and their potential value and impact. The club's management, acting through its Risk Committee, sets 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, and monitors emerging risks.

A risk register is maintained which records the risks, their values, impact, mitigation and controls. The club's internal model reflects the risks identified and is used to assess their potential impact and the capital required to cover them.

The compliance and internal audit functions, which report to the Audit and Risk Committee, play an important role in ensuring that the club's risk management systems are functioning correctly.

Type of risk	Risk description	Management action
Underwriting risk		
Premium risk	The risk that premiums charged will not be sufficient to meet all associated claims and expenses, e.g. inappropriate underwriting or inadequate pricing, including: • the internal risks of underwriting inappropriate business or appropriate business in an inappropriate way or with incorrect pricing; and • the external risks of adverse insurance or reinsurance market movements and adverse trading conditions for the club's members.	Premium risk is managed by: • clear underwriting controls; • monitoring for – undue concentrations of risk and – acceptability of results – consistency with risk appetite; • a dedicated safety and loss prevention function, aimed at ensuring that the club underwrites only those shipowners who operate to an acceptable standard, as well as encouraging good risk management by members. Premium risk is mitigated by appropriate reinsurance programmes, including the International Group pooling and reinsurance programme and also 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 insurance risk through programmes tailored to the club's exposures.
Reserve risk	The risk that claims reserves will be inadequate to cover either 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, as well as regular, systematic claims audits and monitoring the performance of individual claims handlers, to ensure consistency of approach; and • modelling of technical provisions by the club's actuarial function.
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 International Group 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 and suspension or cancellation of cover; • investment rules and counterparty limits.

Type of risk	Risk description	Management action
Financial risk continued		
Market risk	The risk of 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: (i) 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; and (ii) within the risk tolerance agreed by the board, to maximise the overall returns as measured over rolling three-year periods. • 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. • Currency of investment is matched to the profile of liabilities to which the club is exposed. • Interest rate risk exposure is measured and controlled through regular consideration of the appropriate duration of the fixed interest part of the portfolio. • The club is exposed to equity price fluctuation risk but the investment rules limit equity exposure. • 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 their assessment of the investment markets as well as by risk appetite and regulatory considerations. • 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.
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 the club 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 kept under review. • Significant claim settlements through the International Group Pool and reinsurance arrangements are subject to special settlement provisions that provide the club with access to funding for 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 its day-to-day activities, appropriate controls are also in place to monitor the club's outsourcing of its operations.

Detailed risk disclosures for credit, market and liquidity risk are set out in detail in note 14 to the financial statements, starting on page 43.

Operational review

Underwriting – P&I class

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.

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 and a risk transfer premium. The results of the assessment will be published on the club's website.

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.

A 7.5% general increase in premiums was announced for the latest renewal and a figure close to this was achieved. As in previous years, some new members were welcomed and some existing members added additional ships to their entries. Some members who failed to meet the club's underwriting and quality criteria were not renewed.

Great attention is paid to ensuring that the membership continues to meet the club's underwriting criteria with regard to the quality of operation. The club continues to invest in its loss prevention programme and the Member Risk Review process to ensure the quality of risks insured.

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 going 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 International Group 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.

London class

The London class specialises in insuring small ships operating in the inland waterways system and harbours and coastal waters of Europe. The class is able to bring to its membership the specialised knowledge of the liabilities and legal regimes of this class of business that has been built up over many years of experience and which therefore 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.

The operations of the class are overseen by a class committee drawn from its membership, as follows:

- G Jaegers, Reederei Jaegers GmbH (Chairman)
- R Borchard, Fairplay
- Capt. I McNaught, Trinity House
- A Meynköhn, Wyker Dampfschiffs-Reederei- Föhr-Amrum GmbH
- M Mirzoev, Joint Stock "Volga Shipping"
- R Pütz, Imperial Schiffahrt GmbH
- A Struyf, Plouvier Transport NV
- P Wassenaar, WASMACO

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.

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.

Operational review continued

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 a moderation in claims activity.

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.

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.

Club retention and the Pool

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

The Pool retention has been increased to $70m, and the Pool now has three layers: $9m to $45m, $45m to $60m and $60m to $70m. The International Group has continued its review of the pooling mechanism aimed at ensuring that the system monitors fairness between clubs and to ensure that exposures generated are manageable and as a result some adjustment has been introduced into the calculation system for 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 particularly singled out for an increase in their share of the overall cost. There was no change to the essential structure of the programme this year, although the IG's Pool retention increased from $60m to $70m 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 but the club was able to agree renewal with the same maximum limit of $1bn.

Retention reinsurance

For a number of years, the club has had some protection against the larger claims within its retention. As a general principle, 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 it has with them.

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.

Solvency and capital management

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 also 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.

Operational review continued

The model, from a regulatory perspective, is intended to be used primarily for insurance risk (constituting underwriting risk, reserve risk and reinsurance 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 purpose.

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. Tier 1 capital comprises the free reserves of the club, as adjusted for balance sheet item revaluations under Solvency II, and is unrestricted, whereas tier 2 capital, such as the right to make supplementary calls, is restricted to no more than 50% of the overall capital resources of the club. As part of the preparation for Solvency II, application will be made to the Prudential Regulation Authority, Standard Europe's UK regulator, to have the right to make supplementary calls recognised as part of its 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 has been referred to above in the free reserves section of the business review.

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, Piraeus and Tokyo 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.

New covers

During the year, the club has launched new covers for Kidnap and Ransom, Traders and Intermediaries risks. We are pleased that strong interest has been shown in these new products. We have also recently launched a new Standard Club Hull facility, 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.

Industry issues

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 members on the use of armed guards on ships, where 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 continue 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.

European Commission enquiry/IGA

As reported to members during the year, the EC case team decided to close its file in 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 that will assist in providing greater transparency to members.

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.

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 2013 of which the auditors are unaware; and
- each director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the club's auditors are aware of that information.

Directors' responsibilities

The following statement, which should be read in conjunction with the Auditors' Report as set out on page 29, 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 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. The financial statements are required to give a true and fair view of the state of affairs of the group and parent company and of the income or expenditure of the group and parent company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company 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 parent company and to 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 parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The maintenance and integrity of The Standard Club Ltd website is the responsibility of the directors; 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,

Charles Taylor & Co (Bermuda)
Company Secretary

10 May 2013

4 Independent auditors' report

Independent auditors' report

To the members of The Standard Club Ltd

We have audited the group and parent company financial statements (the 'financial statements') of The Standard Club Ltd for the year ended 20 February 2013 which comprise the consolidated Income and Expenditure Account, the consolidated and parent company Balance Sheets, the consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law in Bermuda and United Kingdom Accounting Standards as issued by the UK Accounting Standards Board.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 26 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law in Bermuda and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the club's members as a body in accordance with Section 90 of The Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving the opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 20 February 2013 and of the group's excess of income over expenditure and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

10 May 2013

5 Financial statements

Consolidated income and expenditure account
For the year ended 20 February 2013

	Notes	Total 2013 US$m	Total 2012 US$m	Class 1 – P&I 2013 US$m	Class 1 – P&I 2012 US$m	Class 2 – Defence 2013 US$m	Class 2 – Defence 2012 US$m	Class 3 – London 2013 US$m	Class 3 – London 2012 US$m	Class 4 – War 2013 US$m	Class 4 – War 2012 US$m
Technical account – general business											
Earned premiums, net of reinsurance											
Gross premiums written including calls	3	**294.1**	286.2	**270.0**	262.4	**11.4**	11.9	**11.2**	10.1	**1.5**	1.8
Outward reinsurance premiums	4	**(62.9)**	(65.5)	**(59.5)**	(59.4)	**0.1**	(1.7)	**(2.2)**	(2.7)	**(1.3)**	(1.7)
Earned calls, net of reinsurance		**231.2**	220.7	**210.5**	203.0	**11.5**	10.2	**9.0**	7.4	**0.2**	0.1
Total income		**231.2**	220.7	**210.5**	203.0	**11.5**	10.2	**9.0**	7.4	**0.2**	0.1
Expenditure											
Claims paid	6	**380.7**	281.9	**361.8**	261.0	**13.1**	13.4	**5.8**	7.5	**–**	–
Reinsurers' share	7	**(166.4)**	(104.2)	**(165.3)**	(85.8)	**(0.9)**	(14.7)	**(0.2)**	(3.7)	**–**	–
Net claims paid		**214.3**	177.7	**196.5**	175.2	**12.2**	(1.3)	**5.6**	3.8	**–**	–
Change in provision for claims		**150.0**	202.6	**142.8**	196.4	**0.4**	7.1	**6.8**	(0.9)	**–**	–
Reinsurers' share		**(119.6)**	(139.4)	**(114.3)**	(153.3)	**(0.7)**	12.9	**(4.6)**	1.0	**–**	–
Change in net provision for claims		**30.4**	63.2	**28.5**	43.1	**(0.3)**	20.0	**2.2**	0.1	**–**	–
Claims incurred, net of reinsurance		**244.7**	240.9	**225.0**	218.3	**11.9**	18.7	**7.8**	3.9	**–**	–
Net operating expenses	8	**26.1**	23.9	**22.8**	20.9	**0.7**	0.6	**2.2**	2.0	**0.4**	0.4
Total expenditure		**270.8**	264.8	**247.8**	239.2	**12.6**	19.3	**10.0**	5.9	**0.4**	0.4
Balance on the technical account for general business		**(39.6)**	(44.1)	**(37.3)**	(36.2)	**(1.1)**	(9.1)	**(1.0)**	1.5	**(0.2)**	(0.3)
Non-technical account											
Balance on the technical account for general business		**(39.6)**	(44.1)	**(37.3)**	(36.2)	**(1.1)**	(9.1)	**(1.0)**	1.5	**(0.2)**	(0.3)
Investment income	5	**52.3**	54.3	**47.8**	46.8	**2.1**	1.2	**2.3**	4.4	**0.1**	1.9
Unrealised gains on investments	5	**30.9**	39.0	**29.3**	35.5	**–**	1.6	**1.4**	1.9	**0.2**	–
Investment expenses and charges											
Investment management expenses	5	**(2.8)**	(2.9)	**(2.6)**	(2.7)	**(0.1)**	(0.1)	**–**	(0.1)	**(0.1)**	–
Losses on realisation of investments	5	**(2.8)**	(9.8)	**(2.4)**	(7.8)	**–**	(0.7)	**(0.4)**	(1.2)	**–**	(0.1)
Unrealised losses on investments	5	**(25.4)**	(33.2)	**(23.4)**	(29.0)	**(1.3)**	(0.4)	**(0.6)**	(3.0)	**(0.1)**	(0.8)
Exchange (losses)/gains		**(1.3)**	(2.6)	**(1.4)**	(2.2)	**(0.2)**	0.2	**0.4**	(0.5)	**(0.1)**	(0.1)
Other income including value adjustments		**–**	4.8	**–**	4.6	**–**	–	**–**	0.1	**–**	0.1
Excess/(shortfall) of income over expenditure before taxation		**11.3**	5.5	**10.0**	9.0	**(0.6)**	(7.3)	**2.1**	3.1	**(0.2)**	0.7
Tax on excess/(shortfall) of income over expenditure	9	**(1.3)**	(3.2)	**(0.7)**	(2.3)	**–**	(0.1)	**(0.6)**	(0.6)	**–**	(0.2)
Excess/(shortfall) of income over expenditure after tax		**10.0**	2.3	**9.3**	6.7	**(0.6)**	(7.4)	**1.5**	2.5	**(0.2)**	0.5
Minority interest		**–**	0.6	**–**	0.6	**–**	–	**–**	–	**–**	–
Excess/(shortfall) of income over expenditure for the financial year transferred to/(from) contingency reserve	18	**10.0**	2.9	**9.3**	7.3	**(0.6)**	(7.4)	**1.5**	2.5	**(0.2)**	0.5

There are no recognised gains or losses other than those included in the income and expenditure account.

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

There is no material difference between the excess of income over expenditure before taxation and the excess of income over expenditure for the financial year stated above and their historical cost equivalents.

The notes on pages 35 to 50 form part of the accounts.

Consolidated balance sheet
At 20 February 2013

	Notes	Total 2013 US$m	Total 2012 US$m	Class 1 – P&I 2013 US$m	Class 1 – P&I 2012 US$m	Class 2 – Defence 2013 US$m	Class 2 – Defence 2012 US$m	Class 3 – London 2013 US$m	Class 3 – London 2012 US$m	Class 4 – War 2013 US$m	Class 4 – War 2012 US$m
Assets											
Investments											
Investment property	12	**26.7**	27.2	**26.7**	27.2	**–**	–	**–**	–	**–**	–
Other financial investments	13	**741.5**	670.6	**678.8**	605.8	**23.6**	28.1	**29.7**	29.7	**9.4**	7.0
Reinsurers' share of technical provisions											
Claims outstanding	11	**452.0**	337.7	**449.0**	334.7	**2.5**	2.4	**0.5**	0.6	**–**	–
Debtors											
Debtors arising out of direct insurance operations	17	**91.9**	65.8	**90.0**	63.8	**1.4**	1.6	**0.4**	0.2	**0.1**	0.2
Other debtors		**16.6**	20.3	**15.1**	15.9	**1.0**	4.3	**0.5**	0.1	**–**	–
		108.5	86.1	**105.1**	79.7	**2.4**	5.9	**0.9**	0.3	**0.1**	0.2
Other assets											
Tangible assets	15	**7.4**	8.6	**7.2**	8.4	**–**	–	**0.2**	0.2	**–**	–
Cash at bank and in hand		**83.9**	120.8	**73.6**	90.1	**1.2**	14.5	**8.3**	7.9	**0.8**	8.3
Deferred tax asset	10	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
		91.3	129.4	**80.8**	98.5	**1.2**	14.5	**8.5**	8.1	**0.8**	8.3
Prepayments and accrued income		**9.9**	10.6	**8.2**	9.2	**0.4**	0.8	**1.0**	0.5	**0.3**	0.1
Total assets		**1,429.9**	1,261.6	**1,348.6**	1,155.1	**30.1**	51.7	**40.6**	39.2	**10.6**	15.6
Liabilities											
Reserves											
Statutory reserve		**0.2**	0.2	**0.2**	0.2	**–**	–	**–**	–	**–**	–
Contingency reserve	18	**362.4**	352.4	**313.4**	304.1	**11.8**	12.4	**26.3**	24.8	**10.9**	11.1
		362.6	352.6	**313.6**	304.3	**11.8**	12.4	**26.3**	24.8	**10.9**	11.1
Minority interest		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Technical provisions											
Gross claims outstanding	11	**1,005.4**	860.7	**960.6**	817.8	**35.1**	35.3	**9.7**	7.6	**–**	–
Provisions for other risks and charges											
Deferred tax provisions	10	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Creditors											
Creditors arising out of direct insurance operations		**32.9**	30.0	**30.5**	23.8	**2.0**	5.6	**0.4**	0.6	**–**	–
Other creditors including taxation and social security	19	**28.0**	17.0	**25.3**	11.1	**–**	0.1	**2.7**	1.5	**–**	4.3
Current account between classes		**–**	–	**18.1**	(2.5)	**(18.8)**	(1.7)	**1.2**	4.2	**(0.5)**	–
		60.9	47.0	**73.9**	32.4	**(16.8)**	4.0	**4.3**	6.3	**(0.5)**	4.3
Accruals and deferred income		**1.0**	1.3	**0.5**	0.6	**–**	–	**0.3**	0.5	**0.2**	0.2
Total liabilities		**1,429.9**	1,261.6	**1,348.6**	1,155.1	**30.1**	51.7	**40.6**	39.2	**10.6**	15.6

The financial statements were approved by the board of directors on 10 May 2013 and were signed on its behalf by:

R Menendez Ross
Chairman

The notes on pages 35 to 50 form part of the accounts.

Company balance sheet
At 20 February 2013

	Notes	Total 2013 US$m	Total 2012 US$m	Class 1 – P&I 2013 US$m	Class 1 – P&I 2012 US$m	Class 2 – Defence 2013 US$m	Class 2 – Defence 2012 US$m	Class 3 – London 2013 US$m	Class 3 – London 2012 US$m	Class 4 – War 2013 US$m	Class 4 – War 2012 US$m
Assets											
Investments											
Investments in group undertakings and participating interests	16	**11.2**	8.7	**11.2**	8.7	**–**	–	**–**	–	**–**	–
Other financial investments		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
		11.2	8.7	**11.2**	8.7	**–**	–	**–**	–	**–**	–
Reinsurers' share of technical provisions											
Claims outstanding		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Debtors											
Debtors arising out of direct insurance operations		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Amounts owed by group undertakings		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other debtors		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
		–	–	**–**	–	**–**	–	**–**	–	**–**	–
Other assets											
Tangible assets		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Cash at bank and in hand		**0.3**	–	**0.3**	–	**–**	–	**–**	–	**–**	–
Deferred tax asset		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
		0.3	–	**0.3**	–	**–**	–	**–**	–	**–**	–
Prepayments and accrued income		**0.1**	–	**0.1**	–	**–**	–	**–**	–	**–**	–
Total assets		**11.6**	8.7	**11.6**	8.7	**–**	–	**–**	–	**–**	–
Liabilities											
Reserves											
Statutory reserve		**0.2**	0.2	**0.2**	0.2	**–**	–	**–**	–	**–**	–
Contingency reserve	18	**2.3**	5.3	**2.3**	5.3	**–**	–	**–**	–	**–**	–
		2.5	5.5	**2.5**	5.5	**–**	–	**–**	–	**–**	–
Technical provisions											
Gross claims outstanding		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Provisions for other risks and charges											
Deferred tax provisions		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Creditors											
Creditors arising out of direct insurance operations		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other creditors including taxation		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Amounts owed to group undertakings		**9.0**	3.0	**9.0**	3.0	**–**	–	**–**	–	**–**	–
		9.0	3.0	**9.0**	3.0	**–**	–	**–**	–	**–**	–
Accruals and deferred income		**0.1**	0.2	**0.1**	0.2	**–**	–	**–**	–	**–**	–
Total liabilities		**11.6**	8.7	**11.6**	8.7	**–**	–	**–**	–	**–**	–

The financial statements were approved by the board of directors on 10 May 2013 and were signed on its behalf by:

R Menendez Ross
Chairman

The notes on pages 35 to 50 form part of the accounts.

Consolidated cash flow statement
For the year ended 20 February 2013

	Notes	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
		2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Net cash (out)/in flow from operating activities	20	**(2.8)**	51.9	**21.4**	22.1	**(17.8)**	18.9	**(1.3)**	6.7	**(5.1)**	4.2
Taxation											
Taxation paid		**(3.0)**	(1.9)	**(1.7)**	(1.5)	**(0.1)**	(0.1)	**(0.9)**	(0.2)	**(0.3)**	(0.1)
Net cash (outflow)/inflow		**(5.8)**	50.0	**19.7**	20.6	**(17.9)**	18.8	**(2.2)**	6.5	**(5.4)**	4.1
Cash flows were (applied)/invested as follows											
(Decrease)/increase in cash holdings		**(36.9)**	69.2	**(16.5)**	44.5	**(13.3)**	11.6	**0.4**	5.7	**(7.5)**	7.4
Net portfolio investments											
Investment property additions		**–**	0.2	**–**	0.2	**–**	–	**–**	–	**–**	–
Purchase of shares and other variable-yield securities		**88.8**	163.0	**81.8**	152.1	**–**	–	**7.0**	9.3	**–**	1.6
Purchase of debt securities and other fixed-income securities		**607.8**	608.4	**532.4**	513.7	**37.5**	40.6	**25.0**	39.2	**12.9**	14.9
Sale of shares and other variable-yield securities		**(115.3)**	(213.9)	**(105.1)**	(197.6)	**(0.8)**	(0.9)	**(8.7)**	(11.5)	**(0.7)**	(3.9)
Sale of debt securities and other fixed-income securities		**(550.2)**	(576.9)	**(472.9)**	(492.3)	**(41.3)**	(32.5)	**(25.9)**	(36.2)	**(10.1)**	(15.9)
Net cash flow from investing activities		**31.1**	(19.2)	**36.2**	(23.9)	**(4.6)**	7.2	**(2.6)**	0.8	**2.1**	(3.3)
Net (application)/investment of cash flows		**(5.8)**	50.0	**19.7**	20.6	**(17.9)**	18.8	**(2.2)**	6.5	**(5.4)**	4.1

The notes on pages 35 to 50 form part of the accounts.

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.

2. Accounting policies

(a) Basis of preparation

These group financial statements which consolidate the accounts 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 and the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005, as amended in December 2006.

The club has not prepared an income and expenditure account under the exemption in Section 408 of the UK Companies Act 2006. 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.

Compliance with Statement of Standard Accounting Practice (SSAP) 19, 'Accounting for Investment Properties', requires departure from the requirements of the Companies Act 2006 relating to depreciation and an explanation of the departure is given in accounting policy (k) below.

Regulations require the use of the term 'profit and loss account' as a heading. This is replaced in these financial statements by 'income and expenditure account', consistent with the mutual status of the club. The club has taken advantage of the exemption in Section 408 of the Companies Act 2006 to not present its individual income and expenditure statement account 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.

(b) Basis of consolidation

The consolidated financial statements include the financial information of the club and its subsidiary undertakings and are consolidated on an acquisition basis.

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 the voting stock of the investee.

Uniform accounting policies are applied to all subsidiary undertakings.

(c) Annual basis of accounting

The transfer to or from the contingency reserve is determined using an annual basis of accounting.

For the purpose of reporting to mutual members, all transactions are allocated to individual policy years. The result of the policy year is determined and reported when it is closed after three years of development in accordance with rule 21, which requires policy years to be held open for three years. At the end of each financial year, any anticipated surplus or deficit arising on open years is transferred to or from the contingency reserve.

(d) Calls and premiums

Calls and premiums are credited to the income and expenditure account as and when charged to members. Contributions for periods after the balance sheet date are treated as prepaid and are not included in the income and expenditure account.

(e) Claims incurred

Claims incurred comprise all claims passed by the board, advances made on account of 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.

Notes to the financial statements continued

2. Accounting policies continued

(f) 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 income and expenditure account 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.

(g) 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 (IBNR) 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.

Liability and marine claims are long tail so a large element of the claims provision relates to IBNR. 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 on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Pollution and asbestosis claims can have a 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.

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.

(h) Reinsurance premiums
Reinsurance premiums include premiums paid in respect of the reinsurance agreement with market underwriters on an accruals basis.

(i) 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 the 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.

2. Accounting policies continued

(j) Investments

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 income and expenditure account, 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 re-measured 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 income and expenditure account.

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.

Investments in subsidiaries

In the balance sheet of the company, investments in group undertakings and participating interests are stated at cost, unless their value has been impaired, in which case they are valued at the realisable value in use, as appropriate.

(k) Investment properties

Investment properties are included in the balance sheet at their open market value at the balance sheet date. Full valuations are made by independent, professionally qualified valuers in the year of acquisition, and thereafter once every five years. In the intervening years these valuations are updated by the directors with the assistance of independent professional advice as required. In accordance with SSAP 19, no depreciation or amortisation is provided in respect of investment properties.

Rental income is recognised on the investment property as it falls due.

(l) Tangible assets

Tangible assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

The cost of the club's business systems has been capitalised as computer software. The original cost and any enhancements are written off over a 10 year period following installation on a straight line basis.

Furniture, fixtures and fittings are written off over a 15 year period following purchase on a straight line basis.

Assets in the course of construction are included in the balance sheet at their cost at the balance sheet date. Once completed they are recategorised as investment property and included at their open market value at the balance sheet date.

(m) Foreign currencies

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 income and expenditure account.

Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the income and expenditure account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted.

Notes to the financial statements continued

2. Accounting policies continued

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.

3. Gross premiums written including calls

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Estimated total premium, other premiums and releases 2012/13 (2011/12)	**296.3**	289.4	**265.9**	261.3	**11.6**	11.9	**17.3**	14.4	**1.5**	1.8
Adjustments to previous policy years	**(2.2)**	(3.2)	**(2.3)**	(3.2)	**0.1**	–	**–**	–	**–**	–
Inter-class reinsurance	**–**	–	**6.4**	4.3	**(0.3)**	–	**(6.1)**	(4.3)	**–**	–
Total calls and premiums	**294.1**	286.2	**270.0**	262.4	**11.4**	11.9	**11.2**	10.1	**1.5**	1.8

4. Outward reinsurance premiums

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
International Group excess of loss	**30.1**	26.7	**30.1**	26.7	**–**	–	**–**	–	**–**	–
Adjustment to prior years	**2.0**	(3.3)	**2.0**	(3.3)	**–**	–	**–**	–	**–**	–
Other premiums	**35.8**	41.3	**32.2**	35.6	**–**	1.4	**2.2**	2.7	**1.4**	1.6
Adjustment to prior years	**(4.8)**	0.7	**(4.5)**	0.3	**(0.2)**	0.3	**–**	–	**(0.1)**	0.1
Commissions	**(0.2)**	0.1	**(0.3)**	0.1	**0.1**	–	**–**	–	**–**	–
Reinsurance premiums paid	**62.9**	65.5	**59.5**	59.4	**(0.1)**	1.7	**2.2**	2.7	**1.3**	1.7

5. Investment return

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Investment income										
Shares and other variable-yield securities and unit trusts	**3.6**	3.7	**3.4**	3.2	**–**	0.1	**0.2**	0.3	**–**	0.1
Debt securities and other fixed-income securities	**12.3**	12.0	**11.0**	10.8	**0.7**	0.4	**0.5**	0.6	**0.1**	0.2
Deposit interest	**0.7**	0.5	**0.7**	0.5	**–**	–	**–**	–	**–**	–
Income from investment property	**2.6**	1.8	**2.6**	1.8	**–**	–	**–**	–	**–**	–
Gains arising on realisation of investments	**33.1**	36.3	**30.1**	30.5	**1.4**	0.7	**1.6**	3.5	**–**	1.6
	52.3	54.3	**47.8**	46.8	**2.1**	1.2	**2.3**	4.4	**0.1**	1.9
Investment expenses and charges										
Investment management expenses	**(2.8)**	(2.9)	**(2.6)**	(2.7)	**(0.1)**	(0.1)	**–**	(0.1)	**(0.1)**	–
Losses on realisation of investments	**(2.8)**	(9.8)	**(2.4)**	(7.8)	**–**	(0.7)	**(0.4)**	(1.2)	**–**	(0.1)
	(5.6)	(12.7)	**(5.0)**	(10.5)	**(0.1)**	(0.8)	**(0.4)**	(1.3)	**(0.1)**	(0.1)
Unrealised gains on investments	**30.9**	39.0	**29.3**	35.5	**–**	1.6	**1.4**	1.9	**0.2**	–
Unrealised losses on investments	**(25.4)**	(33.2)	**(23.4)**	(29.0)	**(1.3)**	(0.4)	**(0.6)**	(3.0)	**(0.1)**	(0.8)
	5.5	5.8	**5.9**	6.5	**(1.3)**	1.2	**0.8**	(1.1)	**0.1**	(0.8)
Total investment return	**52.2**	47.4	**48.7**	42.8	**0.7**	1.6	**2.7**	2.0	**0.1**	1.0

6. Claims paid

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Members' claims	**338.7**	264.3	**315.1**	239.7	**13.1**	13.4	**10.5**	11.2	**–**	–
Other P&I clubs' Pool claims	**42.0**	17.6	**42.0**	17.6	**–**	–	**–**	–	**–**	–
Interclass reinsurance	**–**	–	**4.7**	3.7	**–**	–	**(4.7)**	(3.7)	**–**	–
Gross claims paid	**380.7**	281.9	**361.8**	261.0	**13.1**	13.4	**5.8**	7.5	**–**	–

7. Reinsurers' share of claims paid

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m
Claims recoverable from reinsurers	(58.8)	(22.9)	(57.7)	(4.5)	(0.9)	(14.7)	(0.2)	(3.7)	–	–
Claims recoverable from Pool	(107.6)	(81.3)	(107.6)	(81.3)	–	–	–	–	–	–
Reinsurers' share of claims paid	(166.4)	(104.2)	(165.3)	(85.8)	(0.9)	(14.7)	(0.2)	(3.7)	–	–

8. Net operating expenses

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m
Acquisition costs										
Management fee	9.3	7.3	8.0	6.3	0.4	0.3	0.9	0.7	–	–
General expenses	1.9	1.8	1.8	1.7	–	–	0.1	0.1	–	–
Administrative expenses										
Management fee	8.4	7.5	6.8	6.1	0.3	0.3	0.9	0.7	0.4	0.4
General expenses	3.5	4.1	3.4	3.9	–	–	0.1	0.2	–	–
Depreciation	1.2	1.2	1.2	1.1	–	–	–	0.1	–	–
Safety and loss control	0.9	1.1	0.8	1.0	–	–	0.1	0.1	–	–
Directors' fees	0.6	0.4	0.5	0.3	–	–	0.1	0.1	–	–
Auditors' remuneration for audit services	0.1	0.1	0.1	0.1	–	–	–	–	–	–
Auditors' remuneration for other services	0.2	0.4	0.2	0.4	–	–	–	–	–	–
Net operating expenses	26.1	23.9	22.8	20.9	0.7	0.6	2.2	2.0	0.4	0.4

The highest paid director received directors' fees of $50,000 during the year (2012: $26,500). Directors are paid a flat fee with additional attendance fees.

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

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m
Audit services										
Fees payable to the club's auditor for the audit of the parent company and consolidated accounts	0.1	0.1	0.1	0.1	–	–	–	–	–	–
Other services										
The audit of the club's subsidiaries, pursuant to legislation	0.1	0.1	0.1	0.1	–	–	–	–	–	–
Fees payable to the club's auditors and its associates for other services:										
(a) Other services pursuant to legislation, including the audit of the regulatory return	–	0.3	–	0.3	–	–	–	–	–	–
(b) Tax services	0.1	–	0.1	–	–	–	–	–	–	–
	0.3	0.5	0.3	0.5	–	–	–	–	–	–

9. Tax on excess/(shortfall) of income over expenditure

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m	2013 US$m	2012 US$m
Analysis of charge in the period										
Current UK corporation tax on taxable investment profits	1.3	3.7	0.7	2.5	–	0.1	0.6	0.8	–	0.3
Total current tax	1.3	3.7	0.7	2.5	–	0.1	0.6	0.8	–	0.3
Deferred tax										
Origination and reversal of timing differences	–	(0.5)	–	(0.2)	–	–	–	(0.2)	–	(0.1)
Total deferred tax (note 10)	–	(0.5)	–	(0.2)	–	–	–	(0.2)	–	(0.1)
Tax on investment income	1.3	3.2	0.7	2.3	–	0.1	0.6	0.6	–	0.2

Notes to the financial statements continued

9. Tax on excess/(shortfall) of income over expenditure continued

Factors affecting tax charge for the period

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (24%). The differences are explained below:

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Excess/(shortfall) of income over expenditure before taxation	**11.3**	5.5	**10.0**	9.0	**(0.6)**	(7.3)	**2.1**	3.1	**(0.2)**	0.7
Multiplied by the standard rate of tax at 24% (2012: 26%)	**2.8**	1.5	**2.4**	2.3	**(0.1)**	(1.9)	**0.5**	0.9	**–**	0.2
(Income)/expenses not assessable for tax purposes	**(1.5)**	2.2	**(1.7)**	0.2	**0.1**	2.0	**0.1**	(0.1)	**–**	0.1
Current tax charge for the period	**1.3**	3.7	**0.7**	2.5	**–**	0.1	**0.6**	0.8	**–**	0.3

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.

10. Deferred tax

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Group										
Recognised										
Recognised deferred tax liability at 21 February 2012	**–**	0.5	**–**	0.2	**–**	–	**–**	0.2	**–**	0.1
Recognised deferred tax movement for the year in the income and expenditure account	**–**	(0.5)	**–**	(0.2)	**–**	–	**–**	(0.2)	**–**	(0.1)
Recognised deferred tax liability as at 20 February 2013	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Unrealised gains on investments revalued every year	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Company										
Recognised										
Recognised deferred tax liability at 21 February 2012	**–**	0.1	**–**	0.1	**–**	–	**–**	–	**–**	–
Recognised deferred tax movement for the year in the income and expenditure account	**–**	(0.1)	**–**	(0.1)	**–**	–	**–**	–	**–**	–
Recognised deferred tax liability as at 20 February 2013	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Unrealised gains on investments revalued every year	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–

Tax losses are held in respect of unrealised losses on the investment portfolio. These losses are only relievable against future investment profits and, consequently, no deferred tax asset has been recognised.

11. Claims outstanding

The board closed the 2010/11 policy year at its meeting on 10 May 2013. The table below provides the position after closure.

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Group										
Open years										
Claims	**652.1**	529.3	**622.1**	499.9	**17.5**	18.8	**12.5**	10.6	**–**	–
Interclass reinsurance	**–**	–	**7.1**	5.2	**(0.8)**	–	**(6.3)**	(5.2)	**–**	–
Reinsurance recoveries	**(353.3)**	(254.7)	**(353.3)**	(253.9)	**–**	(0.6)	**–**	(0.2)	**–**	–
Net claims provision for open years	**298.8**	274.6	**275.9**	251.2	**16.7**	18.2	**6.2**	5.2	**–**	–
Closed years										
Claims	**353.3**	331.4	**322.0**	307.1	**18.4**	16.5	**12.9**	7.8	**–**	–
Interclass reinsurance	**–**	–	**9.4**	5.6	**–**	–	**(9.4)**	(5.6)	**–**	–
Reinsurance recoveries	**(98.7)**	(83.0)	**(95.7)**	(80.8)	**(2.5)**	(1.8)	**(0.5)**	(0.4)	**–**	–
Net claims provision for closed years	**254.6**	248.4	**235.7**	231.9	**15.9**	14.7	**3.0**	1.8	**–**	–
Total										
Claims	**1,005.4**	860.7	**944.1**	807.0	**35.9**	35.3	**25.4**	18.4	**–**	–
Interclass reinsurance	**–**	–	**16.5**	10.8	**(0.8)**	–	**(15.7)**	(10.8)	**–**	–
Reinsurance recoveries	**(452.0)**	(337.7)	**(449.0)**	(334.7)	**(2.5)**	(2.4)	**(0.5)**	(0.6)	**–**	–
Net claims provision	**553.4**	523.0	**511.6**	483.1	**32.6**	32.9	**9.2**	7.0	**–**	–

12. Investment property

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Net book value at 21 February 2012	**27.2**	26.4	**27.2**	26.4	**–**	–	**–**	–	**–**	–
Additions at cost	**–**	0.2	**–**	0.2	**–**	–	**–**	–	**–**	–
Revaluation (deficit)/surplus	**(0.5)**	0.6	**(0.5)**	0.6	**–**	–	**–**	–	**–**	–
Net book value at 20 February 2013	**26.7**	27.2	**26.7**	27.2	**–**	–	**–**	–	**–**	–

Investment property comprises of the club's freehold premises at Essex Street, London. The property was valued at 20 February 2013 by the directors at £17.3m (2012: £17.3m) with the deficit arising due to currency fluctuations taken to the income and expenditure account.

13. Other financial investments

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Group										
At market value										
Shares and other variable-yield securities and units in unit trusts	**148.9**	165.5	**143.6**	157.2	**0.1**	0.8	**5.2**	6.9	**–**	0.6
Debt securities and other fixed-income securities	**592.5**	505.1	**535.1**	448.6	**23.5**	27.3	**24.5**	22.8	**9.4**	6.4
Open forward currency contracts	**0.1**	–	**0.1**	–	**–**	–	**–**	–	**–**	–
Total investments at market value	**741.5**	670.6	**678.8**	605.8	**23.6**	28.1	**29.7**	29.7	**9.4**	7.0
At cost										
Shares and other variable-yield securities and units in unit trusts	**143.5**	163.1	**115.5**	129.9	**23.6**	26.3	**4.4**	6.3	**–**	0.6
Debt securities and other fixed-income securities	**538.0**	452.9	**504.4**	422.8	**0.2**	0.7	**24.0**	22.9	**9.4**	6.5
Total investments at cost	**681.5**	616.0	**619.9**	552.7	**23.8**	27.0	**28.4**	29.2	**9.4**	7.1

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Notes to the financial statements continued

13. Other financial investments continued

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

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Group										
Shares and other variable-yield securities and units in unit trusts	**94.0**	145.3	**92.9**	143.8	**–**	0.8	**1.1**	0.6	**–**	0.1
Debt securities and other fixed-income securities	**199.8**	302.7	**182.0**	266.0	**3.1**	20.3	**13.7**	14.5	**1.0**	1.9
	293.8	448.0	**274.9**	409.8	**3.1**	21.1	**14.8**	15.1	**1.0**	2.0

Open forward currency contracts	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Group										
Fair value asset	**0.1**	–	**0.1**	–	**–**	–	**–**	–	**–**	–
Contract/notional amount	**223.0**	86.1	**220.8**	84.9	**–**	–	**2.2**	1.2	**–**	–

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 2013 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 (2012: $nil), as broken down by local currency in the following table:

	Class 1 – P&I 2013 Local currency million		Class 1 – P&I 2012 Local currency million	
	Purchase	**Sell**	Purchase	Sell
Australian dollar	**–**	**(8.1)**	–	(8.1)
Brazilian real	**–**	**(33.1)**	–	–
British pound sterling	**24.2**	**(8.6)**	–	(29.1)
European euro	**17.3**	**(67.5)**	3.3	(4.0)
Indian rupee	**916.6**	**–**	–	–
Japanese yen	**–**	**(1,270.1)**	–	(1,400.0)
South African rand	**–**	**(93.9)**	–	(22.4)
Swiss franc	**–**	**–**	–	(4.0)
US dollar	**144.8**	**(68.6)**	80.7	–

	Class 3 – London 2013 Local currency million		Class 3 – London 2012 Local currency million	
	Purchase	**Sell**	Purchase	Sell
British pound sterling	**0.3**	**–**	–	–
European euro	**0.6**	**(0.7)**	0.3	(0.3)
Japanese yen	**–**	**(48.0)**	–	(32.9)
South African rand	**–**	**(4.1)**	–	–
Swiss franc	**–**	**–**	–	(0.4)
US dollar	**0.8**	**(0.3)**	0.8	–

The net US dollar position of the above transactions at cost is $nil (2012: $nil).

The forward currency contracts outstanding at year end expire by 29 July 2013 (2012: 29 May 2012).

During the year a gain of $0.2m (2012: loss $1.7m) relating to such contracts was recognised. This is included in the net exchange loss of $1.3m (2012: $2.6m) in the consolidated income and expenditure non-technical account.

14. Management of financial risk

The club is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowing), 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 investments and liabilities are interest rate risk and equity price risk.

In addition to the risk management policies set out in the report of the directors, the club adopts the following approaches to financial risk:

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, 78% of the club's assets were invested in fixed interest assets (2012: 75%). The average duration of the fixed income assets is 5.1 years (2012: 7.4).

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. A decrease of 100 basis points in interest yields would result in additional surplus for the club of $28m (2012: $33m).

– Equity price risk

The club is exposed to equity price risk 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% increase in equity values would be estimated to have increased the surplus before tax and reserves at the year end by $1.8m (2012: $16.6m).

– Currency risk

The club is exposed to currency risk in respect of liabilities under insurance policies denominated in currencies other than US dollars. The most significant currencies to which the club is exposed are sterling and the euro. The club seeks to manage this risk by constraining the deviation of the currencies of the assets from the estimated currencies of the liabilities.

The club also uses forward currency contracts to protect currency exposures and maintain investment policy benchmarks.

At 20 February 2013, had sterling strengthened by 10% against the dollar with all other variables held constant, the excess of income over expenditure for the year would have been $12.3m higher (2012: $3.0m). Had the euro strengthened by 10% against the dollar the excess of income over expenditure for the year would have been $0.1m higher (2012: $2.7m).

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the club is exposed to credit risk 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

Notes to the financial statements continued

14. Management of financial risk continued

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

Group	Total 2013 US$m	Total 2012 US$m	Class 1 – P&I 2013 US$m	Class 1 – P&I 2012 US$m	Class 2 – Defence 2013 US$m	Class 2 – Defence 2012 US$m	Class 3 – London 2013 US$m	Class 3 – London 2012 US$m	Class 4 – War 2013 US$m	Class 4 – War 2012 US$m
Derivative financial instruments	**0.1**	–	**0.1**	–	**–**	–	**–**	–	**–**	–
Debt securities	**592.5**	505.1	**535.1**	448.6	**23.5**	27.3	**24.5**	22.8	**9.4**	6.4
Loans and receivables	**85.6**	82.8	**82.2**	76.9	**2.4**	5.4	**0.9**	0.3	**0.1**	0.2
Assets arising from reinsurance contracts held	**22.9**	3.3	**22.9**	2.8	**–**	0.5	**–**	–	**–**	–
Cash at bank and in hand	**83.9**	120.8	**73.6**	90.1	**1.2**	14.5	**8.3**	7.9	**0.8**	8.3
Total assets bearing credit risk	**785.0**	712.0	**713.9**	618.4	**27.1**	47.7	**33.7**	31.0	**10.3**	14.9
AAA	**69.8**	234.2	**58.5**	194.4	**3.2**	26.6	**2.7**	13.2	**5.4**	–
AA	**199.8**	45.0	**175.3**	44.3	**14.9**	0.7	**5.4**	–	**4.2**	–
A	**152.0**	95.9	**138.3**	68.6	**6.7**	14.1	**6.4**	4.9	**0.6**	8.3
BBB	**27.2**	1.4	**25.9**	0.7	**–**	–	**1.3**	0.7	**–**	–
Not rated	**336.2**	335.5	**315.9**	310.4	**2.3**	6.3	**17.9**	12.2	**0.1**	6.6
Total assets bearing credit risk	**785.0**	712.0	**713.9**	618.4	**27.1**	47.7	**33.7**	31.0	**10.3**	14.9

The concentration of credit risk is substantially unchanged compared to 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.

Unrated assets comprise member receivables and investments in collective schemes.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the club is the obligation to pay claims to policy holders 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 4 combined) representing the dates that contracts will mature, amounts are due for payment or assets could be realised without significant additional cost:

Group	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 2013						
Shares and other variable-yield securities and units in unit trusts	144.3	3.2	–	–	1.4	**148.9**
Debt securities and other fixed-income securities	592.5	–	–	–	–	**592.5**
Forward currency contracts	0.1	–	–	–	–	**0.1**
Cash balances	83.9	–	–	–	–	**83.9**
Investment property	–	–	–	–	26.7	**26.7**
Debtors	40.1	68.4	–	–	–	**108.5**
Reinsurers' share of claims outstanding	–	135.6	90.4	158.2	67.8	**452.0**
	860.9	**207.2**	**90.4**	**158.2**	**95.9**	**1,412.6**
As at 20 February 2012						
Shares and other variable-yield securities and units in unit trusts	163.8	–	–	–	1.7	165.5
Debt securities and other fixed-income securities	505.1	–	–	–	–	505.1
Forward currency contracts	–	–	–	–	–	–
Cash balances	120.8	–	–	–	–	120.8
Investment property	–	–	–	–	27.2	27.2
Debtors	26.6	59.5	–	–	–	86.1
Reinsurers' share of claims outstanding	–	101.3	67.5	118.2	50.7	337.7
	816.3	160.8	67.5	118.2	79.6	1,242.4

14. Management of financial risk continued

The following is an analysis of the estimated timings of net cash flows by financial liability (classes 1 to 4 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:

Group	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 2013					
Gross outstanding claims	303.2	201.3	350.9	150.0	**1,005.4**
Financial liabilities under investment contracts	–	–	–	–	**–**
Creditors	60.9	–	–	–	**60.9**
	364.1	**201.3**	**350.9**	**150.0**	**1,066.3**
As at 20 February 2012					
Gross outstanding claims	259.4	172.3	300.5	128.5	860.7
Financial liabilities under investment contracts	–	–	–	–	–
Creditors	47.0	–	–	–	47.0
	306.4	172.3	300.5	128.5	907.7

Company	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 2013					
Gross outstanding claims	–	–	–	–	**–**
Financial liabilities under investment contracts	–	–	–	–	**–**
Creditors	9.0	–	–	–	**9.0**
	9.0	**–**	**–**	**–**	**9.0**
As at 20 February 2012					
Gross outstanding claims	–	–	–	–	–
Financial liabilities under investment contracts	–	–	–	–	–
Creditors	3.0	–	–	–	3.0
	3.0	–	–	–	3.0

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 2013 and at 20 February 2012.

Financial assets at fair value through income or expenditure:

Group	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
As at 20 February 2013				
Shares and other variable-yield securities and units in unit trusts	145.8	2.7	0.4	**148.9**
Debt securities and other fixed-income securities	591.8	0.7	–	**592.5**
Forward currency contracts	0.1	–	–	**0.1**
	737.7	**3.4**	**0.4**	**741.5**
As at 20 February 2012				
Shares and other variable-yield securities and units in unit trusts	144.7	20.3	0.5	165.5
Debt securities and other fixed-income securities	503.6	1.5	–	505.1
Forward currency contracts	–	–	–	–
	648.3	21.8	0.5	670.6

Notes to the financial statements continued

14. Management of financial risk continued

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 and 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 and the Prudential Regulation Authority (PRA) 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 ALM framework the necessary tests to ensure continuous and full compliance with such regulations. Throughout the period the club complied with the PRA's capital requirements and the requirements in the other countries in which it operates.

15. Tangible assets

	Total		Computer software		Furniture, fixtures and fittings	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Group						
Book cost						
As at 21 February 2012	**13.8**	13.8	**7.7**	7.7	**6.1**	6.1
As at 20 February 2013	**13.8**	13.8	**7.7**	7.7	**6.1**	6.1
Accumulated depreciation						
As at 21 February 2012	**5.2**	4.0	**4.3**	3.5	**0.9**	0.5
Charge for the year	**1.2**	1.2	**0.8**	0.8	**0.4**	0.4
As at 20 February 2013	**6.4**	5.2	**5.1**	4.3	**1.3**	0.9
Net book value	**7.4**	8.6	**2.6**	3.4	**4.8**	5.2
Company						
Book cost						
As at 21 February 2012	**–**	7.2	**–**	7.2	**–**	–
Disposals	**–**	(7.2)	**–**	(7.2)	**–**	–
As at 20 February 2013	**–**	–	**–**	–	**–**	–
Accumulated depreciation						
As at 21 February 2012	**–**	3.3	**–**	3.3	**–**	–
Disposals	**–**	(3.3)	**–**	(3.3)	**–**	–
As at 20 February 2013	**–**	–	**–**	–	**–**	–
Net book value	**–**	–	**–**	–	**–**	–

All classes combined.

16. 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 Europe 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
Poseidon Insurance Company Pty Limited, incorporated in Australia[2]	Ordinary	30 Jun	Insurance	100	100
Taylor Hedge Fund, incorporated in Bermuda	Ordinary	31 Dec	Equity investment	95	–
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	–

1 75% of voting control, no participating interest. No minority interest is shown in the group accounts because the affairs of each class are managed on a unified basis throughout the group.
2 The results of Poseidon Insurance Company are included up to its most recent year end, 30 June 2012. Since that date there have been no material changes to its net assets.

All subsidiary undertakings are consolidated in the financial statements.

17. Debtors arising out of direct insurance operations

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Group										
Members	**68.4**	59.5	**66.6**	58.0	**1.4**	1.1	**0.3**	0.2	**0.1**	0.2
Intermediaries	**0.6**	3.0	**0.5**	3.0	**–**	–	**0.1**	–	**–**	–
Reinsurers	**22.9**	3.3	**22.9**	2.8	**–**	0.5	**–**	–	**–**	–
Debtors arising out of direct insurance operations	**91.9**	65.8	**90.0**	63.8	**1.4**	1.6	**0.4**	0.2	**0.1**	0.2

18. Contingency reserve

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Group										
Balance at beginning of year	**352.4**	349.5	**304.1**	296.8	**12.4**	19.8	**24.8**	22.3	**11.1**	10.6
Excess/(shortfall) of income over expenditure for the year	**10.0**	2.9	**9.3**	7.3	**(0.6)**	(7.4)	**1.5**	2.5	**(0.2)**	0.5
Balance on contingency reserve at end of year	**362.4**	352.4	**313.4**	304.1	**11.8**	12.4	**26.3**	24.8	**10.9**	11.1
Company										
Balance at beginning of year	**5.3**	30.0	**5.3**	28.7	**–**	1.3	**–**	–	**–**	–
Part VII transfer	**–**	(21.6)	**–**	(20.3)	**–**	(1.3)	**–**	–	**–**	–
Shortfall of income over expenditure for the year	**(3.0)**	(3.1)	**(3.0)**	(3.1)	**–**	–	**–**	–	**–**	–
Balance on contingency reserve at end of year	**2.3**	5.3	**2.3**	5.3	**–**	–	**–**	–	**–**	–

Notes to the financial statements continued

19. Other creditors including tax and social security

	Total 2013 US$m	Total 2012 US$m	Class 1 – P&I 2013 US$m	Class 1 – P&I 2012 US$m	Class 2 – Defence 2013 US$m	Class 2 – Defence 2012 US$m	Class 3 – London 2013 US$m	Class 3 – London 2012 US$m	Class 4 – War 2013 US$m	Class 4 – War 2012 US$m
Group										
Corporation tax	**0.8**	2.4	**0.4**	1.4	**–**	0.1	**0.4**	0.6	**–**	0.3
Trade creditors	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other creditors	**27.2**	14.6	**24.9**	9.7	**–**	–	**2.3**	0.9	**–**	4.0
Other creditors including tax and social security	**28.0**	17.0	**25.3**	11.1	**–**	0.1	**2.7**	1.5	**–**	4.3

20. Reconciliation of operating surplus to net cash flow from operating activities

	Total 2013 US$m	Total 2012 US$m	Class 1 – P&I 2013 US$m	Class 1 – P&I 2012 US$m	Class 2 – Defence 2013 US$m	Class 2 – Defence 2012 US$m	Class 3 – London 2013 US$m	Class 3 – London 2012 US$m	Class 4 – War 2013 US$m	Class 4 – War 2012 US$m
Excess/(shortfall) of income over expenditure before tax	**11.3**	5.5	**10.0**	9.0	**(0.6)**	(7.3)	**2.1**	3.1	**(0.2)**	0.7
Gains arising on realisation of investments	**(33.1)**	(36.3)	**(30.1)**	(30.5)	**(1.4)**	(0.7)	**(1.6)**	(3.5)	**–**	(1.6)
Losses arising on realisation of investments	**2.8**	9.8	**2.4**	7.8	**–**	0.7	**0.4**	1.2	**–**	0.1
Unrealised (gains)/losses on revaluation of investments	**(5.5)**	(5.8)	**(5.9)**	(6.5)	**1.3**	(1.2)	**(0.8)**	1.1	**(0.1)**	0.8
Depreciation	**1.2**	1.2	**1.2**	1.1	**–**	–	**–**	0.1	**–**	–
(Increase)/decrease in debtors	**(22.4)**	(10.7)	**(24.5)**	13.5	**3.9**	(21.3)	**(1.1)**	(3.2)	**(0.7)**	0.3
Increase/(decrease) in net claims provision	**30.4**	63.2	**28.5**	43.1	**(0.3)**	20.0	**2.2**	0.1	**–**	–
Increase/(decrease) in creditors	**12.5**	20.2	**39.8**	(20.0)	**(20.7)**	28.7	**(2.5)**	7.7	**(4.1)**	3.8
Other income including value adjustments	**–**	4.8	**–**	4.6	**–**	–	**–**	0.1	**–**	0.1
Net cash flow from operating activities	**(2.8)**	51.9	**21.4**	22.1	**(17.8)**	18.9	**(1.3)**	6.7	**(5.1)**	4.2

21. Movement in opening and closing portfolio investments

	Total 2013 US$m	Total 2012 US$m	Class 1 – P&I 2013 US$m	Class 1 – P&I 2012 US$m	Class 2 – Defence 2013 US$m	Class 2 – Defence 2012 US$m	Class 3 – London 2013 US$m	Class 3 – London 2012 US$m	Class 4 – War 2013 US$m	Class 4 – War 2012 US$m
Net cash flow for the year	**(36.9)**	69.2	**(16.5)**	44.5	**(13.3)**	11.6	**0.4**	5.7	**(7.5)**	7.4
Portfolio investments	**31.1**	(19.2)	**36.2**	(23.9)	**(4.6)**	7.2	**(2.6)**	0.8	**2.1**	(3.3)
Movement arising from cash flows	**(5.8)**	50.0	**19.7**	20.6	**(17.9)**	18.8	**(2.2)**	6.5	**(5.4)**	4.1
Change in market value	**39.3**	29.4	**36.3**	27.5	**0.1**	1.2	**2.6**	0.2	**0.3**	0.5
Total movement in portfolio investments	**33.5**	79.4	**56.0**	48.1	**(17.8)**	20.0	**0.4**	6.7	**(5.1)**	4.6
Portfolio investments at 21 February 2012	**818.6**	739.2	**723.1**	675.0	**42.6**	22.6	**37.6**	30.9	**15.3**	10.7
Portfolio investments at 20 February 2013	**852.1**	818.6	**779.1**	723.1	**24.8**	42.6	**38.0**	37.6	**10.2**	15.3

22. Movements in cash and portfolio investments

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
At 21 February 2012										
Cash at bank and in hand	**120.8**	51.7	**90.1**	45.6	**14.5**	2.9	**7.9**	2.2	**8.3**	1.0
Investment property	**27.2**	26.4	**27.2**	26.4	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**165.5**	216.7	**157.2**	202.1	**0.8**	1.8	**6.9**	9.3	**0.6**	3.5
Debt securities and other fixed-income securities	**505.1**	444.4	**448.6**	400.9	**27.3**	17.9	**22.8**	19.4	**6.4**	6.2
Total balance at 21 February 2012	**818.6**	739.2	**723.1**	675.0	**42.6**	22.6	**37.6**	30.9	**15.3**	10.7
Cash flow										
Cash at bank and in hand	**(36.9)**	69.2	**(16.5)**	44.5	**(13.3)**	11.6	**0.4**	5.7	**(7.5)**	7.4
Investment property additions	**–**	0.2	**–**	0.2	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**(26.5)**	(50.9)	**(23.3)**	(45.5)	**(0.8)**	(0.9)	**(1.7)**	(2.2)	**(0.7)**	(2.3)
Debt securities and other fixed-income securities	**57.6**	31.5	**59.5**	21.4	**(3.8)**	8.1	**(0.9)**	3.0	**2.8**	(1.0)
Cash flow for year	**(5.8)**	50.0	**19.7**	20.6	**(17.9)**	18.8	**(2.2)**	6.5	**(5.4)**	4.1
Changes in market value										
Cash at bank and in hand	**–**	(0.1)	**–**	–	**–**	–	**–**	–	**–**	(0.1)
Investment property (revalued)	**(0.5)**	0.6	**(0.5)**	0.6	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**9.9**	(0.3)	**9.7**	0.6	**0.1**	(0.1)	**–**	(0.2)	**0.1**	(0.6)
Debt securities and other fixed-income securities	**29.9**	29.2	**27.1**	26.3	**–**	1.3	**2.6**	0.4	**0.2**	1.2
Changes in market value for year	**39.3**	29.4	**36.3**	27.5	**0.1**	1.2	**2.6**	0.2	**0.3**	0.5
At 20 February 2013										
Cash at bank and in hand	**83.9**	120.8	**73.6**	90.1	**1.2**	14.5	**8.3**	7.9	**0.8**	8.3
Investment property	**26.7**	27.2	**26.7**	27.2	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**148.9**	165.5	**143.6**	157.2	**0.1**	0.8	**5.2**	6.9	**–**	0.6
Debt securities and other fixed-income securities	**592.6**	505.1	**535.2**	448.6	**23.5**	27.3	**24.5**	22.8	**9.4**	6.4
Total balance at 20 February 2013	**852.1**	818.6	**779.1**	723.1	**24.8**	42.6	**38.0**	37.6	**10.2**	15.3

Notes to the financial statements continued

23. Movement in prior years' provision for claims outstanding

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Improvement/(deterioration) in respect of prior years	**10.8**	2.7	**10.2**	3.0	**0.3**	(1.0)	**0.3**	0.7	**–**	–

24. Designated reserves
All members of the International Group of P&I Clubs have entered into arrangements whereby each club has provided security in favour of The Bermuda Trust Company. The security can only be drawn upon in the event that a club fails to meet a call upon it in relation to its obligations under the Pooling Agreement. The club has lodged a letter of credit in the amount of $17.7m (2012: $17.3m) in relation to its participation in the arrangement. No calls have been made upon the facility.

25. 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 $46m (2012: $44m).

26. 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 are disclosed in these financial statements.

All the directors (except two, who are directors and shareholders of Charles Taylor plc, the ultimate holding company of the club's managers, Charles Taylor & Co (Bermuda), one Bermuda resident director and one independent director with no membership interests) 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 paid management fees, adjusting fees and claims handling fees to the managers for the year of $44.9m (2012: $38.4m).

27. Rates of exchange

	2013	2012
The following rates of exchange were applicable to US$1 at 20 February 2013 (2012)		
Australian dollars	**0.97**	0.93
Bermudan dollars	**1.00**	1.00
Canadian dollars	**1.01**	1.00
Euro	**0.75**	0.76
Japanese yen	**93.81**	79.36
Singapore dollars	**1.24**	1.26
Swiss francs	**0.92**	0.92
UK sterling	**0.64**	0.63

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 2013			
Total closed policy years	III	**235.7**	**235.7**
Open policy years			
2012/13	II	175.4	175.4
2011/12	II	100.5	100.5
Total of open policy years		**275.9**	**275.9**
Reserves			
Contingency reserve	III	313.4	–
Statutory reserve		0.2	–
Total reserves		**313.6**	**–**
Funds available for outstanding and unreported claims		**825.2**	**511.6**

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

		2012 One year from inception US$m	2011 Two years from inception US$m	2010 Three years from inception US$m
At 20 February 2013				
Calls and premiums		272.3	262.9	254.6
Less: Claims, reinsurance premiums, administration expenses and tax		(144.7)	(201.9)	(199.7)
		127.6	61.0	54.9
Investment income to date		46.7	38.2	58.6
Funds available	**A**	**174.3**	**99.2**	**113.5**
Estimated known outstanding claims and forecast of unreported claims		265.9	363.4	102.7
Estimated reinsurance recoveries		(90.5)	(262.9)	(47.8)
	B	**175.4**	**100.5**	**54.9**
Anticipated deficit at closure	**A-B**	(1.1)	(1.3)	–
Surplus on closure of 2010/11 year				58.6
Transferred to contingency reserve at 20 February 2012			(9.1)	(42.4)
Transferred (to)/from contingency reserve at 20 February 2013		1.1	10.4	(16.2)
		–	–	–
Product of a 10% supplementary call		**20.1**	**19.7**	**19.0**

Notes
Estimated known outstanding claims and the forecast of unreported claims of open years (excluding the 2010/11 policy year) include the club's share of other clubs pool claims amounting to $68.7m.

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 $66.3m, recoveries from Group excess of loss reinsurers of $185.8m, and anticipated recoveries from other reinsurers of $101.2m.

Investment income
All investment income received in the year has been allocated to the 2012/13 policy year.

Fixed premium and non-poolable business
Of the $272m of calls and premiums on the 2012 P&I policy year, $71m represents non-poolable business which is all fixed premium. The comparative figures for 2011 are $263m and $66m, and for 2010 $255m and $65m.

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	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m
At 20 February 2013				
Balance available at 20 February 2012 (2011)	**231.9**	224.0	**304.1**	296.8
Transfers on closure of 2010/11 (2009/10) policy year	**54.9**	56.5	**16.2**	12.8
Premium adjustment	**–**	–	**(0.3)**	0.8
Claims paid net of reinsurance recoveries	**(46.2)**	(49.5)	**–**	–
	240.6	231.0	**320.0**	310.4
Transfer of anticipated deficit on open years	**–**	–	**(11.5)**	(10.6)
Other charges including value adjustments	**–**	–	**–**	4.6
Minority interest	**–**	–	**–**	0.6
(Improvement)/deterioration of claims in closed policy years	**(4.9)**	0.9	**4.9**	(0.9)
Balance available at 20 February 2013 (2012)	**235.7**	231.9	**313.4**	304.1

Closed policy years
The balance available for outstanding claims of closed policy years (including the 2010/11 year which was closed at the club's meeting on 10 May 2013) includes a provision for incurred but not reported claims (IBNR) of $37.4m (2012: $39.5m) and is shown net of pool recoveries of $52.5m (2012: $39.5m) and other non-Group reinsurance recoveries which amount to $43.1m (2012: $27.3m). The balance available including IBNR includes $42.9m (2012: $38.8m) in respect of the club's share of other clubs' outstanding pool claims.

Notice of annual general meeting

The Standard Club Ltd ('the company')
Registered no: 1837

Notice is hereby given that the 42nd Annual General Meeting of the company will be held on Friday 18 October 2013 at 1pm ('the meeting') at The Hay Adams Hotel, 800 Sixteenth Street, N.W., Washington, D.C. 20006, USA for the purpose of considering and, if thought fit, passing the following as ordinary resolutions.

Reports and financial statements

1. THAT the reports of the directors and auditors and the audited financial statements of the company for the year ended 20 February 2013 be received and adopted.

Re-election of directors appointed since the last AGM

2. THAT Barnabas Hurst-Bannister be re-elected as a director of the company.
3. THAT Stefano Goberti be re-elected as a director of the company.
4. THAT Emanuele Lauro be re-elected as a director of the company.
5. THAT Yoshihiko Nakagami be re-elected as a director of the company.

Annual re-election of directors

6. THAT Art Bensler be re-elected as a director of the company.
7. THAT Matthew Cox be re-elected as a director of the company.
8. THAT Alistair Groom be re-elected a director of the company.
9. THAT Bhumindr Harinsuit be re-elected as a director of the company.
10. THAT Roger Jones be re-elected as a director of the company.
11. THAT Andreas Martinos be re-elected as a director of the company.
12. THAT Constantine Peraticos be re-elected as a director of the company.
13. THAT John Reinhart be re-elected as a director of the company.

Appointment of auditors

14. THAT PricewaterhouseCoopers LLP be reappointed as auditors, and that the directors be authorised to fix their remuneration.

Date: 10 May 2013

By order of the board,

Charles Taylor & Co (Bermuda)
Secretary

Registered Office:
Burnaby Building
16 Burnaby Street
Hamilton
Bermuda

NOTES

1. A member of the company entitled to attend, speak and vote at the above meeting is entitled to appoint a proxy to attend, speak and vote on his/her behalf. The proxy need not be a member of the company.
2. The appointment of a proxy will not prevent a member from subsequently attending, speaking and voting at the meeting in person. Details of how to appoint the chairman of the meeting or another person as your proxy are set out in the notes to the Form of Proxy. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the chairman) and give your instructions directly to them.
3. For the instrument appointing a proxy to be effective, you must complete the enclosed Form of Proxy and ensure that the Form of Proxy, together with any power of attorney or other authority under which it is executed (or a notarially certified copy of the same), is deposited with the Secretary of the company, Charles Taylor & Co (Bermuda), Burnaby Building, 16 Burnaby Street, PO Box 1743, Hamilton, Bermuda HMGX, or scanned and emailed to pandi.bermuda@ctplc.com not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
4. A corporate member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same vote.

Form of proxy

The Standard Club Ltd ('the company')
Registered no: 1837

42nd Annual General Meeting
18 October 2013 at 1pm ('the meeting')

I (Block Capitals)……………………………………………………….., a member of the above-named company, hereby appoint the chairman of the meeting, or ……………………………………………………… as my proxy to vote for me on my behalf at the Annual General Meeting of the company to be held at The Hay Adams Hotel, 800 Sixteenth Street, N.W., Washington, D.C. 20006, USA on Friday 18 October 2013 at 1pm, and at any adjournment thereof.

Signature ………………………………………………………

Dated ……………………………………………………… 2013

Please indicate with an X in the spaces below how you wish your votes to be cast.

ORDINARY RESOLUTIONS	FOR	AGAINST
1. THAT the reports of the directors and auditors and the audited financial statements of the company for the year ended 20 February 2013 be received and adopted.		
2. THAT Barnabas Hurst-Bannister be re-elected as a director of the company.		
3. THAT Stefano Goberti be re-elected as a director of the company.		
4. THAT Emanuele Lauro be re-elected as a director of the company.		
5. THAT Yoshihiko Nakagami be re-elected as a director of the company.		
6. THAT Art Bensler be re-elected as a director of the company.		
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11. THAT Andreas Martinos be re-elected as a director of the company.		
12. THAT Constantine Peraticos be re-elected as a director of the company.		
13. THAT John Reinhart be re-elected as a director of the company.		
14. THAT PricewaterhouseCoopers LLP be reappointed as auditors, and that the directors be authorised to fix their remuneration.		

NOTES

1. If you wish any person other than the chairman to act as your proxy, please insert the name of your proxy in the space provided. If no name is inserted you will be deemed to have appointed the chairman of the meeting. A proxy need not be a member.
2. Please indicate with an x in the appropriate spaces how you wish your vote to be cast in respect of each of the resolutions. On receipt of this form duly signed but without any specific direction on how you wish your votes to be cast, the proxy will vote in favour of the resolutions.
3. In the case of a corporation, this form must be signed under its common seal or be signed by an authorised officer or attorney duly authorised in that behalf, the signatory should state in the line below his name, his office (e.g. company secretary, director).
4. To be valid at the Annual General Meeting referred to, this form must be completed, signed and dated. It should then be deposited with the Secretary of the company, Charles Taylor & Co (Bermuda), Burnaby Building, 16 Burnaby Street, PO Box 1743, Hamilton, Bermuda HMGX, or scanned and emailed to pandi.bermuda@ctplc.com not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
5. Completion and return of this form will not prevent you from attending and voting in person if you wish. Copies of the form can be downloaded from www.standard-club.com.

Notes

Managers and officers

Managers
Charles Taylor & Co (Bermuda)

Company Secretary
Charles Taylor & Co (Bermuda)

Registered office of the club
Burnaby Building
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www.ctplc.com

Managers' agents

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Designed and produced by **Emperor Design Consultants Ltd**
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Charles Taylor

The Standard

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