The Standard

Review of the year 2014

The Standard Club Ltd

01

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

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

Financial highlights 2014

Leading financial strength

Calls and premiums

$336m

2013: $294m

Excess of income over expenditure for the year

$6m

2013: $10m

Free reserves

$369m

2013: $363m

Total balance sheet funds

$949m

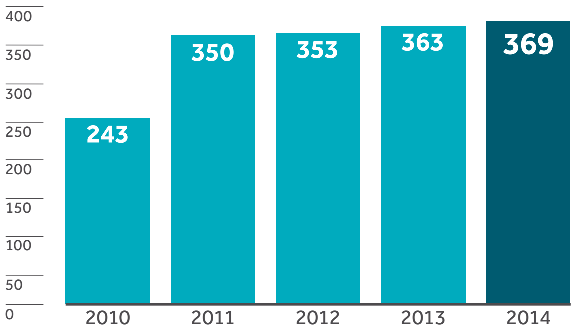
2013: $917m

	2014 $m	2013 $m
Results for the financial year ended 20 February 2014		
Calls and premiums net of reinsurance	**253**	231
Total claims net of reinsurance and operating expenses	**(257)**	(271)
Balance of technical account for general business	**(4)**	(40)
Net investment income	**10**	50
Excess of income over expenditure for the year	**6**	10
Outstanding claims liabilities		
Estimated known outstanding claims net of all recoveries	**403**	376
Incurred but not reported claims (IBNR)	**178**	178
Total estimated claims liabilities	**581**	554
Funds available for claims		
Open policy years	**328**	299
Closed policy years	**252**	255
Free reserves	**369**	363
Total balance sheet funds	**949**	917

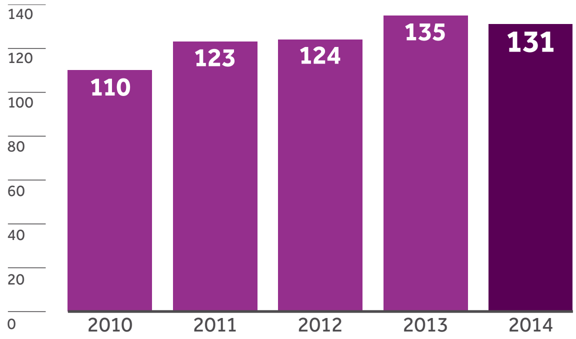
The club at a glance

Stable tonnage, improved underwriting performance

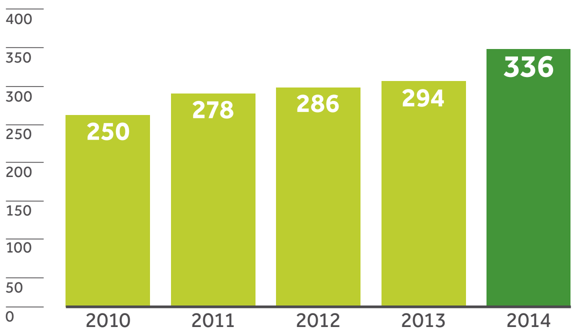
Free reserves $ million



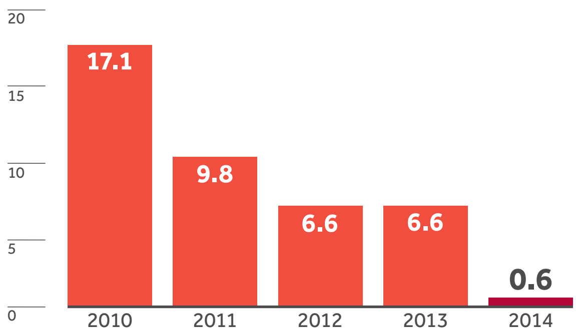
Tonnage GT million



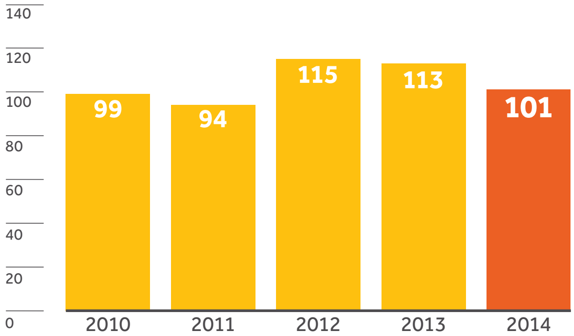
Premium income $ million



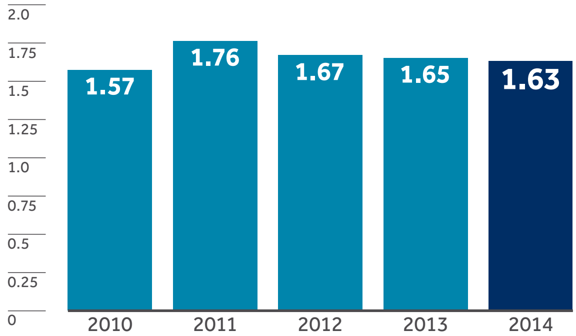
Investment return %



Combined ratio %

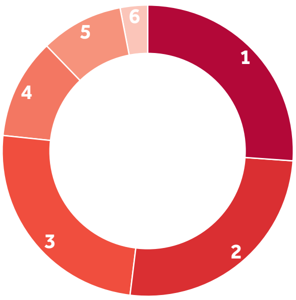


Claims cover
Ratio of net assets to outstanding claims



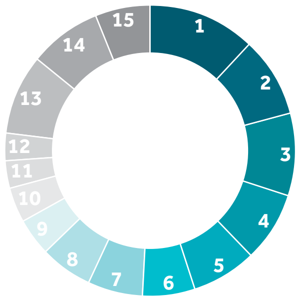
Diversity of membership and risks

Ships types entered
Owned tonnage



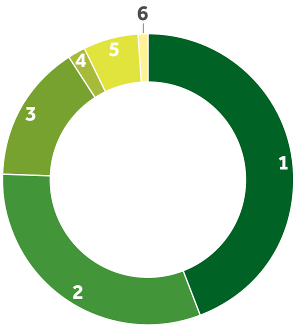
1	Tankers	**26%**
2	Container & general cargo	**26%**
3	Dry Bulk	**25%**
4	Offshore	**11%**
5	Passenger & ferry	**9%**
6	Other	**3%**

Country of management
Owned tonnage GT million



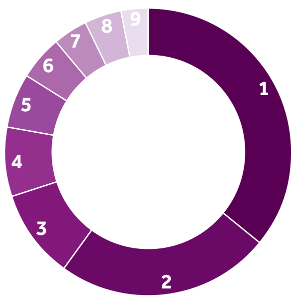
1	United States of America	**12%**
2	Greece	**9%**
3	Japan	**9%**
4	Germany	**8%**
5	Italy	**7%**
6	Canada	**6%**
7	Republic of Korea	**6%**
8	Singapore	**6%**
9	Turkey	**4%**
10	Netherlands	**4%**
11	United Kingdom	**3%**
12	Monaco	**3%**
13	Rest of World	**9%**
14	Rest of Europe	**8%**
15	Rest of Asia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

Asset allocation
As at 20 February 2014



1	Sovereign bonds	**44.3%**
2	Corporate bonds	**31.4%**
3	Equities	**15.2%**
4	Cash	**2.0%**
5	Alternatives	**6.0%**
6	Gold	**1.1%**

P&I claims by type
2009–2013 capped at $8m



1	Cargo	**36%**
2	Personal injury	**24%**
3	Fixed and floating objects	**10%**
4	Collision	**8%**
5	Pollution	**6%**
6	Damage to hull	**5%**
7	Wreck	**4%**
8	Fines	**4%**
9	Other	**3%**

02 Chairman's statement

In my first year as chairman, I am pleased to report that the club has performed very well in difficult conditions. I am confident that the club is in strong financial health and is well positioned to prosper in an increasingly competitive market environment.

This year has seen a number of changes in the club's team, most notably with two of the key architects of the club's success to date, Alistair Groom and Ricardo Menendez Ross, handing over the reins to Jeremy Grose and me. We are fortunate that they have both agreed to stay on to play active roles in club affairs, so we will continue to benefit from their experience and expertise.

We are all extremely grateful for the enormous contribution that my predecessor, Ricardo Menendez Ross, has made in steering the club through a period of growth and strategic development. Ricardo has been on the club's board for 23 years and its chairman for the past 10. As I have observed him chair the board meetings over this period, I have been struck by his determination that the board and the club consistently support its members in all our decisions. The board and I are pleased that we have managed to persuade him to stay on as a director so that we can continue to enjoy his wise counsel.

Alistair Groom has been a fixture at the Standard Club for 37 years. It is almost inconceivable to think of the club without thinking of Alistair. I am sure that all members will join me in congratulating him on his exemplary leadership and tremendous success. Like Ricardo, Alistair has agreed to remain on the board of the club and is to serve as the chairman of The Standard Club Europe Ltd, one of the club's subsidiary insurers.

Alistair has been succeeded by Jeremy Grose as chief executive, who has also played a key role with Alistair in developing the club's current strong position. Jeremy has been with the club for over 20 years and for the past eight years he has operated as Alistair's right-hand man in the capacity of chief operating officer. We are confident that Jeremy will make an effective and dynamic leader and will guide the club expertly as we navigate the increasingly complex world of P&I insurance.

As I take up my new responsibilities, I sincerely appreciate the support and dedication given by all my fellow directors. The work of the board has developed over the years and, inevitably, this has resulted in an increased burden on all of us. I thank my fellow directors for bearing this greater workload and responsibility with their usual diligence. In particular, I would like to acknowledge Rob Clarke for agreeing to take over from me as chairman of the Audit and Risk Committee as well as Cesare D'Amico and Constantine Peraticos who serve as deputy chairmen.

The Standard Club has four main pillars to its strategy: a focus on maintaining the club's strong finances; providing first class quality service to members; delivering P&I cover at the lowest possible sustainable cost; and building the strength of the club for the future, through developing new products and services to support our members' insurance requirements.

We have continued to build on this in 2014. Despite having held back from increasing premium rates at the same pace as many of our competitors in recent years, the club remains amongst the strongest financially in the International Group. The board made a conscious decision to dip into our reserves to support members during very difficult times in the shipping industry. This year, we have had to play catch up. The slightly above market general increase in 2014 announced by the club was necessary to ensure that we keep pace with the cost of providing cover. Delivering real value for our members is paramount, so to support this increase we have continued to focus on the club's already strong service and are confident that our members will reap the benefits.

During the year the club's tonnage continued to grow, consistent with our focus on quality of operation and our modest appetite for growth and we are very pleased that the vast majority of our members supported the club's approach to the renewal. Although we saw some regrettable losses we confidently expect to replace most of that tonnage in 2014.

Our claims approach reflects the fact that members are at the heart of our business. It is when members have casualties that they most need the club's support. We, in turn, seek to help them to the maximum extent possible, both in terms of our support in handling the claims, and in the reimbursement of losses.

The protection for ship owners afforded by the International Group Pooling arrangements is central to our strategy. We will resist limiting the scope of cover available under the Pool as we believe that restricting the scope of club cover is not in the long-term interests of International Group clubs' members.

We welcome the International Group's review of its approach to the provision of US COFR guarantees, although we are disappointed that there has not been better support for this initiative to avoid what appears to be an unwelcome duplication of costs for our members. We will continue to seek ways to add value and reduce cost to our members' activities, even if it means challenging the status quo.

After many years of market-leading performance, our investment return this year was slightly lower than expected. Returns were affected by our strongly defensive positioning against our benchmark asset allocations. The investment return usually provides an important subsidy to premium income and we look forward to achieving healthier returns in the future.

In addition to the changes mentioned above, Stefano Goberti, Daniel Ofer, Jnanendra Das and John Reinhart retired from the board during the year. We thank them all for the contribution they have made to the club's affairs.

We have also welcomed some new additions to the board: Stefano Rosina, Helen Deeble, Peter Senkbeil, Nicolas Hadjioannou, Marianne Sørensen and Andrew Broomhead have joined the board in the last year. We look forward to working together with them to continue to build both our organisation and our position in the industry. I know they will make a valuable contribution.

I have said a great deal about the contribution of the club's directors, but I would like to close by stating that my fellow directors and I are enormously proud of all the people at Charles Taylor who work tirelessly to provide the highest quality of service to the club's members. Recently I had the opportunity to meet with many of the staff. Their commitment and support underpins our strategy and will ensure that the club continues to grow and prosper.

Rod Jones
Chairman

03 Strategy, underwriting, membership and reinsurance

Outlook and strategy

The club's strategy remains to provide members with sustainable P&I cover at reasonable cost, with first-class service and financial security. The club continues to be in a strong position to deliver this strategy, given its focus on service excellence and its leading financial strength.

The strategy was assessed during the year by the Strategy Committee, and its recommendations were reviewed by the board. The board believes that the club should continue to pursue controlled growth in its core P&I business, and to examine opportunities to extend the range of products and services offered to members. Any development – either in P&I or in other products or services – must reinforce the solid financial attributes of the club, and be consistent with the club's existing emphasis on the quality of its members' operations and with the high standard of service provided to them.

Consistent with the board's guidance, the club has continued its strong track record of innovation over the last 12 months. During this period, the club has developed additional covers either to be underwritten by the club but backed by reinsurance, or sponsored by the club but provided by market reinsurers. The progress in respect of recently launched covers has been monitored carefully, and has been positively received by members.

Underwriting

The underwriting result for this financial year has improved compared with last year, with a combined ratio of 101%. The five year average is 104% which is within the club's target of maintaining a five year average combined ratio of no more than 105%. Free reserves have increased and stand at a record high of $369m.

The club has also seen some reductions in the deficits on both the 2011/12, and 2012/13 policy years, although 2013/14 experienced a higher level of claims than recent years and, consequently, a larger loss is forecast. Closed policy years have generally improved with claims in the defence class improving significantly.

The club published a general increase of 12.5% for the 2014/15 renewal. Prior to this, the two most recent renewals had seen the club support the membership during very difficult freight markets by asking for smaller general increases of 5% and 7.5% respectively. February 2014 saw the club move closer to technical pricing by achieving a targeted increase in premium rate per ton of over 10%. As a result of more rigorous member selection end pricing discipline the club cut the renewing book of business by approximately 6%.

The original Estimated Total Premium is not expected to be exceeded in any of the open years for any class.

Membership and tonnage

Membership selection is a priority for the club. Each year the club takes steps at renewal to improve the overall quality of the book of business entered in the club, and members may not be offered renewal terms if there are concerns over operating quality.

During the year, and at renewal, the club welcomed some new members and some existing members added additional tonnage.

At February 2013 the club insured 134m tons which rose during the course of the year to 138m tons. Following the renewal, the entered tonnage at 20 February 2014 was approximately 131m tons.

Key performance indicators

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

Key performance indicators	2014	2013
Tonnage gt m	**131**	135
Gross premium and calls $m	**336**	294
Free reserves $m	**369**	363
Claims cover[1]	**1.63**	1.65
Combined ratio[2] %	**101**	113
Investment return[3] %	**0.6**	6.6

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

Ship quality, operational standards and loss prevention

The managers operate a Safety and Loss Prevention department which is supported by Advisory Committees of Standard Europe and Standard Asia. These committees consist of senior technical officers from a representative selection of members who meet regularly throughout the year. They consider major claims and claims trends and make specific recommendations directed at the members concerned, in addition to guiding the club's Safety and Loss Prevention initiatives generally. The Safety and Loss Prevention team's analysis of claims trends allows them to make recommendations to the committees on suitable initiatives where risks are seen to be deteriorating.

The club's Safety and Loss Prevention team support the club's commitment to insuring quality tonnage with member risk review and condition survey programmes the results of which are also used to guide safety and loss initiatives. These programmes support the underwriters in achieving a higher quality of membership.

Finally, the team plays an important role in providing technical assistance to the members by giving guidance on specific cargo queries and through the general loss prevention material which they produce.

In the 2013/14 policy year the managers carried out a total of 45 member risk reviews, including 32 full reviews, 12 follow-ups and one potential member review meeting. At the last renewal eight members were not offered renewal terms as a result of concerns over operational quality.

Hull & Machinery and additional covers

The club's strategy is to develop additional covers beyond the core P&I product to support members and to grow the club's offering. Many such products have been available from the club for some time and many members already extend their club cover to include additional covers in order to take advantage of favourable terms and club service. Many members now consider the club to be their first port of call for their marine insurance needs.

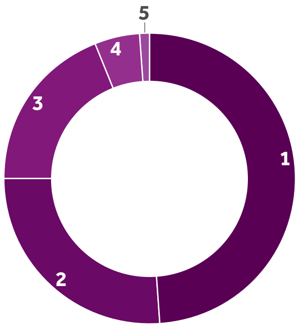
The three additional covers launched in 2012 (Kidnap and Ransom, Traders' Liabilities and Intermediaries) have generated significant interest and take-up from members as well as some interest from non-members. In April 2013 the Standard Hull facility was launched with the support of leading London market hull underwriters. To date there has been significant interest from the membership, and a number of covers have been bound in both a leading and following capacity.

The club intends to build on this platform and develop further covers for the benefit of its members.

The club has also launched a facility to provide fixed premium P&I cover with limits up to $500m, alongside the traditional mutual high-limit cover from which the great majority of members benefit. This facility is supported by reinsurance arranged at Lloyd's and further enhances the options available to members for their P&I cover. On the basis of this fixed premium facility, the club is proud to

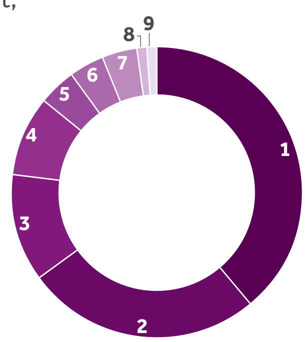
Standard Asia
Ship types entered, owned tonnage

1	Dry bulk	49%
2	Tankers	26%
3	Container & general cargo	19%
4	Offshore	5%
5	Other	1%



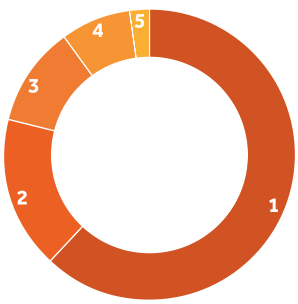
Standard Asia
Country of management, owned tonnage

1	Republic of Korea	39%
2	Singapore	26%
3	Hong Kong	12%
4	Indonesia	9%
5	Thailand	4%
6	Taiwan	4%
7	Australia	4%
8	United Kingdom	1%
9	Rest of Asia	1%



Standard Offshore
Ship types entered, owned tonnage

1	Production	62%
2	Installation/ Construction	17%
3	Supply support	11%
4	Drilling	8%
5	Accommodation	2%



have been chosen as the major reinsurer of a new fixed premium insurance product for Turkish flag cabotage ships which began underwriting on 20 February 2014.

TS21

The club's joint venture with Tokio Marine and Nichido Fire is now in its thirteenth year of operation and continues to go from strength to strength. Another four members joined during the last year and TS21 now represents 9% of the total tonnage entered in the club.

Defence class

Even though claims activity in recent years has moderated from the highs of 2008 to 2011, many claims from those years continue to be active and those in the more recent years continue to develop. Nevertheless, there has been a moderation in the level of claims exposure on this class. For 2014/15, a new Defence rule was adopted which limits the club's exposure for Defence class cases to $5m.

Standard Asia

Incorporated in Singapore in 1997, Standard Asia continues to be a leader in the region. The club has 26 staff in Singapore providing a full range of member services including claims, underwriting, loss prevention and finance. A further two claims staff are based in Hong Kong and report to Singapore.

Standard Offshore

The offshore membership continues to develop through targeted growth and the continued focus on quality membership. Market conditions remain challenging with new entrants seeking market share and the market remains competitive. The reinsurance market was firmer this year but the club nevertheless achieved the successful renewal of the $1bn limit on its non-Pool reinsurance programme.

London class

The London class specialises in P&I cover for smaller vessels trading primarily in the coastal waters of Europe and on its inland waterways. Dedicated resources and specialised knowledge of the liabilities faced by these sectors allow members to benefit from a service tailor-made to their particular operations. The class has its own committee, chaired by Dr. Gunther Jaegers of Reederei Jaegers GmbH.

The London class operates in a highly competitive market of both mutual and commercial insurers. It has continued to deliver stable underwriting results and growth through 2013 with the combination of a strong product, supportive and flexible claims service and good support from key producers.

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 facilitate collective reinsurance for member clubs through the Pool and reinsurance arrangements.

Club retention and the Pool

The individual club retention remains at $9m for the 2014/15 policy year. The Pool retention has been increased to $80m, and the Pool now has three layers: $9m to $45m, $45m to $60m and $60m to $80m. The pooling mechanism maintains fairness between clubs and ensures that exposures generated are manageable.

The International Group reinsurance programme

This year's renewal resulted in an overall premium increase of around 8%. There was no change to the essential structure of the programme this year, although the International Group's Pool retention increased from $70m to $80m but with one new provider joining the programme on a $100m excess. Hydra, the International Group's captive, has an aggregate retention under its own reinsurance contract which remains at $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 the charterers and those involved in the offshore energy and specialist sectors, whose risks are largely excluded from the Pool. The club was able to renew with the same maximum limit of $1bn.

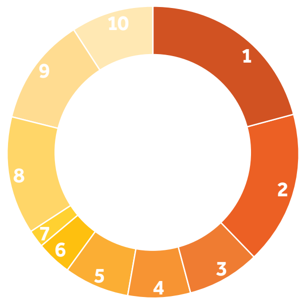
Retention reinsurance

The club continues to purchase 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 it does not expect to make claims, there have nonetheless been losses to reinsurers on some contracts. The club appreciates the support given by its reinsurers, and values the relationship it has with them highly.

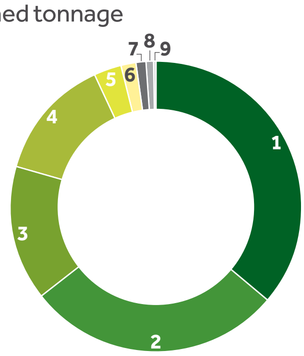
Standard Offshore
Country of management, owned tonnage

1	Netherlands	21%
2	Monaco	17%
3	USA	8%
4	United Kingdom	7%
5	Singapore	7%
6	Italy	4%
7	Canada	2%
8	Rest of World	13%
9	Rest of Europe	12%
10	Rest of Asia	9%



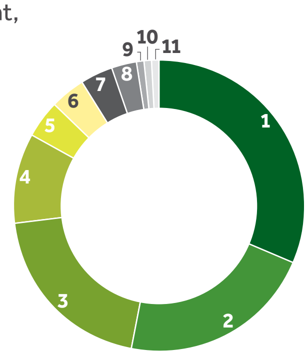
London Class
Ship types entered, owned tonnage

1	Short sea – dry	36.25%
2	Dry barge	28.28%
3	Tank barge	15.07%
4	Short sea – wet	13.73%
5	Tugs, pushboats	2.90%
6	Passenger	1.58%
7	Specialist	1.11%
8	Work	0.98%
9	Trawler	0.10%



London Class
Country of management, owned tonnage

1	Russia	31.56%
2	Netherlands	21.60%
3	Germany	20.16%
4	Turkey	9.77%
5	Hungary	4.18%
6	Other	3.92%
7	Belgium	3.70%
8	Slovakia	2.75%
9	Baltic States	0.83%
10	Italy	0.82%
11	United Kingdom	0.70%



04 Claims, legal and service

The club's approach to claims

The club exists to pay claims, not to find reasons not to do so. It views the claims service as the most critical part of the proposition to members, and the club's teams pride themselves on the responsiveness and flexibility of claims handling that they provide. The club surveys its members regularly – with results reviewed by the club's board – to ensure that it meets the highest standards of performance in this area, and the results continue to be extremely strong.

The claims environment

The past year has seen the continuation of the total incurred claims cost being concentrated in a relatively small number of large claims. The top 20 claims by value accounted for over two-thirds of the overall cost for the year. A number of these large claims involve wreck removal, pollution clean-up and associated fines. The causes were varied but there has been a worrying incidence of engine-room fires leading to engine and electrical failures with the subsequent loss of the ship. As ever, the club is alert to any evidence of poor maintenance or a lack of proper management oversight, particularly given the difficult freight market over the last few years, which has imposed financial constraints on many ship operators.

A number of large claims have also arisen from explosions and fires on container ships involving improper stowage of misdeclared dangerous cargoes. This has resulted in substantial damage to hull, crew injury and cargo liabilities affecting both owner and charterer members. The club is actively engaging with container ship operators in order to understand better the causes of these casualties and to minimise them in the future.

The cost of fines has increased substantially over the past few years. Large fines resulting from prosecutions for breaches of MARPOL involving bypassing oily water separators and falsification of oil record books continue to be a source of concern. The club has also seen an increase in the frequency and size of fines imposed for infringements of local laws relating to health and safety and the permits needed to carry out certain operations. Cover for many of these fines is discretionary, based upon the board's evaluation of the member's operational procedures.

Although the past year has been a difficult one in terms of the number of large claims, the club's claims projections for all past policy years remain fairly stable, with improvements in most open policy years.

Pool claims

There are 24 Pool claims in the 2012/13 policy year notified to the International Group. For the 2013/14 policy year, as at 20 February 2014, there are 15 Pool claims notified.

The club experienced no Pool claims for 2012/13 but has notified two Pool claims for the 2013/14 policy year.

Industry issues

US COFRs

In early 2013, the board directed the managers to review whether there is a better solution than the present one for members, and for all shipowners, to obtain the Certificates of Financial Responsibility (COFRs) required by the US authorities for trade to and from the US. Based on this review, the club believes that the current system has caused shipowners to pay in the region of $1bn over the past 19 years to third-party providers even though the actual cover is effectively provided by the clubs. If the system does not change, shipowners will continue to pay significant amounts to third-party providers for duplication in cover.

The board's preferred position is that the club itself should guarantee the obligations under US COFRs rather than third-party providers. The managers and board further concluded that the greatest advantage would be achieved if all IG clubs were to follow the same approach, but other clubs raised concerns based on perceived legal risks in the US and the spectre of a domino effect in other jurisdictions. A working group of representatives from six clubs was formed. The group studied the issues further and agreed a report which is being circulated to all IG clubs for consideration at their next board meetings. The managers also prepared FAQs which state the case for change, and these are posted on the club's website. When all IG clubs have reported their views, the board will review the options available to allow members to meet their obligations with respect to COFRs in the most cost-effective way.

Piracy

Worldwide, piracy is at its lowest level since 2006. However, whilst there has been a marked downturn in reported events off the east coast of Africa, activity in the Gulf of Guinea off West Africa has increased. The club continues to play a key role in assisting members to reduce the risks of piracy and its impact on the industry. The club advises on the appointment of armed guards on vessels and has contributed to an amended version of the industry-standard BIMCO GUARDCON contract for the use of armed guards off West Africa which will be published during 2014.

The club continues to offer kidnap and ransom cover to its members to reduce the effects of piracy. Despite the reduction in reported piracy events, piracy remains a serious threat to the wellbeing of ships and their crews, and the club strongly recommends that members continue to exercise vigilance and to follow best management practices.

Sanctions

US extraterritorial sanctions against Iran were further tightened through Executive Order 13645 and the Iran Freedom and Counter-Proliferation Act, which came into force on 1 July 2013. These extended the sanctions to Iran's energy, shipping and shipbuilding sectors, its automobile industry, precious metals such as gold and silver, graphite, and certain raw or semi-finished metals such as aluminium and steel. The combined effect of the US sanctions is discussed in FAQs issued by the International Group of P&I Clubs, which can be found on the club's website.

As part of the Joint Plan of Action reached between Iran and the P5+1 in November 2013, a limited easing of sanctions against Iran was agreed for a renewable six month period commencing 20 January 2014. For this period, both US extraterritorial and EU sanctions are suspended on Iran's petrochemical exports, its automobile industry and precious metals. Iranian crude oil sales are also permitted at current levels to Iran's current customers, i.e. China, India, Japan, South Korea, Taiwan and Turkey. Elsewhere, there has been some relaxation of sanctions including EU sanctions against Myanmar and Zimbabwe.

The club implements various measures to minimise the risks of breaching sanctions as part of its due diligence. In particular, the club's sanctions rules include the automatic cessation of cover in respect of any ship employed in a trade which exposes the club to the risk of sanctions. The club also screens parties, with whom it has any dealings, before the provision of security or making any payment. Other measures include sanctions procedures and awareness promoted by the club's sanctions team, which has representatives in the London, New York and Singapore offices.

Brazil office

The club's managers opened an office in Rio de Janeiro in March 2014 to support club members in Brazil and the wider South American region.

05 Finance and investment

Summary financial results

As set out in the consolidated income and expenditure account, revenue from calls, premiums and releases amounted to $336m (2013: $294m) with reinsurance costs of $83m (2013: $63m). Claims incurred, net of reinsurance recoveries, amounted to $231m (2013: $245m).

The underwriting deficit fell to $4m (2013: $40m deficit), with an overall surplus of income over expenditure after applying investment returns of $6m (2013: $10m surplus), increasing free reserves to a record high of $369m. The amount set aside to meet outstanding claims and IBNR stood at $581m at 20 February 2014 (2013: $554m).

Free reserves

These represent the surpluses built up out of open and closed policy years and constitute the core capital of the club. The club's free reserves increased to $369m at the year-end (2013: $363m). This increase reflected a modest investment return offset by a nominal underwriting deficit.

The board reviewed the strategic purposes and appropriate level for the free reserves and agreed that 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 current level of free reserves is within the target strategic range set by the board. This range is set by reference to various solvency tests. 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.

Investments

In the year to 20 February 2014, the club's investment assets, excluding Standard House, returned approximately 0.6%. This estimated return is the combined return of the Standard group of companies for the whole financial year.

As at 20 February 2014, the investment portfolio was allocated approximately as follows:

- Sovereign bonds including bills 44.3%
- Corporate bonds 31.4%
- Equities 15.2%
- Alternatives 6.0%
- Gold 1.1%
- Cash/FX forwards 2.0%

The approximate currency allocation at 20 February 2014 was:

- North American currencies (including gold) 85.3%
- European currencies 4.1%
- Sterling 7.3%
- Other currencies 3.3%

The main change in asset allocation over the year was a decrease in the sovereign bond and bill holdings. The biggest decrease was in US bonds and bills. There was an offsetting increase in the allocation to property and infrastructure orientated alternative strategies as well as to corporate bonds. In terms of currencies, the allocation to the US Dollar was increased out of Asian and European currencies (including Sterling).

Solvency and capital management

With the approval of the Omnibus II Directive by the European Parliament in March 2014, a key milestone has been passed in the course of implementing the Solvency II regulations which are set to come into force on 1 January 2016.

The club's subsidiary, The Standard Club Europe Ltd, is continuing to make good progress towards meeting this 2016 start date and has a well-developed own risk and solvency assessment (ORSA) programme in place, a key requirement under Solvency II.

As part of the ORSA the club makes use of its internal model to make assessments of its own capital needs as well as using the model to inform important business planning issues including setting the renewal pricing strategy, reinsurance purchasing and establishing projections of the club's prospective result against which actual performance can be measured.

The 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 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.

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 last time the Club made a supplementary call was in 1993. The board's strategic approach to capital has been referred to above in the free reserves section of the business review.

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Looking forward to 2015

The club remains in robust health, with a record level of free reserves held. However despite a much improved underwriting result shown in the year to February 2014, and a robust rate rise achieved at renewal, we believe that 2014/15 will be another challenging year. We forecast that large claims, including Pool claims, will remain at the high levels seen in recent years, and the weak investment environment will make achieving strong investment returns difficult.

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