The Standard

Annual report and financial statements 2014

The Standard Club Ltd

standard-club.com

Financial highlights 2014

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

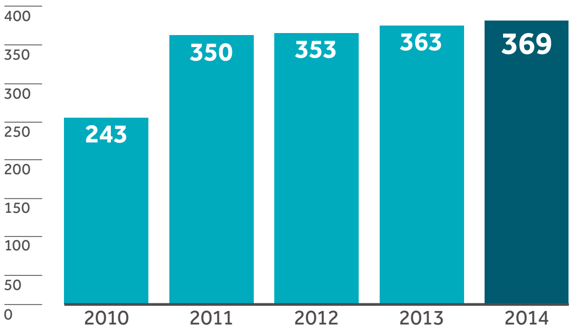
$949m

2013: $917m

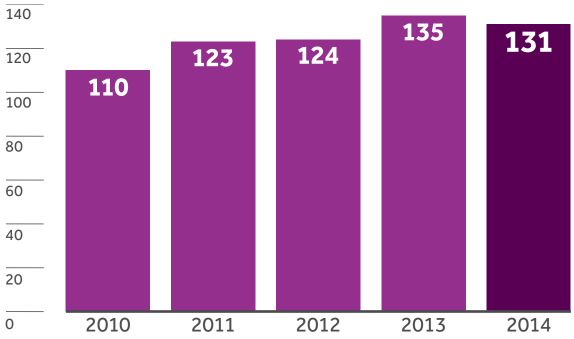
	2014 $m	2013 $m
Results for the financial year ended 20 February 2014		
Calls and premiums net of reinsurance	**253**	231
Total claims net of reinsurance and operating expenses	**(257)**	(271)
Balance of technical account for general business	**(4)**	(40)
Net investment income	**10**	50
Excess of income 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

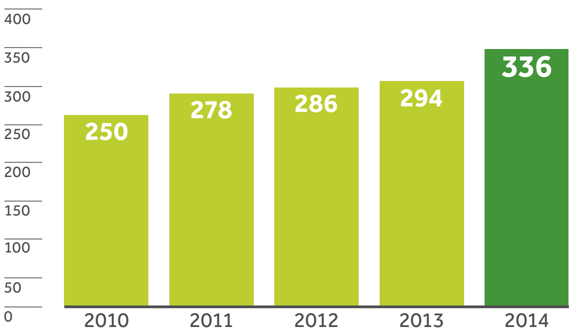
Free reserves $ million



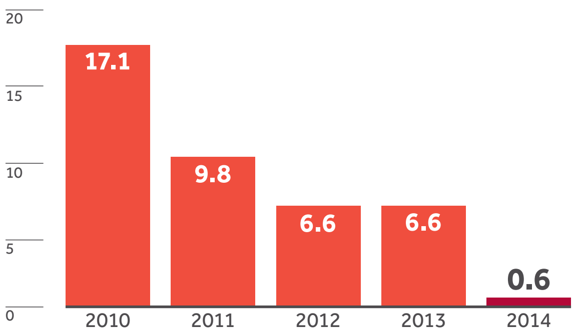
Tonnage GT million



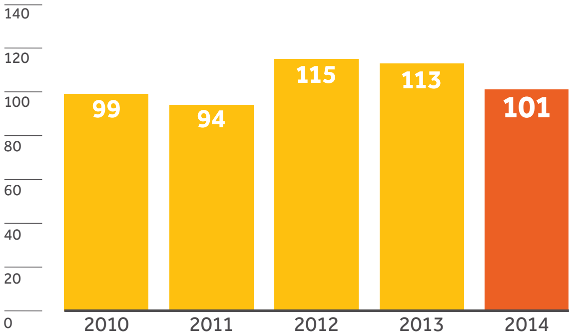
Premium income $ million



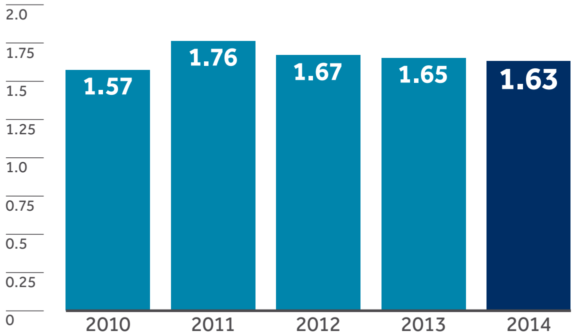
Investment return %



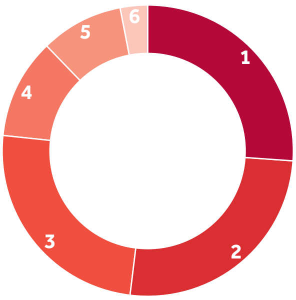
Combined ratio %



Claims cover
Ratio of net assets to outstanding claims

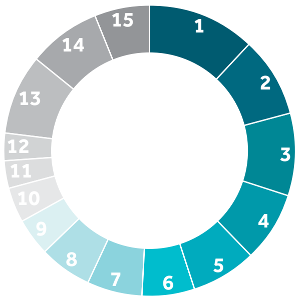


Ships types entered
Owned tonnage



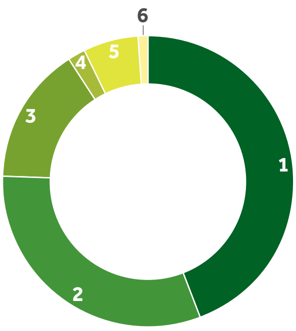
1	Tankers	26%
2	Container & general cargo	26%
3	Dry Bulk	25%
4	Offshore	11%
5	Passenger & ferry	9%
6	Other	3%

Country of management
Owned tonnage GT million



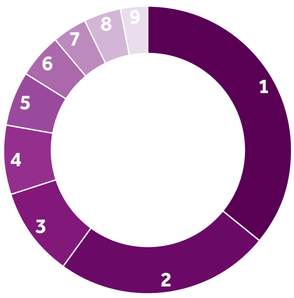
1	United States of America	12%
2	Greece	9%
3	Japan	9%
4	Germany	8%
5	Italy	7%
6	Canada	6%
7	Republic of Korea	6%
8	Singapore	6%
9	Turkey	4%
10	Netherlands	4%
11	United Kingdom	3%
12	Monaco	3%
13	Rest of World	9%
14	Rest of Europe	8%
15	Rest of Asia	6%

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%

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

The directors

02

The directors

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

R M Jones[1,2,3,4,5,6]
President and Chairman
CSL Group Inc

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

C d'Amico[2,3,6]
Deputy Chairman
D'Amico Societa di Navigazione SpA

C Peraticos[2,3,4,6]
Deputy Chairman
Pleiades Shipping Agents SA

N Aksoy
Turkish Cargo Lines, Akmar
Shipping Group

L D'Amato
Fratelli D'Amato SpA

A Bensler[2,3]
Teekay Corporation

A Broomhead[5]
Pacific Basin Shipping Limited
(Appointed 16 May 2014)

R Clarke[1,3,4,6]
British Columbia Ferry Services, Inc

P Clerici
Coeclerici SpA

M J Cox[1,3,4]
Matson Navigation Co Inc

J N Das
The Shipping Corporation
of India Ltd
(Resigned 16 May 2014)

H Deeble CBE
P&O Ferries Holdings Limited
(Appointed 21 January 2014)

S Goberti
Saipem SpA
(Resigned 19 December 2013)

A J Groom[1,2,3,4,6]
Independent Director

N Hadjioannou
Alassia Holdings Inc
(Appointed 16 May 2014)

B Harinsuit[2,5]
Harinsuit Transportation Co Ltd

B J Hurst-Bannister[1,3,4]
Independent Director

G Jaegers
Reederei Jaegers GmbH

E L Johnsen[1,3]
International Shipholding
Corporation

D C C Koo[5]
Valles Steamship Co Ltd

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

D G Marock[4]
Manager

A Martinos
Minerva Marine Inc

R Menendez Ross[1,2,3,4,5,6]
Ultrapetrol SA

Y Nakagami
Iino Kaiun
(Appointed 10 May 2013)

D Ofer
Zodiac Maritime Agencies Ltd
(Resigned 24 January 2014)

J B Rae-Smith[3]
Swire Pacific Offshore Ltd

J F Reinhart[2,3]
Maersk Line Ltd
(Resigned 16 May 2014)

S Rosina
Premuda SpA
(Appointed 18 October 2013)

P Senkbeil
SBM Offshore
(Appointed 21 January 2014)

M Sørensen
Maersk Drilling A/S
(Appointed 16 May 2014)

S S Teo[5]
Pacific International Lines (Pte) Ltd

1 Member of Audit and Risk Committee
2 Member of Nomination and Governance Committee
3 Member of Strategy Committee
4 Director of Standard Europe
5 Director of Standard Asia
6 Member of the Chairman's Group

Report of the directors

03

Business review

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 2014 there were approximately 131m 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 Stefano Rosina, Helen Deeble, Peter Senkbeil, Andrew Broomhead, Nicolas Hadjioannou, and Marianne Sørensen. 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 or the corporate governance requirement to seek annual re-election after serving a period of nine years on the board, and who, being eligible, have also offered themselves for re-election, are Necdet Aksoy, David Marock, S S Teo, Ricardo Menendez Ross, Robert Clarke, Luigi D'Amato, Cesare d'Amico, Paolo Clerici, Constantine Peraticos, Alistair Groom, Rod Jones and J B Rae-Smith. Details of those directors seeking annual re-election are included in the notice of the AGM, set out on page 55. The board said farewell to Daniel Ofer, Stefano Goberti, Jnanendra Das and John Reinhart.

Chairman

On 21 January 2014, Ricardo Menendez Ross, who had been chairman of the board for a period of 10 years, stepped down from this position. Rod Jones was duly elected the new chairman of the board with effect from the same date. Ricardo Menendez Ross remains a director of the company.

Registered office

On 16 September 2013, the registered office of the company was changed to Swan Building, 2nd Floor, 26 Victoria Street, Hamilton HM12, P.O. Box HM 2904, Hamilton HMLX, Bermuda.

Meetings of the board

Since the date of the last report, the board met on three occasions: on 18 October 2013 in Washington, on 21 January 2014 in Paris, and on 16 May 2014 in San Francisco. 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. The newly established Strategy Committee has also met on three occasions. The chairman's group has also held regular discussions with the managers during the year to monitor the club's performance between board meetings.

Summary financial results and consolidated balance sheet

As set out in the consolidated income and expenditure account, there is a surplus of income over expenditure of $6m (2013: $10m). Total reserves available for claims stand at $949m (2013: $917m). The amount set aside to meet outstanding claims and IBNR was $581m at 20 February 2014 (2013: $554m).

Income and expenditure account

Revenue from calls, premiums and releases amounted to $336m (2013: $294m). Paid claims, net of reinsurance recoveries, were $204m (2013: $214m). Pool and reinsurance recoveries amounted to $314m (2013: $166m).

Business review continued

Average expense ratio

The average expense ratio for the club's P&I class for the five years ended 20 February 2014 is 10.9% (2013: 13.2%). 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 2011/12 policy year at its meeting on 16 May 2014 on the basis of the financial position at 20 February 2014. The total open policy year balance at 20 February 2014 amounted to $312m after closure of the 2011/12 policy year. Included in this balance are estimated reinsurance recoveries of $186m. The estimate of net outstanding claims liabilities for the closed years amounted to $239m (including liabilities for the 2011/12 policy year).

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.

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.

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 Strategy Committee and the board reviewed the club's strategy. The board, in accordance with the recommendations of the Strategy Committee, 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 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 also been monitored.

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. By virtue of the bye-laws, directors are, in the most part, 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.

The board also has the benefit of an independent insurance expert director and expert insurance and investment guidance from its managers and personnel within the managers' group, as well as access to additional 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 who have held office for a period of nine years must offer themselves for annual re-election to the board. 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.

The 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 a service level agreement, as well as the managers' remuneration. The committee also discussed succession planning.

The performance of the board, its committees, and the chairman are reviewed periodically and the Nomination and Governance Committee last conducted an evaluation of the board's effectiveness in 2012. An evaluation is due to be undertaken in the autumn of 2014.

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 was conducted during the year. Additionally, 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 2015.

The 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 reviewed the annual report and gave consideration to the scope and nature of the year-end audit. 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 him on the audit report.

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 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 and the report on the club's group Own Risk and Solvency Assessment, and reviewed the development of the club's internal model, including its inputs, assumptions, methodology, uses, sensitivities and outputs.

The Chairman's Group

The Chairman's Group has met six times this year and reviews the affairs of the club with the managers between board meetings.

Corporate governance continued

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 plc Audit Committee. 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.

Strategy Committee

The Strategy Committee was established in May 2013 and held its inaugural meeting in October 2013. Written terms of reference for this committee are available on the club's website. The committee's role includes: considering and making recommendations to the board concerning the strategy to be adopted by the club; reviewing the performance of the club in meeting strategic objectives; reviewing the club's business environment; and considering new strategic initiatives, alliances and potential mergers.

During the year the committee considered and made recommendations to the board regarding proposals in respect of new products and services to be offered by the club and led the review of the club's business plan. The committee has also discussed matters relating to the International Group of P&I clubs and the reinsurance market generally and considered proposals in respect of potential new projects.

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 directors' 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.

Corporate governance continued

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.

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.

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

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, acceptability of results and consistency with risk appetite; and • 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 note 14 to the financial statements, starting on page 44.

Operational review

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.

Release calls

An actuarial assessment is undertaken to establish the level of release calls for each policy year, as the various risks to which the club is exposed could lead to a wide variety of profit and loss outcomes. The club has considered each of a large number of possible results to assess the probability of the free reserves falling to a level at which a supplementary call might be made. The size of such a supplementary call, weighted by the probability of requiring a call of that size, represents the liability foregone by a member who leaves the club. The release call is set as this amount plus a risk transfer premium. The results of the assessment are published on the club's website.

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.

The claims environment

The past year has seen a continuation of the trend of the total incurred claims cost being concentrated in a relatively small number of large claims, with the top 20 claims by value accounting for over two-thirds of the overall claims cost for the year. A number of these large claims involve wreck removal, pollution clean-up and associated fines. The causes of these casualties are 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 which has been experienced 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 working with members to attempt 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 permits needed to carry out certain operations and breach of health and safety regulations. Cover for many of these fines is discretionary, based upon the board's evaluation of the adequacy 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 the 2012/13 year but has notified two Pool claims for the 2013/14 policy year.

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.

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.

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.

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.

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.

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.

Operational review continued

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.

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.

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.

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 board's strategic approach to capital has been referred to above in the free reserves section of the business review.

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.

Operational review continued

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 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.

Industry issues

US COFRs

In early 2013, the board directed the managers to review and consider whether there is a better solution than the present one for members, and indeed 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 being provided by the clubs. If the present system does not change shipowners will pay significant amounts per year to third-party service providers for a duplication in cover for the foreseeable future. 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 working 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 changing the present system and which are posted on the club's website.

When all IG clubs have reported their views, the board will review the options available to ensure that the club's members are provided with the most cost-effective means possible to meet their obligations under US law with respect to COFRs.

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, there has been an increase in activity in the Gulf of Guinea off West Africa. 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 board 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 in an effort 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 targets 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 sanctions awareness promoted by the club's sanctions team, which has representatives in the London, New York and Singapore offices.

Wreck Removal Convention

The Nairobi International Convention on the Removal of Wrecks 2007 is due to come into force 12 months following the date on which 10 States have ratified it. So far, nine States have ratified the Convention and it is therefore anticipated to be in force in the near future. The Convention gives state parties the power to take measures to remove wrecks located within their EEZ (12 – 200nm from the coastal baseline) that pose a hazard to navigation or that may reasonably be expected to result in harmful consequences to the marine environment or damage to the coastline or other coastal interests. State parties can opt to apply the Convention to wrecks located within their territorial waters (0 – 12nm from the coastal baseline) in addition to their EEZ if they so wish.

As it applies to wrecks located in a state party's EEZ, and given that there are wide ranging criteria that states can rely upon in deciding to have a wreck removed, the Convention may provide contracting states with a legal basis to order removal of wrecks located in very deep water. The wide-ranging criteria and the enhanced technical challenges involved in removing wrecks in deep water may result in an increase in the number and value of wreck removal claims generally.

The Convention includes compulsory insurance provisions similar to those contained in the CLC and Bunkers Convention. Once the Convention is in force, the club will be in a position to issue blue cards on behalf of members evidencing that sufficient insurance is in place in compliance with the Convention. The club's rules have been amended to reflect this.

Misdeclared cargo

In order to combat issues caused by the misdeclaration of cargo carried on container ships, the IMO made it a requirement for shippers to declare cargo as per their "proper shipping name" according to the IMDG Code. Whilst carriers will check the cargo declarations and corresponding MSDS to ensure that the container is carried correctly, dangerous cargoes attract a higher freight rate which some unscrupulous shippers seek to avoid.

The club endorses membership by its liner operating members of the Cargo Incident Notification System and Organisation (CINS) which was created in November 2010 by five container shipping lines after multiple serious cargo incidents. The total number of CINS members is now 27, representing over 60% of the container shipping industry.

The intention of CINS is to allow the structured capture of key causal information relating to cargo and container incidents. All information about cargo that either has or could have caused an accident is fed into the CINS database via a web application. Analysis of the captured data allows production of statistics and identification of industry trends. This will also provide the shipowners with the evidence to back up their claims if any clear patterns emerge indicating that further action ought to be taken either at industry or regulatory level. In this way the problem of misdeclared IMDG cargo can be clearly highlighted and possible solutions explored. eg. adjusting freight rates for dangerous cargoes to encourage open disclosure.

The club will be issuing a bulletin on the subject of misdeclared cargo in an effort to raise the profile of this issue and to encourage our liner members to sign up to CINS.

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 2014 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

16 May 2014

Independent auditors' report

04

Independent auditors' report
To the members of The Standard Club Ltd

We have audited the group and parent club financial statements (the 'financial statements') of The Standard Club Ltd for the year ended 20 February 2014 which comprise the consolidated income and expenditure account, the consolidated and parent club 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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

16 May 2014

Financial statements and other information

Financial statements and other information

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Consolidated income and expenditure account
For the year ended 20 February 2014

	Notes	Total 2014 $m	Total 2013 $m	Class 1 – P&I 2014 $m	Class 1 – P&I 2013 $m	Class 2 – Defence 2014 $m	Class 2 – Defence 2013 $m	Class 3 – London 2014 $m	Class 3 – London 2013 $m	Class 4 – War 2014 $m	Class 4 – War 2013 $m
Technical account – general business											
Earned premiums, net of reinsurance											
Gross premiums written including calls	3	**336.1**	294.1	**309.6**	270.0	**13.5**	11.4	**11.9**	11.2	**1.1**	1.5
Outward reinsurance premiums	4	**(82.9)**	(62.9)	**(80.4)**	(59.5)	**–**	0.1	**(1.5)**	(2.2)	**(1.0)**	(1.3)
Earned calls, net of reinsurance		**253.2**	231.2	**229.2**	210.5	**13.5**	11.5	**10.4**	9.0	**0.1**	0.2
Total income		**253.2**	231.2	**229.2**	210.5	**13.5**	11.5	**10.4**	9.0	**0.1**	0.2
Expenditure											
Claims paid	6	**518.0**	380.7	**502.8**	361.8	**9.7**	13.1	**5.5**	5.8	**–**	–
Reinsurers' share	7	**(314.3)**	(166.4)	**(313.1)**	(165.3)	**(1.1)**	(0.9)	**(0.1)**	(0.2)	**–**	–
Net claims paid		**203.7**	214.3	**189.7**	196.5	**8.6**	12.2	**5.4**	5.6	**–**	–
Change in provision for claims		**(21.2)**	150.0	**(5.2)**	142.8	**(15.2)**	0.4	**(0.8)**	6.8	**–**	–
Reinsurers' share		**48.4**	(119.6)	**44.8**	(114.3)	**1.1**	(0.7)	**2.5**	(4.6)	**–**	–
Change in net provision for claims		**27.2**	30.4	**39.6**	28.5	**(14.1)**	(0.3)	**1.7**	2.2	**–**	–
Claims incurred, net of reinsurance		**230.9**	244.7	**229.3**	225.0	**(5.5)**	11.9	**7.1**	7.8	**–**	–
Net operating expenses	8	**26.5**	26.1	**23.4**	22.8	**0.7**	0.7	**2.2**	2.2	**0.2**	0.4
Total expenditure		**257.4**	270.8	**252.7**	247.8	**(4.8)**	12.6	**9.3**	10.0	**0.2**	0.4
Balance on the general business technical account		**(4.2)**	(39.6)	**(23.5)**	(37.3)	**18.3**	(1.1)	**1.1**	(1.0)	**(0.1)**	(0.2)
Non-technical account											
Balance on the general business technical account		**(4.2)**	(39.6)	**(23.5)**	(37.3)	**18.3**	(1.1)	**1.1**	(1.0)	**(0.1)**	(0.2)
Investment income	5	**30.8**	52.3	**27.3**	47.8	**1.2**	2.1	**2.0**	2.3	**0.3**	0.1
Unrealised gains on investments	5	**40.4**	30.9	**38.6**	29.3	**0.8**	–	**1.0**	1.4	**–**	0.2
Investment expenses and charges											
Investment management expenses	5	**(3.0)**	(2.8)	**(2.7)**	(2.6)	**(0.1)**	(0.1)	**(0.1)**	–	**(0.1)**	(0.1)
Losses on realisation of investments	5	**(18.5)**	(2.8)	**(16.3)**	(2.4)	**(1.5)**	–	**(0.7)**	(0.4)	**–**	–
Unrealised losses on investments	5	**(40.8)**	(25.4)	**(37.7)**	(23.4)	**(0.9)**	(1.3)	**(2.0)**	(0.6)	**(0.2)**	(0.1)
Exchange (losses)/gains		**(0.3)**	(1.3)	**(1.0)**	(1.4)	**–**	(0.2)	**0.7**	0.4	**–**	(0.1)
Other income including value adjustments		**1.6**	–	**1.6**	–	**–**	–	**–**	–	**–**	–
Excess/(shortfall) of income over expenditure before taxation		**6.0**	11.3	**(13.7)**	10.0	**17.8**	(0.6)	**2.0**	2.1	**(0.1)**	(0.2)
Tax on excess of income over expenditure	9	**(0.1)**	(1.3)	**–**	(0.7)	**–**	–	**(0.1)**	(0.6)	**–**	–
Excess/(shortfall) of income over expenditure after taxation		**5.9**	10.0	**(13.7)**	9.3	**17.8**	(0.6)	**1.9**	1.5	**(0.1)**	(0.2)
Excess/(shortfall) of income over expenditure for the financial year transferred to/(from) contingency reserve	18	**5.9**	10.0	**(13.7)**	9.3	**17.8**	(0.6)	**1.9**	1.5	**(0.1)**	(0.2)

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, with the exception of unrealised gains and losses on investment.
The notes on pages 35 to 51 form part of the financial statements.

Consolidated balance sheet
At 20 February 2014

	Notes	Total 2014 $m	Total 2013 $m	Class 1 – P&I 2014 $m	Class 1 – P&I 2013 $m	Class 2 – Defence 2014 $m	Class 2 – Defence 2013 $m	Class 3 – London 2014 $m	Class 3 – London 2013 $m	Class 4 – War 2014 $m	Class 4 – War 2013 $m
Assets											
Investments											
Investment property	12	**31.5**	26.7	**31.5**	26.7	**–**	–	**–**	–	**–**	–
Other financial investments	13	**735.7**	741.5	**650.6**	678.8	**41.8**	23.6	**33.5**	29.7	**9.8**	9.4
Reinsurers' share of technical provisions											
Claims outstanding	11	**406.1**	452.0	**404.3**	449.0	**1.4**	2.5	**0.4**	0.5	**–**	–
Debtors											
Debtors arising out of direct insurance operations	17	**85.3**	91.9	**83.7**	90.0	**0.9**	1.4	**0.6**	0.4	**0.1**	0.1
Other debtors		**2.5**	16.6	**1.3**	15.1	**0.9**	1.0	**0.3**	0.5	**–**	–
		87.8	108.5	**85.0**	105.1	**1.8**	2.4	**0.9**	0.9	**0.1**	0.1
Other assets											
Tangible assets	15	**6.5**	7.4	**6.4**	7.2	**–**	–	**0.1**	0.2	**–**	–
Cash at bank and in hand		**119.9**	83.9	**110.2**	73.6	**3.5**	1.2	**5.3**	8.3	**0.9**	0.8
Deferred tax asset	10	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
		126.4	91.3	**116.6**	80.8	**3.5**	1.2	**5.4**	8.5	**0.9**	0.8
Prepayments and accrued income		**8.3**	9.9	**6.2**	8.2	**0.9**	0.4	**1.1**	1.0	**0.1**	0.3
Total assets		**1,395.8**	1,429.9	**1,294.2**	1,348.6	**49.4**	30.1	**41.3**	40.6	**10.9**	10.6
Liabilities											
Reserves											
Statutory reserve		**0.2**	0.2	**0.2**	0.2	**–**	–	**–**	–	**–**	–
Contingency reserve	18	**368.3**	362.4	**299.7**	313.4	**29.6**	11.8	**28.2**	26.3	**10.8**	10.9
		368.5	362.6	**299.9**	313.6	**29.6**	11.8	**28.2**	26.3	**10.8**	10.9
Technical provisions											
Gross claims outstanding	11	**986.9**	1,005.4	**955.4**	960.6	**19.9**	35.1	**11.6**	9.7	**–**	–
Provisions for other risks											
Deferred tax provisions	10	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Creditors											
Creditors arising out of direct insurance operations		**34.4**	32.9	**32.3**	30.5	**1.6**	2.0	**0.4**	0.4	**0.1**	–
Other creditors including taxation and social security	19	**4.4**	28.0	**4.2**	25.3	**–**	–	**0.2**	2.7	**–**	–
Current account between classes		**–**	–	**0.9**	18.1	**(1.7)**	(18.8)	**0.8**	1.2	**–**	(0.5)
		38.8	60.9	**37.4**	73.9	**(0.1)**	(16.8)	**1.4**	4.3	**0.1**	(0.5)
Accruals and deferred income		**1.6**	1.0	**1.5**	0.5	**–**	–	**0.1**	0.3	**–**	0.2
Total liabilities		**1,395.8**	1,429.9	**1,294.2**	1,348.6	**49.4**	30.1	**41.3**	40.6	**10.9**	10.6

The financial statements were approved by the board of directors on 16 May 2014 and were signed on its behalf by:

R Jones
Chairman

The notes on pages 35 to 51 form part of the financial statements.

Club balance sheet
At 20 February 2014

	Notes	Total 2014 $m	Total 2013 $m	Class 1 – P&I 2014 $m	Class 1 – P&I 2013 $m	Class 2 – Defence 2014 $m	Class 2 – Defence 2013 $m	Class 3 – London 2014 $m	Class 3 – London 2013 $m	Class 4 – War 2014 $m	Class 4 – War 2013 $m
Assets											
Investments											
Investments in group undertakings and participating interests	16	**11.2**	11.2	**11.2**	11.2	**–**	–	**–**	–	**–**	–
Other financial investments		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
		11.2	11.2	**11.2**	11.2	**–**	–	**–**	–	**–**	–
Other assets											
Cash at bank and in hand		**0.4**	0.3	**0.4**	0.3	**–**	–	**–**	–	**–**	–
Prepayments and accrued income		**0.1**	0.1	**0.1**	0.1	**–**	–	**–**	–	**–**	–
Total assets		**11.7**	11.6	**11.7**	11.6	**–**	–	**–**	–	**–**	–
Liabilities											
Reserves											
Statutory reserve		**0.2**	0.2	**0.2**	0.2	**–**	–	**–**	–	**–**	–
Contingency reserve	18	**8.8**	2.3	**8.8**	2.3	**–**	–	**–**	–	**–**	–
		9.0	2.5	**9.0**	2.5	**–**	–	**–**	–	**–**	–
Creditors											
Other creditors including taxation and social security		**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Amounts owed to group undertakings		**2.4**	9.0	**2.4**	9.0	**–**	–	**–**	–	**–**	–
		2.4	9.0	**2.4**	9.0	**–**	–	**–**	–	**–**	–
Accruals and deferred income		**0.3**	0.1	**0.3**	0.1	**–**	–	**–**	–	**–**	–
Total liabilities		**11.7**	11.6	**11.7**	11.6	**–**	–	**–**	–	**–**	–

The financial statements were approved by the board of directors on 16 May 2014 and were signed on its behalf by:

R Jones
Chairman

The notes on pages 35 to 51 form part of the financial statements.

Consolidated cash flow statement
For the year ended 20 February 2014

	Notes	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
		2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Net cash inflow/(outflow) from operating activities	20	**40.7**	(2.8)	**17.6**	21.4	**21.7**	(17.8)	**0.7**	(1.3)	**0.7**	(5.1)
Taxation											
Taxation paid		**(0.8)**	(3.0)	**(0.4)**	(1.7)	**–**	(0.1)	**(0.4)**	(0.9)	**–**	(0.3)
Net cash inflow/(outflow)		**39.9**	(5.8)	**17.2**	19.7	**21.7**	(17.9)	**0.3**	(2.2)	**0.7**	(5.4)
Cash flows were invested/(applied) as follows											
Increase/(decrease) in cash holdings		**36.0**	(36.9)	**36.6**	(16.5)	**2.3**	(13.3)	**(3.0)**	0.4	**0.1**	(7.5)
Net portfolio investments											
Purchase of shares and other variable-yield securities		**80.6**	88.8	**63.5**	81.8	**7.7**	–	**9.4**	7.0	**–**	–
Purchase of debt securities and other fixed-income securities		**489.0**	607.8	**408.4**	532.4	**44.1**	37.5	**29.6**	25.0	**6.9**	12.9
Sale of shares and other variable-yield securities		**(89.3)**	(115.3)	**(81.0)**	(105.1)	**–**	(0.8)	**(8.4)**	(8.7)	**0.1**	(0.7)
Sale of debt securities and other fixed-income securities		**(476.4)**	(550.2)	**(410.3)**	(472.9)	**(32.4)**	(41.3)	**(27.3)**	(25.9)	**(6.4)**	(10.1)
Net cash flow from investing activities		**3.9**	31.1	**(19.4)**	36.2	**19.4**	(4.6)	**3.3**	(2.6)	**0.6**	2.1
Net investment/(application) of cash flows		**39.9**	(5.8)	**17.2**	19.7	**21.7**	(17.9)	**0.3**	(2.2)	**0.7**	(5.4)

The notes on pages 35 to 51 form part of the financial statements.

Notes to the financial statements

1. Constitution

The club is incorporated in Bermuda as a company limited by guarantee and has a statutory reserve but no share capital. The members of the club are liable for their rateable proportion of any deficiency of claims and expenses in excess of contributions and the board of directors decides whether any surplus is retained in the contingency reserve for the purposes of the club or returned to members.

2. Accounting policies

(a) Basis of preparation

These group financial statements which consolidate the financial statements of the club and its subsidiary undertakings have been prepared under the Bermuda Companies Act 1981, and also under the provisions of Schedule 3 to the UK Companies Act 2006. The club and its subsidiary undertakings have applied uniform accounting policies and on consolidation all intra group transactions, income and expenditure have been eliminated. The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom 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 remeasured at fair value. The club does not engage in hedge accounting and changes in the fair value of all derivative investments are recognised immediately in the 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.

Notes to the financial statements continued

2. Accounting policies continued

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.

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	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Estimated total premium, other premiums and releases 2013/14 (2012/13)	**335.7**	296.3	**301.4**	265.9	**13.5**	11.6	**19.7**	17.3	**1.1**	1.5
Adjustments to previous policy years	**0.4**	(2.2)	**0.1**	(2.3)	**0.3**	0.1	**–**	–	**–**	–
Interclass reinsurance	**–**	–	**8.1**	6.4	**(0.3)**	(0.3)	**(7.8)**	(6.1)	**–**	–
Total calls and premiums	**336.1**	294.1	**309.6**	270.0	**13.5**	11.4	**11.9**	11.2	**1.1**	1.5

4. Outward reinsurance premiums

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
International Group excess of loss	**43.7**	30.1	**43.7**	30.1	**–**	–	**–**	–	**–**	–
Adjustment to prior years	**(0.3)**	2.0	**(0.3)**	2.0	**–**	–	**–**	–	**–**	–
Other premiums	**38.2**	35.8	**35.3**	32.2	**0.3**	–	**1.5**	2.2	**1.1**	1.4
Adjustment to prior years	**1.3**	(4.8)	**1.7**	(4.5)	**(0.3)**	(0.2)	**–**	–	**(0.1)**	(0.1)
Commissions	**–**	(0.2)	**–**	(0.3)	**–**	0.1	**–**	–	**–**	–
Reinsurance premiums paid	**82.9**	62.9	**80.4**	59.5	**–**	(0.1)	**1.5**	2.2	**1.0**	1.3

5. Investment return

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Investment income										
Shares and other variable-yield securities and unit trusts	**3.1**	3.6	**3.0**	3.4	**–**	–	**0.1**	0.2	**–**	–
Debt securities and other fixed-income securities	**14.1**	12.3	**12.7**	11.0	**0.7**	0.7	**0.5**	0.5	**0.2**	0.1
Deposit interest	**0.3**	0.7	**0.3**	0.7	**–**	–	**–**	–	**–**	–
Income from investment property	**1.9**	2.6	**1.9**	2.6	**–**	–	**–**	–	**–**	–
Gains arising on realisation of investments	**11.4**	33.1	**9.4**	30.1	**0.5**	1.4	**1.4**	1.6	**0.1**	–
	30.8	52.3	**27.3**	47.8	**1.2**	2.1	**2.0**	2.3	**0.3**	0.1
Investment expenses and charges										
Investment management expenses	**(3.0)**	(2.8)	**(2.7)**	(2.6)	**(0.1)**	(0.1)	**(0.1)**	–	**(0.1)**	(0.1)
Losses on realisation of investments	**(18.5)**	(2.8)	**(16.3)**	(2.4)	**(1.5)**	–	**(0.7)**	(0.4)	**–**	–
	(21.5)	(5.6)	**(19.0)**	(5.0)	**(1.6)**	(0.1)	**(0.8)**	(0.4)	**(0.1)**	(0.1)
Unrealised gains on investments	**40.4**	30.9	**38.6**	29.3	**0.8**	–	**1.0**	1.4	**–**	0.2
Unrealised losses on investments	**(40.8)**	(25.4)	**(37.7)**	(23.4)	**(0.9)**	(1.3)	**(2.0)**	(0.6)	**(0.2)**	(0.1)
	(0.4)	5.5	**0.9**	5.9	**(0.1)**	(1.3)	**(1.0)**	0.8	**(0.2)**	0.1
Total investment return	**8.9**	52.2	**9.2**	48.7	**(0.5)**	0.7	**0.2**	2.7	**–**	0.1

6. Claims paid

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m
Members' claims	**489.9**	338.7	**465.2**	315.1	**9.7**	13.1	**15.0**	10.5	**–**	–
Other P&I clubs' Pool claims	**28.1**	42.0	**28.1**	42.0	**–**	–	**–**	–	**–**	–
Interclass reinsurance	**–**	–	**9.5**	4.7	**–**	–	**(9.5)**	(4.7)	**–**	–
Gross claims paid	**518.0**	380.7	**502.8**	361.8	**9.7**	13.1	**5.5**	5.8	**–**	–

7. Reinsurers' share of claims paid

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m
Claims recoverable from group GXL reinsurers	**(248.3)**	(104.9)	**(248.3)**	(104.9)	**–**	–	**–**	–	**–**	–
Claims recoverable from reinsurers	**(19.2)**	(58.8)	**(18.0)**	(57.7)	**(1.1)**	(0.9)	**(0.1)**	(0.2)	**–**	–
Claims recoverable from the Pool	**(46.8)**	(2.7)	**(46.8)**	(2.7)	**–**	–	**–**	–	**–**	–
Reinsurers' share of claims paid	**(314.3)**	(166.4)	**(313.1)**	(165.3)	**(1.1)**	(0.9)	**(0.1)**	(0.2)	**–**	–

8. Net operating expenses

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m
Acquisition costs										
Management fee	**9.0**	9.3	**7.7**	8.0	**0.4**	0.4	**0.9**	0.9	**–**	–
General expenses	**2.5**	1.9	**2.4**	1.8	**–**	–	**0.1**	0.1	**–**	–
Administrative expenses										
Management fee	**8.4**	8.4	**7.0**	6.8	**0.3**	0.3	**0.9**	0.9	**0.2**	0.4
General expenses	**3.5**	3.5	**3.4**	3.4	**–**	–	**0.1**	0.1	**–**	–
Depreciation	**1.1**	1.2	**1.1**	1.2	**–**	–	**–**	–	**–**	–
Safety and loss control	**1.0**	0.9	**0.9**	0.8	**–**	–	**0.1**	0.1	**–**	–
Directors' fees	**0.7**	0.6	**0.6**	0.5	**–**	–	**0.1**	0.1	**–**	–
Auditors' remuneration for audit services	**0.1**	0.1	**0.1**	0.1	**–**	–	**–**	–	**–**	–
Auditors' remuneration for other services	**0.2**	0.2	**0.2**	0.2	**–**	–	**–**	–	**–**	–
Net operating expenses	**26.5**	26.1	**23.4**	22.8	**0.7**	0.7	**2.2**	2.2	**0.2**	0.4

The highest paid director received directors fees of $90,000 during the year (2013: $50,000). Directors are paid a flat fee with additional attendance fees. The club has no employees.

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	
	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m
Audit services										
Fees payable to the club's auditor for the audit of the parent club and consolidated financial statements	**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	**0.1**	–	**0.1**	–	**–**	–	**–**	–	**–**	–
(b) Tax services	**–**	0.1	**–**	0.1	**–**	–	**–**	–	**–**	–
	0.3	0.3	**0.3**	0.3	**–**	–	**–**	–	**–**	–

Notes to the financial statements continued

9. Tax on excess of income over expenditure

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Analysis of charge in the year										
Current UK corporation tax on taxable investment profits	**–**	1.3	**–**	0.7	**–**	–	**–**	0.6	**–**	–
Adjustments in respect of prior years	**0.1**	–	**–**	–	**–**	–	**0.1**	–	**–**	–
Total current tax	**0.1**	1.3	**–**	0.7	**–**	–	**0.1**	0.6	**–**	–
Deferred tax										
Origination and reversal of timing differences	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total deferred tax (note 10)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Tax on investment income	**0.1**	1.3	**–**	0.7	**–**	–	**0.1**	0.6	**–**	–

Factors affecting tax charge for the year
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (23%). The differences are explained below:

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Excess/(shortfall) of income over expenditure before taxation	**6.0**	11.3	**(13.7)**	10.0	**17.8**	(0.6)	**2.0**	2.1	**(0.1)**	(0.2)
Multiplied by the standard rate of tax at 23% (2013: 24%)	**1.4**	2.8	**(3.2)**	2.4	**4.1**	(0.1)	**0.5**	0.5	**–**	–
(Income)/expenses not assessable for tax purposes	**(1.4)**	(1.5)	**3.2**	(1.7)	**(4.1)**	0.1	**(0.5)**	0.1	**–**	–
Adjustments in respect of prior years	**0.1**	–	**–**	–	**–**	–	**0.1**	–	**–**	–
Current tax charge for the year	**0.1**	1.3	**–**	0.7	**–**	–	**0.1**	0.6	**–**	–

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

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 or liability has been recognised.

11. Claims outstanding

The board closed the 2011/12 policy year at its meeting on 16 May 2014. The table below provides the position after closure.

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Group										
Open years										
Claims	**514.2**	652.1	**490.7**	622.1	**9.8**	17.5	**13.7**	12.5	**–**	–
Interclass reinsurance	**–**	–	**6.9**	7.1	**–**	(0.8)	**(6.9)**	(6.3)	**–**	–
Reinsurance recoveries	**(185.9)**	(353.3)	**(185.9)**	(353.3)	**–**	–	**–**	–	**–**	–
Net claims provision for open years	**328.3**	298.8	**311.7**	275.9	**9.8**	16.7	**6.8**	6.2	**–**	–
Closed years										
Claims	**472.7**	353.3	**451.0**	322.0	**10.1**	18.4	**11.6**	12.9	**–**	–
Interclass reinsurance	**–**	–	**6.8**	9.4	**–**	–	**(6.8)**	(9.4)	**–**	–
Reinsurance recoveries	**(220.2)**	(98.7)	**(218.4)**	(95.7)	**(1.4)**	(2.5)	**(0.4)**	(0.5)	**–**	–
Net claims provision for closed years	**252.5**	254.6	**239.4**	235.7	**8.7**	15.9	**4.4**	3.0	**–**	–
Total										
Claims	**986.9**	1,005.4	**941.7**	944.1	**19.9**	35.9	**25.3**	25.4	**–**	–
Interclass reinsurance	**–**	–	**13.7**	16.5	**–**	(0.8)	**(13.7)**	(15.7)	**–**	–
Reinsurance recoveries	**(406.1)**	(452.0)	**(404.3)**	(449.0)	**(1.4)**	(2.5)	**(0.4)**	(0.5)	**–**	–
Net claims provision	**580.8**	553.4	**551.1**	511.6	**18.5**	32.6	**11.2**	9.2	**–**	–

12. Investment property

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Group										
Net book value at 21 February 2013	**26.7**	27.2	**26.7**	27.2	**–**	–	**–**	–	**–**	–
Revaluation surplus/(deficit)	**4.8**	(0.5)	**4.8**	(0.5)	**–**	–	**–**	–	**–**	–
Net book value at 20 February 2014	**31.5**	26.7	**31.5**	26.7	**–**	–	**–**	–	**–**	–

Investment property comprises of the club's freehold premises at Essex Street, London. The property was valued at 20 February 2014 by the directors at £18.8m (2013: £17.3m). Any surplus or deficit on revaluation of the property or arising as a result of exchange adjustments are taken to the income and expenditure account.

Notes to the financial statements continued

13. Other financial investments

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Group										
At market value										
Shares and other variable-yield securities and units in unit trusts	**183.3**	148.9	**159.2**	143.6	**14.9**	0.1	**9.2**	5.2	**–**	–
Debt securities and other fixed-income securities	**554.3**	592.5	**493.2**	535.1	**26.9**	23.5	**24.4**	24.5	**9.8**	9.4
Open forward currency contracts	**(1.9)**	0.1	**(1.8)**	0.1	**–**	–	**(0.1)**	–	**–**	–
Total investments at market value	**735.7**	741.5	**650.6**	678.8	**41.8**	23.6	**33.5**	29.7	**9.8**	9.4
At cost										
Shares and other variable-yield securities and units in unit trusts	**143.4**	143.5	**119.7**	115.5	**15.2**	23.6	**8.5**	4.4	**–**	–
Debt securities and other fixed-income securities	**535.1**	538.0	**473.7**	504.4	**27.0**	0.2	**24.5**	24.0	**9.9**	9.4
Total investments at cost	**678.5**	681.5	**593.4**	619.9	**42.2**	23.8	**33.0**	28.4	**9.9**	9.4

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

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	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Group										
Shares and other variable-yield securities and unit trusts	**130.2**	94.0	**115.2**	92.9	**14.9**	–	**0.1**	1.1	**–**	–
Debt securities and other fixed-income securities	**195.0**	199.8	**179.3**	182.0	**13.1**	3.1	**2.6**	13.7	**–**	1.0
	325.2	293.8	**294.5**	274.9	**28.0**	3.1	**2.7**	14.8	**–**	1.0

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
Open forward currency contracts	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Group										
Fair value asset	**(1.9)**	0.1	**(1.8)**	0.1	**–**	–	**(0.1)**	–	**–**	–
Contract/notional amount	**226.3**	223.0	**226.3**	220.8	**–**	–	**–**	2.2	**–**	–

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 2014 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.

13. Other financial investments continued

Contractual amounts outstanding at the balance sheet date include forward currency contracts to transact the net equivalent of $(1.8m) (2013: $0.1m), as broken down by local currency in the following table:

	Class 1 – P&I 2014 Local currency million		Class 1 – P&I 2013 Local currency million	
	Purchase	Sell	Purchase	Sell
Australian dollar	–	(7.0)	–	(8.1)
Brazilian real	–	(10.5)	–	(33.1)
British pound sterling	8.2	(34.8)	24.2	(8.6)
Chinese yuan	1.6	(5.1)	–	–
European euro	14.0	(65.9)	17.3	(67.5)
HK Offshore Chinese yuan	–	(18.1)	–	–
Indian rupee	–	(1.5)	916.6	–
Japanese yen	–	(12.0)	–	(1,270.1)
Mexican peso	–	(5.6)	–	–
Norwegian krone	–	(6.5)	–	–
Polish zloty	–	(12.8)	–	–
Singapore dollar	–	(2.4)	–	–
South African rand	–	(4.1)	–	(93.9)
Swiss franc	–	(4.3)	–	–
Turkish lira	8.0	(8.1)	–	–
US dollar	182.6	(17.6)	144.8	(68.6)

	Class 3 – London 2014 Local currency million		Class 3 – London 2013 Local currency million	
	Purchase	Sell	Purchase	Sell
British pound sterling	2.7	(10.5)	0.3	–
European euro	–	(3.1)	0.6	(0.7)
Japanese yen	–	–	–	(48.0)
South African rand	–	–	–	(93.9)
US dollar	13.6	(2.7)	144.8	(68.6)

The net US dollar position of the above transactions at cost is $nil (2013: $nil).

The forward currency contracts outstanding at year end expire by 29 April 2014 (2013: 29 July 2013).

During the year a loss of $3.3m (2013: gain $0.2m) relating to such contracts was recognised. This is included in the net exchange loss of $0.3m (2013: $1.3m) in the consolidated income and expenditure non-technical account.

Notes to the financial statements continued

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 arises primarily from investments in fixed interest securities.

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

At the end of the financial year, approximately 75% (2013: 78%) of the club's investment portfolio were invested in fixed interest assets. The weighted average duration of the investment portfolio was 3.5 years (2013: 3.9 years).

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

Sensitivity analysis for interest rate risk illustrates how changes in the fair value of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 150 basis points in bond yields would result in a cost to the club of $36.1m.

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% decrease in equity values would be estimated to have decreased the surplus before tax and reserves at the year end by $17.2m.

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 2014, had sterling strengthened by 10% against the dollar with all other variables held constant, profit for the year would have been $4.1m lower. Had the euro strengthened by 10% against the dollar profit for the year would have been $2.6m lower.

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

14. Management of financial risk continued

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

Group	Total 2014 $m	Total 2013 $m	Class 1 – P&I 2014 $m	Class 1 – P&I 2013 $m	Class 2 – Defence 2014 $m	Class 2 – Defence 2013 $m	Class 3 – London 2014 $m	Class 3 – London 2013 $m	Class 4 – War 2014 $m	Class 4 – War 2013 $m
Derivative financial instruments	**(1.9)**	0.1	**(1.8)**	0.1	**–**	–	**(0.1)**	–	**–**	–
Debt securities	**554.3**	592.5	**493.2**	535.1	**26.9**	23.5	**24.4**	24.5	**9.8**	9.4
Loans and receivables	**81.7**	85.6	**78.9**	82.2	**1.8**	2.4	**0.9**	0.9	**0.1**	0.1
Assets arising from reinsurance contracts held	**6.1**	22.9	**6.1**	22.9	**–**	–	**–**	–	**–**	–
Cash at bank and in hand	**119.9**	83.9	**110.2**	73.6	**3.5**	1.2	**5.3**	8.3	**0.9**	0.8
Total assets bearing credit risk	**760.1**	785.0	**686.6**	713.9	**32.2**	27.1	**30.5**	33.7	**10.8**	10.3
AAA	**62.3**	69.8	**47.8**	58.5	**5.8**	3.2	**7.6**	2.7	**1.1**	5.4
AA	**288.5**	199.8	**252.9**	175.3	**17.2**	14.9	**10.3**	5.4	**8.1**	4.2
A	**183.0**	152.0	**175.6**	138.3	**0.1**	6.7	**7.3**	6.4	**–**	0.6
BBB	**160.4**	27.2	**104.5**	25.9	**–**	–	**1.9**	1.3	**–**	–
Not rated	**119.9**	336.2	**102.8**	315.9	**9.1**	2.3	**3.4**	17.9	**1.6**	0.1
Total assets bearing credit risk	**760.1**	785.0	**686.6**	713.9	**32.2**	27.1	**30.5**	33.7	**10.8**	10.3

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.

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 $m	Within 1 year $m	1–2 years $m	2–5 years $m	Over 5 years $m	Total $m
As at 20 February 2014						
Shares and other variable-yield securities and units in unit trusts	172.5	9.2	–	–	1.6	**183.3**
Debt securities and other fixed-income securities	554.3	–	–	–	–	**554.3**
Forward currency contracts	(1.9)	–	–	–	–	**(1.9)**
Cash balances	119.9	–	–	–	–	**119.9**
Investment property	–	–	–	–	31.5	**31.5**
Debtors	9.1	78.7	–	–	–	**87.8**
Reinsurers' share of claims outstanding	–	120.8	80.5	115.2	89.6	**406.1**
	853.9	**208.7**	**80.5**	**115.2**	**122.7**	**1,381.0**
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

Notes to the financial statements continued

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 $m	1–2 years $m	2–5 years $m	Over 5 years $m	Total $m
As at 20 February 2014					
Gross outstanding claims	297.9	197.6	344.3	147.1	**986.9**
Financial liabilities under investment contracts	–	–	–	–	**–**
Creditors	38.8	–	–	–	**38.8**
	336.7	**197.6**	**344.3**	**147.1**	**1,025.7**
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

Club	Within 1 year $m	1–2 years $m	2–5 years $m	Over 5 years $m	Total $m
As at 20 February 2014					
Gross outstanding claims	–	–	–	–	**–**
Financial liabilities under investment contracts	–	–	–	–	**–**
Creditors	2.4	–	–	–	**2.4**
	2.4	**–**	**–**	**–**	**2.4**
As at 20 February 2013					
Gross outstanding claims	–	–	–	–	–
Financial liabilities under investment contracts	–	–	–	–	–
Creditors	9.0	–	–	–	9.0
	9.0	–	–	–	9.0

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)

14. Management of financial risk continued

The following table presents the clubs assets and liabilities measured at fair value at 20 February 2014 and at 20 February 2013.

Financial assets at fair value through profit or loss:

Group	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
As at 20 February 2014				
Shares and other variable-yield securities and units in unit trusts	172.5	9.2	1.6	**183.3**
Debt securities and other fixed-income securities	554.3	–	–	**554.3**
Forward currency contracts	(1.9)	–	–	**(1.9)**
	724.9	**9.2**	**1.6**	**735.7**
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

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, Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) 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. Under the PRA's ICA regime the club is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5% confidence level of solvency. Throughout the year the club complied with the PRA's capital requirements and the requirements in the other countries in which it operates.

Notes to the financial statements continued

15. Tangible assets

	Total		Computer software		Furniture, fixtures and fittings	
	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m
Group						
Book cost						
As at 21 February 2013	**13.8**	13.8	**7.7**	7.7	**6.1**	6.1
As at 20 February 2014	**13.8**	13.8	**7.7**	7.7	**6.1**	6.1
Accumulated depreciation						
As at 21 February 2013	**6.4**	5.2	**5.1**	4.3	**1.3**	0.9
Charge for the year	**0.9**	1.2	**0.8**	0.8	**0.1**	0.4
As at 20 February 2014	**7.3**	6.4	**5.9**	5.1	**1.4**	1.3
Net book value	**6.5**	7.4	**1.8**	2.6	**4.7**	4.8

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 financial statements because the affairs of each class are managed on a unified basis throughout the group. The remaining 25% are held by the members of The Standard Club Europe Ltd.
2 The results of Poseidon Insurance Company are included up to its most recent year end, 30 June 2013. 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	
	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m
Group										
Members	**78.7**	68.4	**77.2**	66.6	**0.9**	1.4	**0.5**	0.3	**0.1**	0.1
Intermediaries	**0.5**	0.6	**0.4**	0.5	**–**	–	**0.1**	0.1	**–**	–
Reinsurers	**6.1**	22.9	**6.1**	22.9	**–**	–	**–**	–	**–**	–
Debtors arising out of direct insurance operations	**85.3**	91.9	**83.7**	90.0	**0.9**	1.4	**0.6**	0.4	**0.1**	0.1

18. Contingency reserve

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Group										
Balance at beginning of year	**362.4**	352.4	**313.4**	304.1	**11.8**	12.4	**26.3**	24.8	**10.9**	11.1
Excess/(shortfall) of income over expenditure for the year	**5.9**	10.0	**(13.7)**	9.3	**17.8**	(0.6)	**1.9**	1.5	**(0.1)**	(0.2)
Balance on contingency reserve at end of year	**368.3**	362.4	**299.7**	313.4	**29.6**	11.8	**28.2**	26.3	**10.8**	10.9
Club										
Balance at beginning of year	**2.3**	5.3	**2.3**	5.3	**–**	–	**–**	–	**–**	–
Excess/(shortfall) of income over expenditure for the year	**6.5**	(3.0)	**6.5**	(3.0)	**–**	–	**–**	–	**–**	–
Balance on contingency reserve at end of year	**8.8**	2.3	**8.8**	2.3	**–**	–	**–**	–	**–**	–

19. Other creditors including taxation and social security

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Group										
Corporation tax	**–**	0.8	**–**	0.4	**–**	–	**–**	0.4	**–**	–
Trade creditors	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other creditors	**4.4**	27.2	**4.2**	24.9	**–**	–	**0.2**	2.3	**–**	–
Other creditors including taxation and social security	**4.4**	28.0	**4.2**	25.3	**–**	–	**0.2**	2.7	**–**	–

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

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Excess/(shortfall) of income over expenditure before tax	**6.0**	11.3	**(13.7)**	10.0	**17.8**	(0.6)	**2.0**	2.1	**(0.1)**	(0.2)
Gains arising on realisation of investments	**(11.4)**	(33.1)	**(9.4)**	(30.1)	**(0.5)**	(1.4)	**(1.4)**	(1.6)	**(0.1)**	–
Losses arising on realisation of investments	**18.5**	2.8	**16.3**	2.4	**1.5**	–	**0.7**	0.4	**–**	–
Unrealised (gains)/losses on revaluation of investments	**(2.2)**	(5.5)	**(3.5)**	(5.9)	**0.1**	1.3	**1.0**	(0.8)	**0.2**	(0.1)
Depreciation	**1.1**	1.2	**1.1**	1.2	**–**	–	**–**	–	**–**	–
Decrease/(increase) in debtors	**10.9**	(22.4)	**21.1**	(24.5)	**–**	3.9	**(10.9)**	(1.1)	**0.7**	(0.7)
Increase/(decrease) in net claims provision	**27.2**	30.4	**39.6**	28.5	**(14.1)**	(0.3)	**1.7**	2.2	**–**	–
(Decrease)/increase in creditors	**(11.0)**	12.5	**(35.5)**	39.8	**16.9**	(20.7)	**7.6**	(2.5)	**–**	(4.1)
Other charges including value adjustments	**1.6**	–	**1.6**	–	**–**	–	**–**	–	**–**	–
Net cash inflow/(outflow) from operating activities	**40.7**	(2.8)	**17.6**	21.4	**21.7**	(17.8)	**0.7**	(1.3)	**0.7**	(5.1)

Notes to the financial statements continued

21. Movement in opening and closing portfolio investments

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Net cash inflow/(outflow) for the year	**36.0**	(36.9)	**36.6**	(16.5)	**2.3**	(13.3)	**(3.0)**	0.4	**0.1**	(7.5)
Portfolio investments	**3.9**	31.1	**(19.4)**	36.2	**19.4**	(4.6)	**3.3**	(2.6)	**0.6**	2.1
Movement arising from cash flows	**39.9**	(5.8)	**17.2**	19.7	**21.7**	(17.9)	**0.3**	(2.2)	**0.7**	(5.4)
Change in market value	**(4.9)**	39.3	**(4.0)**	36.3	**(1.2)**	0.1	**0.5**	2.6	**(0.2)**	0.3
Total movement in portfolio investments	**35.0**	33.5	**13.2**	56.0	**20.5**	(17.8)	**0.8**	0.4	**0.5**	(5.1)
Portfolio investments at 21 February 2013	**852.1**	818.6	**779.1**	723.1	**24.8**	42.6	**38.0**	37.6	**10.2**	15.3
Portfolio investments at 20 February 2014	**887.1**	852.1	**792.3**	779.1	**45.3**	24.8	**38.8**	38.0	**10.7**	10.2

22. Movements in cash and portfolio investments

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
At 21 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 21 February 2013	**852.1**	818.6	**779.1**	723.1	**24.8**	42.6	**38.0**	37.6	**10.2**	15.3
Cash flow										
Cash at bank and in hand	**36.0**	(36.9)	**36.6**	(16.5)	**2.3**	(13.3)	**(3.0)**	0.4	**0.1**	(7.5)
Shares and other variable-yield securities and unit trusts	**(8.7)**	(26.5)	**(17.5)**	(23.3)	**7.7**	(0.8)	**1.0**	(1.7)	**0.1**	(0.7)
Debt securities and other fixed-income securities	**12.6**	57.6	**(1.9)**	59.5	**11.7**	(3.8)	**2.3**	(0.9)	**0.5**	2.8
Cash flow for year	**39.9**	(5.8)	**17.2**	19.7	**21.7**	(17.9)	**0.3**	(2.2)	**0.7**	(5.4)
Changes in market value										
Cash at bank and in hand	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Investment property (revalued)	**4.8**	(0.5)	**4.8**	(0.5)	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**43.1**	9.9	**33.1**	9.7	**7.1**	0.1	**3.0**	–	**(0.1)**	0.1
Debt securities and other fixed-income securities	**(52.8)**	29.9	**(41.9)**	27.1	**(8.3)**	–	**(2.5)**	2.6	**(0.1)**	0.2
Changes in market value for year	**(4.9)**	39.3	**(4.0)**	36.3	**(1.2)**	0.1	**0.5**	2.6	**(0.2)**	0.3
At 20 February 2014										
Cash at bank and in hand	**119.9**	83.9	**110.2**	73.6	**3.5**	1.2	**5.3**	8.3	**0.9**	0.8
Investment property	**31.5**	26.7	**31.5**	26.7	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**183.3**	148.9	**159.2**	143.6	**14.9**	0.1	**9.2**	5.2	**–**	–
Debt securities and other fixed-income securities	**552.4**	592.6	**491.4**	535.2	**26.9**	23.5	**24.3**	24.5	**9.8**	9.4
Total balance at 20 February 2014	**887.1**	852.1	**792.3**	779.1	**45.3**	24.8	**38.8**	38.0	**10.7**	10.2

23. Movement in prior years' provision for claims outstanding

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m
Improvement/(deterioration) in respect of prior years	9.6	10.8	10.2	10.2	0.3	0.3	(0.9)	0.3	–	–

24. 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 $52m (2013: $46m).

25. Related party transactions

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

All the directors (except four, one director and shareholder of Charles Taylor plc, the ultimate holding company of the club's managers, Charles Taylor & Co (Bermuda), one Bermuda resident director with no membership interests, and two independent non-executive directors (one of whom is a shareholder and former director of Charles Taylor plc)) 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 to the managers for the year of $48.0m (2013: $44.9m).

26. Rates of exchange

	2014	2013
The following rates of exchange were applicable to $1 at 20 February 2014 (2013)		
Australian dollars	1.11	0.97
Bermudan dollars	1.00	1.00
Canadian dollars	1.10	1.01
Euro	0.73	0.75
Japanese yen	101.87	93.81
Singapore dollars	1.26	1.24
Swiss francs	0.89	0.92
UK sterling	0.60	0.64

Appendix I (unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I summary

	Appendix reference	Funds available and estimated future supplementary calls $m	Estimated net claims and forecast of unreported claims $m
At 20 February 2014			
Total closed policy years	III	**239.4**	**239.4**
Open policy years			
2013/14	II	195.1	195.1
2012/13	II	116.6	116.6
Total of open policy years		**311.7**	**311.7**
Reserves			
Contingency reserve	III	299.7	–
Statutory reserve		0.2	–
Total reserves		**299.9**	**–**
Funds available for outstanding and unreported claims		**851.0**	**551.1**

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

		2013 One year from inception $m	2012 Two years from inception $m	2011 Three years from inception $m
At 20 February 2014				
Calls and premiums		309.5	272.4	262.8
Less: Claims, reinsurance premiums, administration expenses and tax		(168.5)	(188.8)	(232.6)
		141.0	83.6	30.2
Investment income to date		8.2	46.7	38.2
Funds available	**A**	**149.2**	**130.3**	**68.4**
Estimated known outstanding claims and forecast of unreported claims		294.6	203.1	226.3
Estimated reinsurance recoveries		(99.5)	(86.5)	(168.7)
	B	**195.1**	**116.6**	**57.6**
Anticipated (deficit)/surplus at closure	A–B	(45.9)	13.7	–
Surplus on closure of 2011/12 year				10.8
Transferred from contingency reserve to 20 February 2013			1.1	1.4
Transferred from/(to) contingency reserve at 20 February 2014		45.9	(14.8)	(12.2)
		–	–	–
Product of a 10% supplementary call		**23.2**	**20.1**	**19.7**

Notes
Estimated known outstanding claims and the forecast of unreported claims of open years (excluding the 2011/12 policy year) include the club's share of other clubs pool claims amounting to $58.8m.

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 $66.9m and anticipated recoveries from other reinsurers of $119.0m.

Investment income
All investment income received in the year has been allocated to the 2013/14 policy year.

Fixed premium and non-poolable business
Of the $310m of calls and premiums on the 2013 P&I policy year, $70m represents non-poolable business which is all fixed premium. The comparative figures for 2012 are $272m and $65m, and for 2011 $263m and $62m.

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	
	2014 $m	2013 $m	**2014 $m**	2013 $m
At 20 February 2014				
Balance available at 20 February 2013 (2012)	**235.7**	231.9	**313.4**	304.1
Transfers on closure of 2011/12 (2010/11) policy year	**57.6**	54.9	**12.2**	16.2
Premium adjustment	**–**	–	**0.3**	(0.3)
Claims paid net of reinsurance recoveries	**(50.6)**	(46.2)	**–**	–
	242.7	240.6	**325.9**	320.0
Transfer of anticipated deficit on open years	**–**	–	**(31.1)**	(11.5)
Other charges including value adjustments	**–**	–	**1.6**	–
Improvement of claims in closed policy years	**(3.3)**	(4.9)	**3.3**	4.9
Balance available at 20 February 2014 (2013)	**239.4**	235.7	**299.7**	313.4

Closed policy years
The balance available for outstanding claims of closed policy years (including the 2011/12 year which was closed at the club's meeting on 16 May 2014) includes a provision for incurred but not reported claims (IBNR) of $40.0m (2013: $37.4m) and is shown net of pool recoveries of $14.9m (2013: $52.5m), recoveries from Group excess of loss reinsurers of $167.8m (2013: $nil) and other non-Group reinsurance recoveries which amount to $35.5m (2013: $43.1m). The balance available including IBNR includes $43.5m (2013: $42.9m) 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 43rd Annual General Meeting of the company will be held on Wednesday 15 October 2014 at 1pm ('the meeting') at The Elbow Beach Hotel, Bermuda 60 South Shore Road, Paget PG04, Bermuda for the purpose of considering and, if thought fit, passing the following 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 2014 be received and adopted.

Re-election of directors appointed since the last AGM

2. THAT Stefano Rosina be re-elected as a director of the company.
3. THAT Helen Deeble be re-elected as a director of the company.
4. THAT Peter Senkbeil be re-elected as a director of the company.
5. THAT Andrew Broomhead be re-elected as a director of the company.
6. THAT Nicolas Hadjioannou be re-elected as a director of the company.
7. THAT Marianne Sørensen be re-elected as a director of the company.

Annual re-election of directors

8. THAT Necdet Aksoy be re-elected as a director of the company.
9. THAT Luigi D'Amato be re-elected as a director of the company.
10. THAT Cesare d'Amico be re-elected as a director of the company.
11. THAT Robert Clarke be re-elected as a director of the company.
12. THAT Paolo Clerici be re-elected as a director of the company.
13. THAT Alistair Groom be re-elected as a director of the company.
14. THAT Rod Jones be re-elected as a director of the company.
15. THAT David Marock be re-elected as a director of the company.
16. THAT Ricardo Menendez Ross be re-elected as a director of the company.
17. THAT Constantine Peraticos be re-elected as a director of the company.
18. THAT J B Rae-Smith be re-elected as a director of the company.
19. THAT S S Teo be re-elected as a director of the company.

Appointment of auditors

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

Date: 16 May 2014

By order of the board,

Charles Taylor & Co (Bermuda)
Secretary

Registered Office:
Swan Building
2nd Floor
26 Victoria Street
Hamilton HM12
P.O Box HM 2904
Hamilton HMLX
Bermuda

Re-election of directors holding office for over nine years

Necdet Aksoy (appointed 30 January 2002)	Principal of Akmar Shipping and Turkish Cargo Lines, Istanbul.
Paolo Clerici (appointed 29 January 2003)	Principal of Coeclerici, Italy.
Cesare d'Amico (appointed 28 January 2004)	CEO of d'Amico Soc di Navigazione, Italy.
Alistair Groom (appointed 01 October 2004)	Former CEO of the managers' London agents.
Rod Jones (appointed 30 January 2002)	President and CEO of Canada Steamship Lines, Montreal.
Ricardo Menendez Ross (appointed 18 May 1990)	CEO of UP Offshore and Executive Vice President and Director of Ultrapetrol SA.
Constantine Peraticos (appointed 16 May 2003)	Principal of Pleiades, Greece.
J B Rae-Smith (appointed 25 January 2005)	CEO of Swire Industries, Hong Kong.
S S Teo (appointed 29 January 1997)	CEO of Pacific International Lines, Singapore.

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), Swan Building, 2nd Floor, 26 Victoria Street, Hamilton HM12, P.O. Box HM 2904, Hamilton HMLX, Bermuda, 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

43rd Annual General Meeting
15 October 2014 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 Elbow Beach Hotel, Bermuda 60 South Shore Road, Paget PG04, Bermuda on Wednesday, 15 October 2014 at 1pm, and at any adjournment thereof.

Signature ………………………………………………………

Dated ……………………………………………………… 2014

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 2014 be received and adopted.		
2. THAT Stefano Rosina be re-elected as a director of the company.		
3. THAT Helen Deeble be re-elected as a director of the company.		
4. THAT Peter Senkbeil be re-elected as a director of the company.		
5. THAT Andrew Broomhead be re-elected as a director of the company.		
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18. THAT J B Rae-Smith be re-elected as a director of the company.		
19. THAT S S Teo be re-elected as a director of the company.		
20. 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), Swan Building, 2nd Floor, 26 Victoria Street, Hamilton HM12, P.O. Box HM 2904, Hamilton HMLX, Bermuda, 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)

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