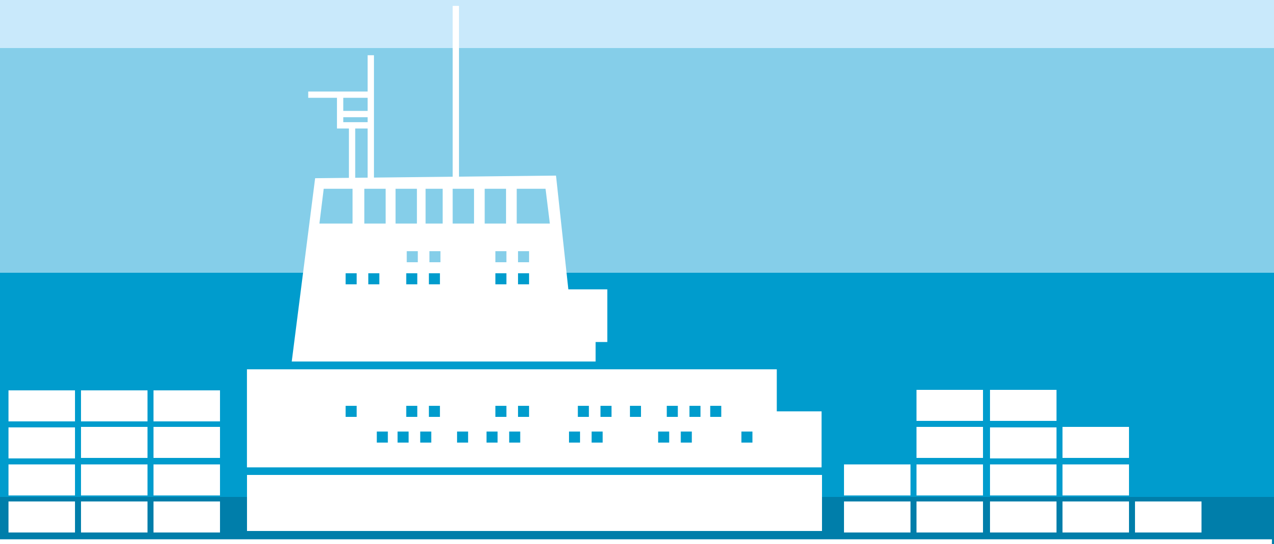
The Standard

Review of the year 2015

The Standard Club Ltd

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

The Standard Club provides a broad range of P&I and other marine and energy covers, offering excellent and sustainable value. The club prides itself on the quality of its service, and in particular its commitment to solving members' problems. Just as important are its track record of financial strength and stability, and its conservative, selective approach to growth.



01 Key facts

Financial highlights 2015

Steady, selective growth; strong balance sheet; break-even underwriting.

Calls and premiums

$354m

2015 — 354
2014 — 336

5.4% increase

Combined ratio

100%

2015 — 100%
2014 — 101%

Free reserves

$380m

2015 — 380
2014 — 369

3.0% increase

Tonnage

135mgt

2015 — 135
2014 — 131

3.1% increase

Results for the financial year ended 20 February 2015	2015 $m	2014 $m
Calls and premiums net of reinsurance	262	253
Total claims net of reinsurance and operating expenses	(262)	(257)
Balance of technical account for general business	–	(4)
Net investment income	12	10
Excess of income over expenditure for the year	12	6
Outstanding claims liabilities		
Estimated known outstanding claims net of all recoveries	458	476
Incurred but not reported claims (IBNR)	118	105
Total estimated claims liabilities	576	581
Funds available for claims		
Open policy years	313	328
Closed policy years	263	252
Free reserves	380	369
Total balance sheet funds	956	949

The club at a glance

Steady, selective growth; strong balance sheet; break-even underwriting.

Free reserves $million

$380m

2015	380
2014	369
2013	363
2012	353
2011	350

Tonnage gt million

135mgt

2015	135
2014	131
2013	135
2012	132
2011	130

Premium income $million

$354m

2015	354
2014	336
2013	294
2012	286
2011	278

Investment return %

1.8%

2015	1.8
2014	0.6
2013	6.6
2012	6.6
2011	9.8

Combined ratio %

100%

2015	100
2014	101
2013	113
2012	115
2011	94

Claims cover ratio of net assets to outstanding claims

1.66

2015	1.66
2014	1.63
2013	1.65
2012	1.67
2011	1.76

Diverse business; conservative asset allocation.

Ship types entered
owned tonnage

Tankers	31%
Container & general cargo	25%
Dry bulk	23%
Offshore	14%
Passenger & ferry	5%
Other	2%

Country of management
Owned tonnage

Greece	10%
USA	9%
Japan	9%
Germany	7%
Italy	7%
Singapore	7%
Canada	6%
Republic of Korea	5%
Monaco	5%
Netherlands	4%
Turkey	4%
Middle East	4%
United Kingdom	3%
Rest of World	5%
Rest of Asia	6%
Rest of Europe	9%

Asset allocation
as at 20 February 2015

Sovereign bonds	41.2%
Corporate bonds	29.3%
Equities	12.8%
Cash	9.0%
Alternatives	7.7%

P&I claims by type
2010 – 2015 capped at $9m

Cargo	35%
Personal injury	23%
Fixed and floating objects	13%
Collision	7%
Pollution	6%
Damage to hull	5%
Wreck	5%
Fines	3%
Other	3%

02 Chairman's statement

I am delighted to report on another positive year in the development of the club. We have progressed well on a number of fronts, making the club an even stronger market-leading player in an increasingly competitive environment. Against each of our objectives, we have taken steps that we believe set the club apart from its peers, in ways which will benefit the club's members.

We have four objectives – delivering sustainable good value **P&I and related insurance,** backed by leading **financial security**, with excellent **service** and achieving selective **growth**. The club has made strong progress in each of these and, while the board is cautious in the light of continuing challenges in global shipping markets, I believe that the club is well positioned for the future.

Chairman's statement

The core **P&I insurance** provided by the club is distinguished by the inclusivity and flexibility of the cover, and by reasonable rates. The club's approach to pricing is that a member's premiums should be commensurate with the level of claims and risk that it brings to the club. This was reflected in the club's approach to the February 2015 renewal, with a general increase applied to members' premiums which was less than the level of claims inflation we have experienced in recent years. For the minority of members whose claims and exposure were out of line with their premiums, there were detailed discussions to agree appropriate premium increases and changes to terms. The club's strategic and financial targets for the February 2015 renewal were met and the club renewed all but a very few members.

The focus for 2014/15 was on returning to break-even underwriting. This has been achieved, with a combined ratio for the year of 100%, the result of our continued focus on operating quality and underwriting discipline. Looking forward, the club has a number of important initiatives under way to reduce claims and administrative costs without impacting the breadth of cover or the quality of service offered, in order to minimise the rate increases required to maintain a sustainable underwriting performance. The board and managers are particularly focused on assessing operating quality, in order to inform the decisions as to which vessels and operators we choose to underwrite, and to minimise losses for individual members and the club as a whole.

2015	**100%**
2014	**101%**
2013	**113%**

Combined ratio

In terms of **financial security**, free reserves increased slightly during the 2014/15 financial year to $380m, their highest-ever level. Reserves have increased every year since 2008/09.

The strong financial performance was achieved despite volatile investment conditions. An investment return of 1.8% was achieved, which is below the return that the benchmark portfolio would have returned but reflective of the conservative investment policy that we have targeted. The board set up a working group to review the allocation of investment assets during the year, and its work will inform the future investment strategy. We are pleased that S&P reaffirmed the club's A (strong) rating during the year.

The protection for shipowners – both financial and reputational – afforded by the International Group (IG) Pooling arrangements remains central to our strategy. We are committed to improving the security and service provided by the IG to shipowners and to the industry, and will continue to play an active role in the various IG subcommittees and working groups – with the aim of refining and strengthening the system, rather than revolutionising it. My fellow board directors and I are keenly aware of the need for the IG to work constructively together, but we also believe that no aspect of the IG should be immune to challenge. The board is wholeheartedly supportive and committed to the IG, but we will continue to encourage our partners in the IG to look for continuing improvement in the way that it operates.

The **service** provided by the club is of paramount importance, and our operating model is designed to deliver consistently excellent service in all areas. Our underwriting and claims staff work in integrated teams aligned to specific member groups, which ensures a joined-up approach across the member-facing staff serving each member.

In particular, we aim to deliver a claims service that sets The Standard Club apart from other clubs, with proactive, professional and supportive claims-handling throughout the life of a claim. We know that members rate our claims-handling services highly, and we are constantly striving to enhance our service through a comprehensive programme of initiatives. One such initiative this year has focused on increasing the efficiency of the club's spend with legal providers, and this should achieve material benefits for members in 2015/16 and beyond.

Chairman's statement

Continued

The Standard Club has a strong track record of **growth** over the last 10 years. However, the club's long-standing priority is the operating quality of the vessels and operators that it underwrites, rather than the pursuit of market share. This is reflected at each renewal in the decision not to renew certain members, and in the club's preference to achieve growth with existing members with a known risk profile, rather than acquiring new members from other clubs. Despite this cautious approach, the club delivered tonnage growth of 3% over the policy year, resulting in a total tonnage at the year-end of 135mgt. The club has successfully pursued two specific initiatives to extend the range of non-P&I products offered to members and to grow and diversify the club: the Singapore War Risks Mutual and The Standard Syndicate at Lloyd's.

The **Singapore War Risks Mutual** is a class within Standard Asia, providing war risks cover to Singapore-based operators. It was developed with the support of the Singapore Shipping Association and began underwriting on 20 February 2015.

SWRM
Singapore War Risks Mutual

The Standard Syndicate at Lloyd's is an important development for the club, both strategically and financially. The objectives are to enable members to benefit from the club's high standards of service and leading financial stability across a broader range of marine and energy covers, and to strengthen and broaden the club's financial position over time.

The Standard Syndicate

The syndicate will offer a range of fixed premium covers, both to club members and other insureds, spanning hull, marine and energy liability, energy physical damage, D&O and E&O, marine and energy-related property, and cargo. The Standard Syndicate at Lloyd's commenced underwriting on 1 April 2015. It is managed by a new managing agent, **Charles Taylor Managing Agency Ltd** (CTMA), which is owned jointly by the club and its managers, Charles Taylor. The board hopes that many members, in conjunction with their brokers, will be attracted to place their insurance with the syndicate during 2015 and beyond.

Charles Taylor
MANAGING AGENCY

Looking forward, although the club is financially strong, performing well, and with solid growth prospects, we remain cautious in view of the ongoing challenges in the shipping market. There is oversupply of shipping capacity in many sectors, and the current orderbook suggests that this will persist for the foreseeable future. Previous downturns have seen a sharper reduction in new ships on order, but this time the supply of cheap finance appears to have suppressed the usual corrective mechanisms. The result is that prices and rates in many areas of the market are depressed and are very likely to remain so in the medium term.

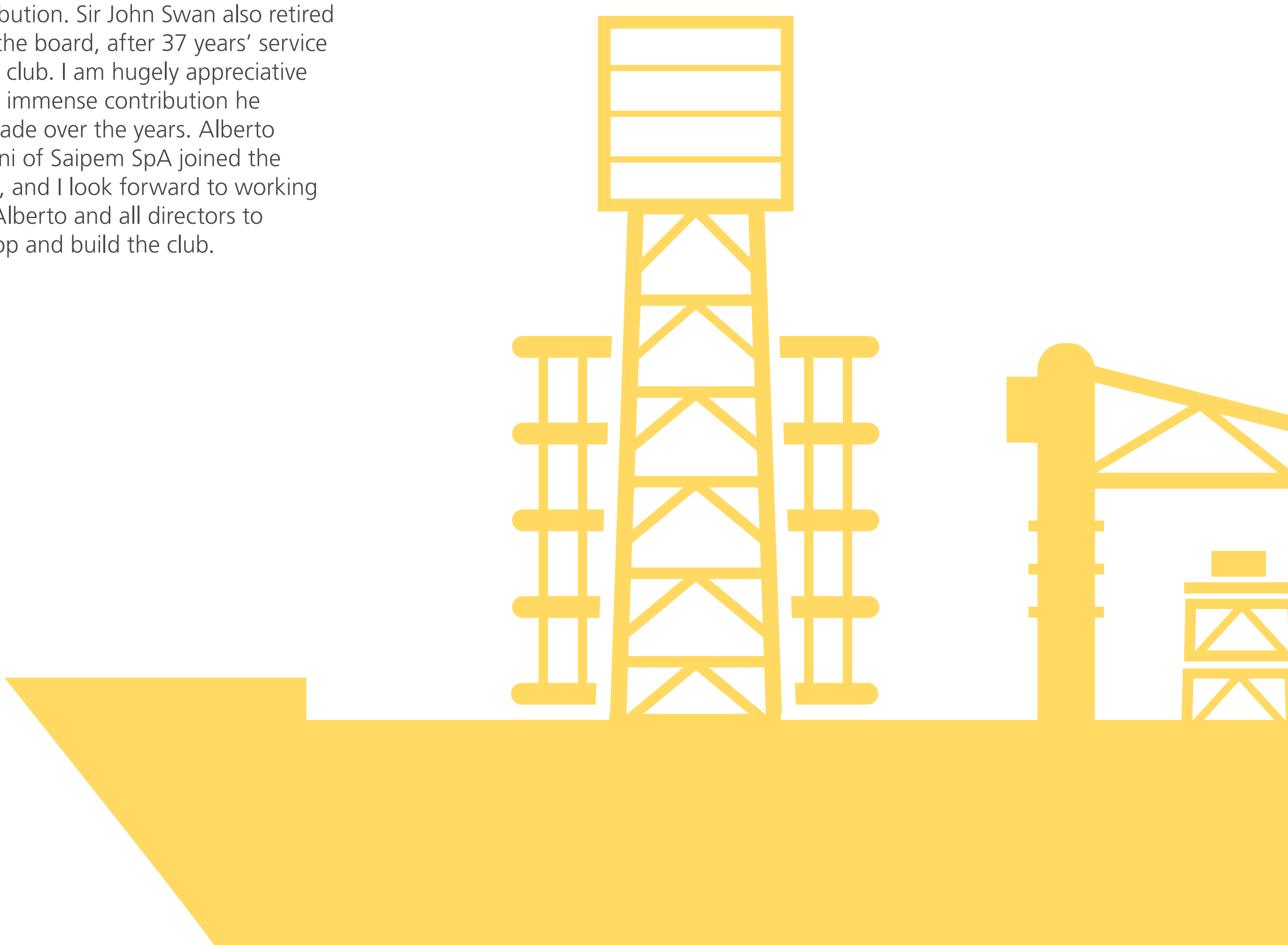
Our concern is that the resulting financial pressures on ship operators will drive expansion into new unfamiliar trades and geographies, and could lead to a reduction in maintenance and training expenditures. In addition, the ongoing growth in the fleet exacerbates the shortage of skilled and experienced crew. We are therefore pessimistic about the outlook for the operating quality of the world fleet, and the resulting claims environment. As noted above, one of the club's principles is a focus on the quality of the members and vessels that it underwrites, and the board believes that this focus will be increasingly important in this challenging environment.

I would like to thank my fellow board directors for their support and dedication during the year. Their insight and guidance is extremely valuable to the club and to me personally. In particular, the contribution of the chairmen and deputy chairmen of the various club operating entities and committees has been of great importance in managing the club's affairs. There have been a couple of changes to the board since the date of the last report. Yoshihiko Nakagami of Iino Kaiun retired from the board, and I would like to thank him for his contribution. Sir John Swan also retired from the board, after 37 years' service to the club. I am hugely appreciative of the immense contribution he has made over the years. Alberto Chiarini of Saipem SpA joined the board, and I look forward to working with Alberto and all directors to develop and build the club.

My fellow directors and I would like to extend our gratitude to the team at Charles Taylor, the club's managers, who have worked tirelessly to bring the highest quality of cover and service to the club's members. Our new CEO, Jeremy Grose, has completed his first year in the role and has achieved a successful year for the club.

Finally, and most importantly, I would like to thank all of the club's members for their support for The Standard Club. I hope that the club's cover and service can in some way help all of our members come through the current challenging times for the shipping industry. Your ongoing support will ensure that the club continues to prosper.

Rod Jones
Chairman



03 Strategy and underwriting

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, confirmed the club's focus on providing broad, good-value, sustainable, flexible P&I insurance and related covers, with excellent financial security and market-leading service. The board agreed a continued emphasis on the operating quality of current and potential members, and that this was of particular importance in light of the persistent challenging market conditions for shipowners.

The board believes that the club should continue to seek growth in its core business areas and should examine opportunities to extend the range of products offered, provided that this does not undermine the solid financial attributes of the club, and that any development is consistent with the club's emphasis on operating quality and with the high standard of service provided to members.

In recent years, the club has extended its range of covers for shipowners beyond poolable P&I, utilising insurance from Lloyd's and other markets. These covers include kidnap & ransom, hull, cargo and other specialist liability covers, and now make a material contribution to the club's gross premium and overall financial position. The growing demand for these products demonstrates members' desire for club-style service for covers beyond poolable P&I cover.

Strategy and underwriting

Key performance indicators

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

	2011	2012	2013	2014	2015	Trend 2014-15
Tonnage mgt	130	132	135	131	**135**	●
Gross premium and calls $m	278	286	294	336	**354**	●
Free reserves $m	350	353	363	369	**380**	●
Claims cover[1]	1.76	1.67	1.65	1.63	**1.66**	●
Financial year combined ratio[2] %	94	115	113	101	**100**	●
Investment return[3] %	9.8	6.6	6.6	0.6	**1.8**	●

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.

The board remains fully committed to mutuality and to the International Group system, and aims to ensure that both the club and the IG evolve continuously to improve the security and service provided to shipowners. The expansion of the club's non-P&I covers is seen by the board as positive for the club's appeal to its mutual members, and for the financial strength of the club. It is critical that the club's mutual and non-mutual exposures remain in appropriate proportions; the board reviews this regularly.

The Standard Syndicate at Lloyd's

During 2014, the board considered how best to develop the club's range of covers and to diversify and strengthen the club. It concluded that the club should establish a Lloyd's syndicate – The Standard Syndicate at Lloyd's. The Syndicate will offer a range of fixed premium covers for property, casualty and liability risks, to both club members and other insureds. It will focus on hull, marine and energy liability, energy physical damage, D&O and E&O, marine and energy-related property, and cargo. The Syndicate underwriters and club teams will work very closely together to offer the appropriate range of covers to each club member. The board believes that this model will enable members to benefit from the club's high standards of service, reasonable pricing and leading financial stability across a broader range of marine and energy covers.

After careful review of the market context, the potential business model and financial projections, the board decided to provide 40% of the initial capital to the Standard Syndicate, and also to invest in its Managing Agency. The Syndicate's remaining capital was successfully raised from industry investors and Lloyd's names, and the Syndicate and Managing Agency received the necessary approvals to start underwriting from 1 April 2015. The focus is now on delivering the year one business plan for the Syndicate, and the board is monitoring progress closely. The board views the syndicate as an important part of the strategic and financial success of the club, and hopes that club members consider it seriously as they determine how best to meet their non-P&I insurance needs.

Other initiatives

The board reviewed progress against a number of other important initiatives during the year, including the club's successful launch of the 'Singapore War Risks Mutual' (a class of Standard Asia), and a range of performance improvement efforts aimed at achieving a stable 'break-even' underwriting result while minimising the rate rises required of club members.

Strategy and underwriting

Continued

Future outlook
The club's financial strength 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. P&I underwriting conditions are challenging, and are expected to remain so. However, the managers are undertaking a range of performance improvement initiatives to mitigate the impact of these conditions in 2015/16 and beyond. In addition, in the medium term, the expansion of non-P&I covers aims both to strengthen the club's finances and to diversify its underwriting risk profile.

Underwriting
The underwriting result for this financial year is 100%, in line with the board's target and comparable with last year's performance of 101%. The five year average is 105%, which is within the board's tolerance. Free reserves have increased and stand at a record high of $380m. The club has also seen improvements in the results of the open policy years, except 2013, and in the closed years and defence.

The club announced a 'two tier' approach to the 2015 renewal, with a published general increase of 5%, but with members with adverse records or risk paying more. As a result of this, and as occurred last year, a small amount of business left the club. The 2015/16 policy year is, at this early stage, projected at break-even. The club remains focused on underwriting discipline, risk selection and loss prevention, and the board believes that this approach has supported the club's improved underwriting performance.

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

Membership and tonnage
Good risk selection and correct pricing are a priority in selecting the right members for the club. Each year, the club takes steps at renewal to improve the overall quality of the book and, as a result, some members leave the club but some new members join. Tonnage increased during the year from 131mgt at 20 February 2014 to 138mgt immediately prior to renewal.

At renewal, tonnage was reduced to 135mgt, and the board believes that this modest reduction represents a net improvement to the risk assumed by the club. The board anticipates that the growth of the business during the year will make up the reduction in tonnage at renewal, as was the case during 2014/15.

Operating quality, risk selection and loss prevention
The managers and board have consistently focused on the operating quality of the club's membership. This has been supported by a dedicated Loss Prevention department, with significant seafaring and technical expertise, since its establishment around 25 years ago. The Loss Prevention team runs a comprehensive Member Risk Review and Ship Risk Review programme to assess the risk profile of a member and its vessels, and to advise the member in question and the club's underwriting teams appropriately. It provides advice to club members via regular publications and seminars, as well as bespoke technical advice to individual members and club claims handlers as appropriate. In 1992, the Safety and Loss Advisory Committee, comprising operational and technical experts from the membership, was established to review major claims and recommend loss prevention initiatives to the managers.

The Committee remains unique to The Standard Club and has consistently enhanced the club's approach to loss prevention and resulted in many valuable specific initiatives.

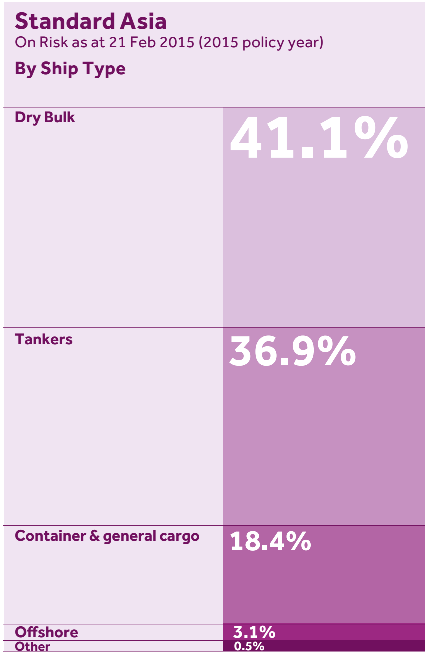
During the 2014/15 policy year, the managers and board identified risk selection and loss prevention capabilities as critical enablers of the club's underwriting approach, given the potential for the ongoing challenging shipping market conditions to drive deterioration in the operating quality of the world fleet. The club's processes and tools in this area were reviewed during the second half of

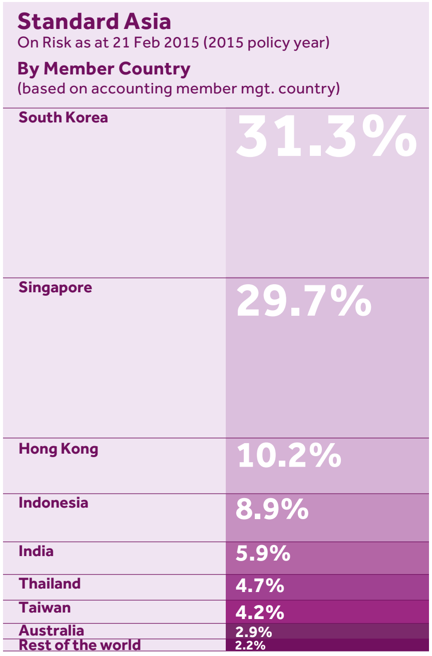
2014, in order to ensure that the club underwrites ships and members of appropriate quality, reflects risk factors in pricing, and to minimise losses to members and to the club.

A number of important recommendations were made as a result of the review and are being or have been implemented. These included a revised agenda for the club's Safety and Loss Advisory Committee, with a focus on understanding claims trends and the root causes of loss, to inform the managers' risk selection and loss prevention efforts. The club's Member Risk Review programme, established in 1993 and a first amongst all P&I clubs, was updated from first principles to reflect more accurately the current and future operating environment and resulting potential exposures.

In the 2014/15 policy year, the managers carried out a total of 47 Member Risk Reviews, including 31 full reviews, 14 follow-ups and two reviews of potential members. Around 350 vessels were assessed during the policy year, and a material proportion of these Ship Risk Reviews were performed by the club's in-house surveyors. At the February 2015 renewal, eight members were not offered renewal terms as a result of concerns relating to operating quality.

Strong risk selection and loss prevention capabilities, including a robust approach to members that bring unacceptable levels of risk to the club, will remain core elements of the club's approach. The board believes that this sets the club apart from its peers and will position the club positively for the future.





* Numbers have been rounded to one decimal place and as a result may not add to 100.0%.

Selected key business areas

Standard Asia

The Standard Club Asia Ltd remains the only P&I club to be incorporated in Singapore and provides a fully autonomous service to members in the Asia Pacific area. Its commitment to the region is exemplified by the recent establishment of the Singapore War Risks Mutual, a class within Standard Asia with its own committee and a high degree of autonomy. The new class was formally established on 31 December 2014. Developed with support from the Singapore Shipping Association, it is Singapore's first national mutual war risks insurer.

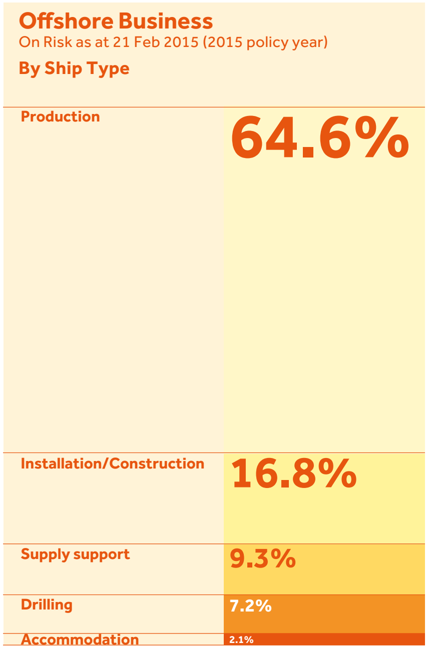
The club has 29 staff in Singapore providing a complete range of member services, including claims, underwriting, loss prevention and finance. A further two claims staff are based in Hong Kong and report to Singapore. During the year, the club welcomed six new members and met its financial targets at 20 February 2015, with premium increasing but tonnage reducing following the departure of some members who were not offered renewal terms.

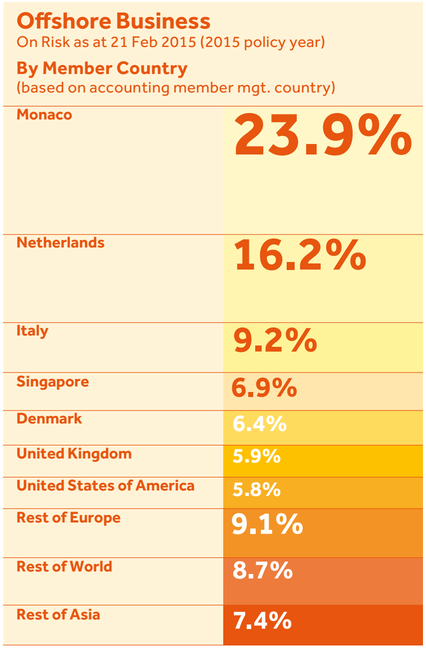
TS21

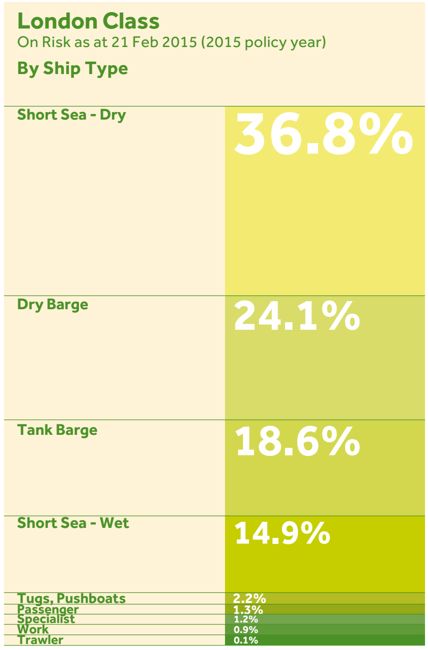
The joint venture with Tokio Marine and Nichido Fire continues to prosper and welcomed seven new members this year. TS21 represents 9% of the total tonnage entered in the club.

Strategy and underwriting

Continued







* Numbers have been rounded to one decimal place and as a result may not add to 100.0%.

Standard Offshore

The offshore membership continues to grow, through additional tonnage being entered by members during the 2014/15 policy year and through targeted growth focused on quality membership. Market conditions remain challenging, with the fall in oil price leading to renegotiation, cancellation or deferral of offshore projects with knock-on consequences for members in terms of fleet utilisation and day rates. This issue is amplified by an oversupply of tonnage in certain sectors.

London class

London class, the specialist class for principally European coastal and inland trading ships, had another successful year. The finances of the class remain first class and the number of entered units now exceeds 3,200.

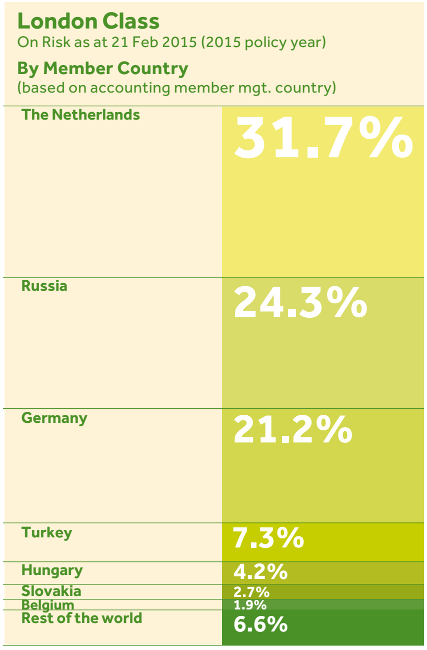
Not all operators in this sector require the very large limit of liability provided by the traditional International Group system, so the London class has launched a lower limit fixed premium facility. A number of existing members and new members have chosen this new facility.

In addition, the class committee has reviewed the geographical spread of the business in the class and has requested the managers to consider underwriting compatible business outside the greater European area.

Defence class

Claims activity in the defence class has moderated, with the legal spend having returned to pre-2008 levels.

Recent financial collapses in the shipping market, including that of the OW Bunker group (OWB) in the marine fuel supply market, could result in a rise in the number of defence class disputes. However, the club has instituted a range of initiatives in the past year aimed at keeping down the cost of defence claims in the future.



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.

Reinsurance

Club retention and the Pool

The individual club retention remains at $9m for the 2015/16 policy year. The Pool retention remains at $80m, and the Pool 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 decrease of around 8%. There was a small change to the structure of the first layer of the programme this year, with clubs taking 30% more risk within the $80m to $120m limit and with another 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 has increased to $417m.

Non-Pool reinsurance programme

A large proportion of the club's members benefit from the club's non-poolable covers. The biggest users of the non-Pool programme are charterers and those involved in the offshore energy and specialist sectors, whose risks are largely excluded from the Pool. The club continues to offer the same maximum limit of $1bn. This programme now also includes the club's fixed premium business, which previously ran under a separate programme with a $500m limit.

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 highly values its relationship with them.

04 Claims and industry issues

The club’s approach to claims

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

The claims environment

The 2014/15 policy year continues the previous year’s profile in terms of the significant number of large claims experienced. However, the last quarter was relatively benign. This illustrates the inherent volatility in the club’s claims exposure due to the fact that a large percentage of the total incurred cost is concentrated in the top 20 or so claims.

There is clearly an inflation factor in claims values in excess of consumer price inflation. This is attributable to more costly advanced technology utilised in ever more complex wreck removal operations, together with onerous new environmental regulations, and increasingly liberal injury compensation regimes and contractual crew benefits.

Claims and industry issues

Collision claims continue to represent a significant exposure for the club. Despite extensive loss prevention analysis of the causes of such casualties and publications highlighting the importance of effective bridge team management, the rate of incidents – particularly in busy shipping lanes – continues unabated. Of particular concern is the number of collisions involving fishing vessels, usually resulting in the vessel sinking with multiple losses of life and expensive commercial losses. Fishing vessels' movements are unpredictable, with poor standards of watch-keeping and minimal navigation lights. Radar identification can prove difficult, so particular vigilance is required. Other loss prevention issues involving collisions and groundings are pilot error, unfamiliarity with new ECDIS systems, and problems in the recruitment and retention of competent and experienced officers and crew. These continue to be highlighted and addressed with members.

Pool claims

The 2014/15 policy year is looking to be a comparatively benign year on the Pool with, at 20 February 2015, only 14 claims notified to the International Group (compared to 22 on the 2013/14 policy year and 25 on 2012/13). Of these 14 claims three have been notified by the club (two on 2013/14 and none on 2012/13).

Industry issues

Sanctions

Following further talks concerning the Iranian nuclear programme, the Joint Plan of Action interim agreement has been further extended until 30 June 2015. During the period of the Plan, there are temporary suspensions of US extraterritorial and EU sanctions principally in respect of transportation and insurance of petrochemical cargoes from Iran as well as Iranian crude to China, India, Japan, South Korea, Taiwan and Turkey.

From March 2014, the EU, the USA and other states such as Australia, Canada and Norway have implemented various sanctions in response to the situation in Ukraine. Initially, these were aimed at the former President and other individuals said to be responsible for the misappropriation of Ukrainian state funds and for human rights violations in Ukraine. However, they were soon extended to named officials of the Government of the Russian Federation and key Russian businessmen, banks and other businesses operating in the Russian financial services, energy, metals and mining, engineering and defence sectors.

In June 2014, the EU also prohibited both the import into the EU of goods originating in Crimea and the provision of related financial assistance or insurance. In July, these sanctions were extended to a ban on certain key equipment and technology being sold or exported to any Crimean entity or for use in Crimea, for example in relation to infrastructure in the Crimean transport, telecommunications and energy sectors, and the exploitation of oil, gas and mineral resources in Crimea. In December, the prohibitions were further extended to include bans on acquiring or extending ownership in any Crimean entity or real estate.

Claims and industry issues

Continued

The USA and EU have, in addition, further expanded their sanctions programmes against Russia. These now include bans on the provision of technology, equipment or associated services for deep water oil exploration and production, arctic oil exploration and production, and shale oil projects in Russia. Such services include drilling, well testing, logging and completion services, and the supply of 'specialised floating vessels'.

In December 2014, the EU extended its sanctions against Syria to include jet fuel and fuel additives, and related financial assistance or insurance.

In January and March 2015 respectively, the USA also imposed additional sanctions targeting the North Korean and Venezuelan governments.

However, as a step towards normalising diplomatic relations with Cuba, in December 2014, the USA announced that it will ease certain sanctions against Cuba and initial measures have been introduced in this respect. For example, in January 2015, regulations barring ships from the USA for 180 days after calling at Cuba were eased to authorise foreign vessels to enter the USA after engaging in limited trades such as the carriage of permitted agricultural and medical goods to Cuba from third countries.

The club implements various measures as part of its due diligence to minimise the risk of breaching sanctions. In particular, the club's sanctions rules include the automatic cessation of cover in respect of any ship employed in a trade exposing the club to the risk of sanctions. The club also screens parties with whom it has any dealings, including before the club provides security or makes any payment.

Wreck Removal Convention

The Nairobi International Convention on the Removal of Wrecks 2007 came into force on 14 April 2015, having been ratified by 17 states. The Convention provides for a strict liability, compensation and compulsory insurance regime for states affected by a maritime casualty. It makes the registered owner of a ship liable for locating, marking and removing a wreck deemed to be a hazard, defined as a threat to navigation, the environment or the coastline or related interests of one or more states. The Convention also empowers states to take action if shipowners do not respond to wreck removal orders appropriately.

The Convention was born of a desire to promulgate uniform rules and procedures to facilitate the prompt and effective removal of wrecks. Its legal framework should promote consistency between signatory states in the treatment of wreck removal operations. The Convention applies to states' exclusive economic zones (EEZ), an area extending 200 nautical miles from a state's coastal baseline. However, the Convention does not apply to a state's territorial sea unless voluntarily so extended. States are encouraged to do so as that is where most wrecks occur.

As the Convention 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, it may provide contracting states with a legal basis in which 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. However, the counterpoint to this is the theme of reasonableness and proportionality that runs throughout the Convention.

Shipowners are required to provide proof of insurance or other financial security to cover their liabilities under the Convention and the club will issue members with blue cards enabling them to do so. The Convention provides states with a right of direct action against those providing insurance or other financial security for Convention liabilities, subject to limited defences.

Limitation Convention
Following its adoption by the legal committee of the IMO in 2012, the 2012 amendments to the 1996 Protocol to the Convention on the Limitation of Liability for Maritime Claims (LLMC) come into force on 8 June 2015.

These amendments will significantly increase the limits of liability faced by shipowners, including new higher limits for claims for property damage (such as damage to other ships, docks and harbours) and claims for personal injury and loss of life.

Example
The following example illustrates how the increased limits will apply practically, using a vessel of 40,000gt:

Claim	1996 Protocol	2012 Amendments
Property	15,200,000 SDR / $20.9m	22,952,000 SDR / $31.5m
Personal injury	30,400,000 SDR / $41.8m	45,904,000 SDR / $63.1m

Under the 2012 amendments to the LLMC, the limits of liability are raised as follows:

Property claims
For ships of 2,000gt or less, the new limit is 1.51m SDR (Special Drawing Right), increased from 1m SDR.

For ships above 2,000gt, the following additional amounts are used to calculate the limitation level:

- for each ton from 2,001 to 30,000 tons: 604 SDR (increased from 400 SDR);
- for each ton from 30,001 to 70,000 tons: 453 SDR (increased from 300 SDR); and
- for each ton in excess of 70,000 tons: 302 SDR (increased from 200 SDR).

Personal injury claims
For ships of 2,000gt or less, the new limit is 3.02m SDR (increased from 2m SDR).

For ships above 2,000gt, the following additional amounts are used to calculate the limitation figure:

- for each ton from 2,001 to 30,000 tons: 1,208 SDR (increased from 800 SDR);
- for each ton from 30,001 to 70,000 tons: 906 SDR (increased from 600 SDR); and
- for each ton in excess of 70,000 tons: 604 SDR (increased from 400 SDR).

Claims and industry issues

Continued

The increased limits will apply to property and personal injury claims, claims under the Nairobi Convention and bunker spills (i.e. those not dealt with under the Civil Liability Convention 1992).

The club urges members to take into account the new increased limits of liability and recommends that its members ensure that their insurance and contractual provisions are sufficient in light of the new, higher limits.

Low sulphur fuel
As of 1 January 2015, ships are required to use fuel oil with a sulphur content of no more than 0.10% within designated Emission Control Areas (ECAs) and no more than 3.5% outside of ECAs. The shipping industry has been preparing for these stricter rules under MARPOL Annex VI since October 2008, when the International Maritime Organization (IMO) adopted the amendments to the MARPOL Convention. Furthermore, since June 2014, all EU member states have been expected to implement directive 2012/33/EU to bring European air pollution laws in line with MARPOL Annex VI. However, it remains unclear how the USA, EU and individual maritime states will handle enforcement of the new requirements and whether owners will comply or opt to pay fines for non-compliance, which will only be covered at the board's discretion.

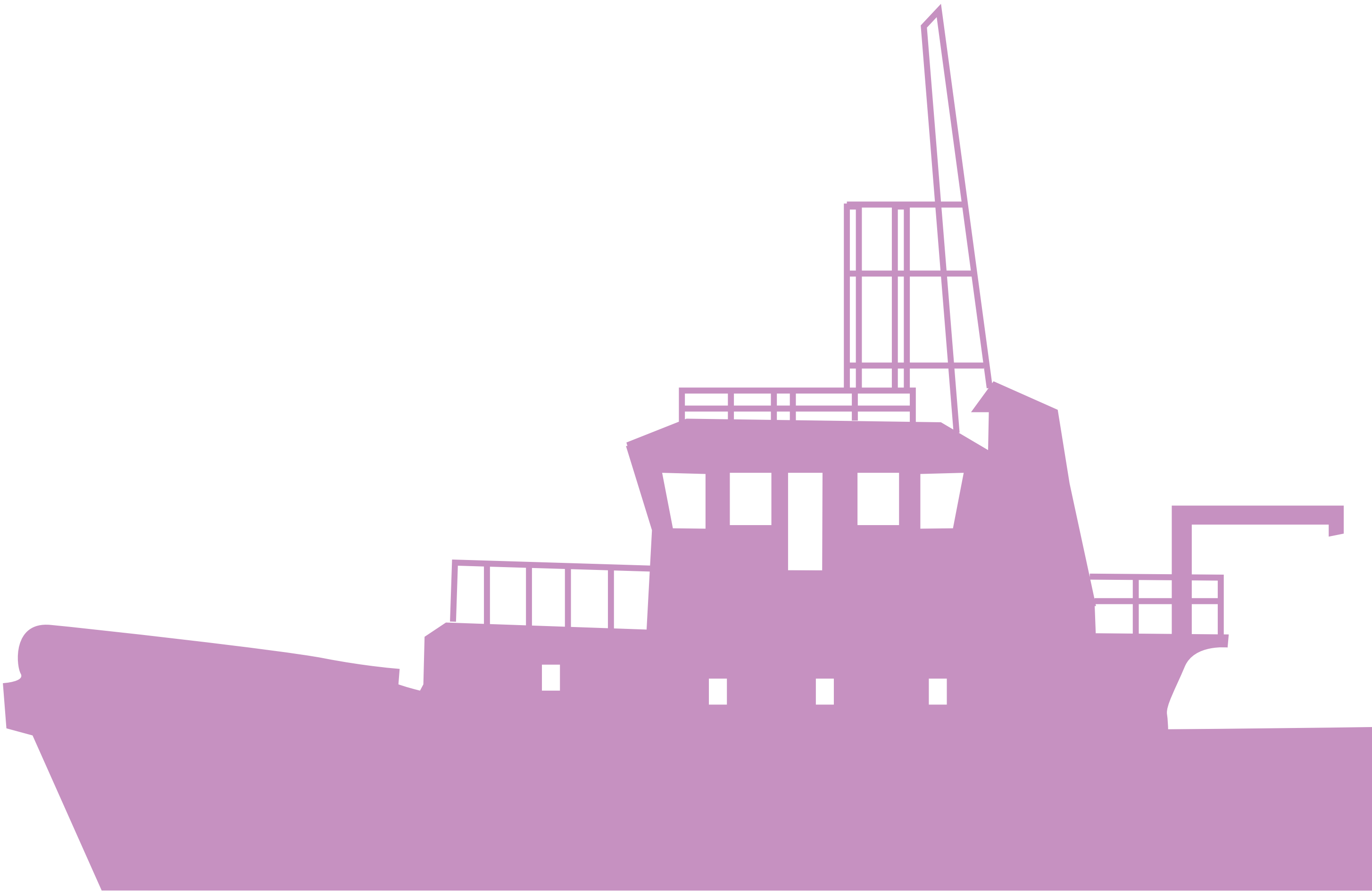
MLC, crew back wages
The Maritime Labour Convention (MLC) came into force on 20 August 2013 and has been ratified by more than 60 states. The intention of the Convention is to consolidate many previous International Labour Organisation instruments and, as a result, aims to ensure seafarers are guaranteed equal and acceptable conditions aboard vessels, no matter which flag they sail under.

Currently, the MLC requires financial security to be in place for crew repatriation costs, including in circumstances of abandonment, and compensation for death or long-term disability due to an occupational injury, illness or hazard.

All clubs in the International Group have incorporated provisions in their rules since the 2013/14 policy year, principally to extend cover to repatriation costs following abandonment. In addition, all flag states have until now accepted club certificates of entry as evidence of compliance with the financial security provisions of the MLC.

Recently, amendments to the MLC have been approved and will come into force during 2017. These amendments include an entitlement for seafarers to receive four months' wages in the event of abandonment. It has now to be determined whether the clubs in the IG will be willing to extend the scope of P&I cover to include unpaid wages in the event of abandonment and whether the clubs wish for this liability to be poolable.

Following the circulation of a common agenda note to the boards of all 13 IG clubs, all of the clubs have positively indicated that the additional liability of unpaid crew wages should be covered as part of standard P&I cover. However, the question still remains as to whether this liability will be poolable, and this will be the subject of future discussion at IG level.



05 Finance and investment

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 $12m (2014: $6m). Total reserves available for claims stand at $956m (2014: $949m). The amount set aside to meet outstanding claims and IBNR was $576m at 20 February 2015 (2014: $581m).

Income and expenditure account

Revenue from calls, premiums and releases amounted to $354m (2014: $336m). Paid claims, net of reinsurance recoveries, were $237m (2014: $204m). Pool and reinsurance recoveries amounted to $248m (2014: $314m).

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 $380m at the year-end (2014: $369m). This increase reflected a modest investment return on top of a break-even underwriting result.

Finance and investment

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 a 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.

Investments

In the year to 20 February 2015, the club's investment assets, excluding Standard House, returned approximately 1.8%. This estimated return is the combined return of The Standard group of companies for the whole financial year.

As at 20 February 2015, the investment portfolio was allocated approximately as follows:

- Sovereign bonds including bills 41.2%.
- Corporate bonds 29.3%.
- Equities 12.8%.
- Alternatives 7.7%.
- Cash/FX forwards 9.0%.

The approximate currency allocation as at 20 February 2015 was:

- North American currencies 69%.
- European currencies (excluding sterling) 13.1%.
- Sterling 14.3%.
- Other currencies 3.6%.

The main changes in asset allocation over the year were a decrease in equities and bonds, and an increase in cash and alternatives to reflect a conservative investment policy. In terms of currencies, the allocation to European currencies (including sterling) was gradually increased as the dollar strengthened.

Solvency and capital management

Solvency II, the EU-wide European regulatory regime, is set to come into force on 1 January 2016 and the club's subsidiary, The Standard Club Europe Ltd (Standard Europe), is continuing to make good progress towards meeting this 2016 start date. Standard Europe has a well-developed Own Risk and Solvency Assessment (ORSA) programme in place, a key requirement under Solvency II.

Although The Standard Club Ltd, as a Bermudian insurance group, does not fall under the Solvency II directive, it also has a similarly well-developed ORSA programme.

As part of the ORSA, the club (at both group and Standard Europe level) makes use of its internal model to make assessments of its own capital needs as well as informing important business planning issues including setting the renewal pricing strategy, reinsurance purchasing and projecting the club's prospective result against which actual performance can be measured.

The ability of the club to make supplementary calls remains an important part of the resources available to meet its capital requirements. 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 requirement 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.

www.ctplc.com

www.standard-club.com

Looking forward to 2016

The club remains in a strong position, with record levels of free reserves, a stable 'break-even' underwriting position, a fleet of high operating quality and important growth initiatives under way. However, the outlook for marine insurance is mixed, with reduced investment returns due to the low interest rate environment, and the potential for further pressure on market-wide underwriting results. Shipping markets remain under pressure, with ongoing overcapacity in many sectors and a temptation for operators to either enter unfamiliar trades, or to reduce crewing, training and maintenance costs.

During these challenging times, the club remains committed to supporting its members in every way that it can. As members' needs change, so does the club; with a strong culture of innovation, its staff constantly seek to improve the service and value provided to members. However, the core elements of The Standard Club will remain the same – its broad range of covers, the commitment to solving members' problems, and its track record of financial strength and stability.

@StandardPandI
The Standard P&I Club