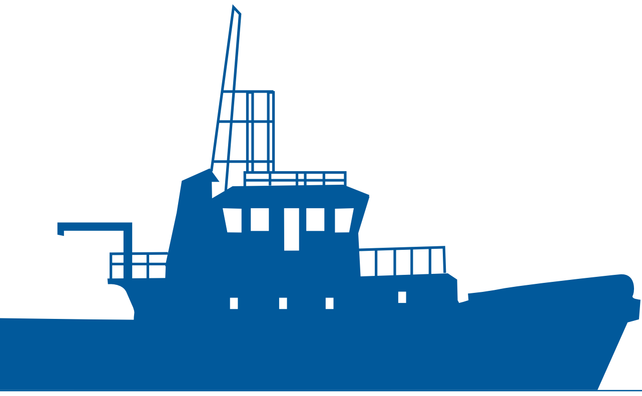
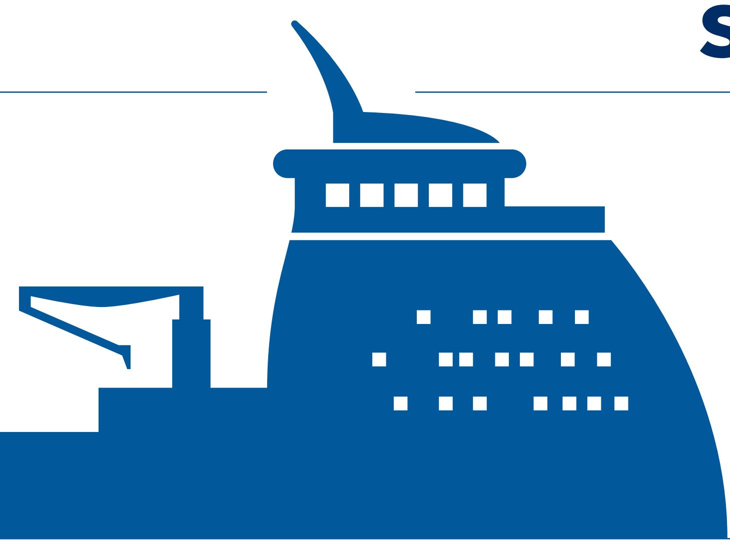
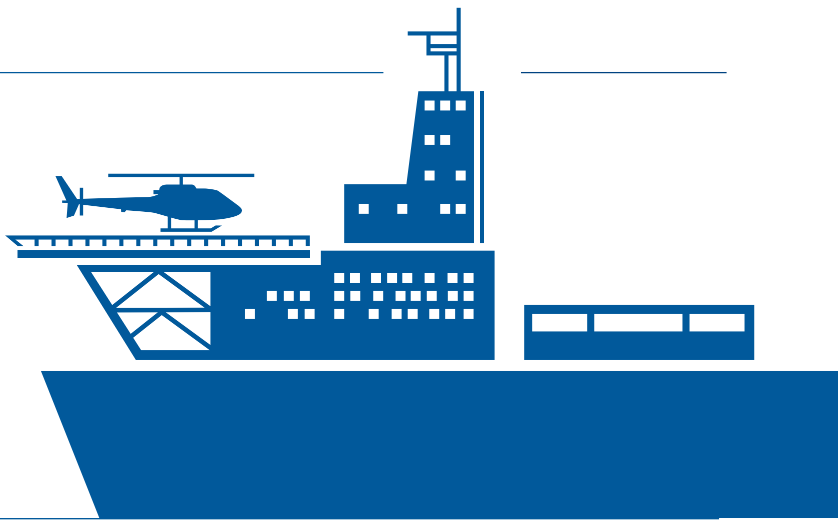
The Standard



Annual report and financial statements 2015

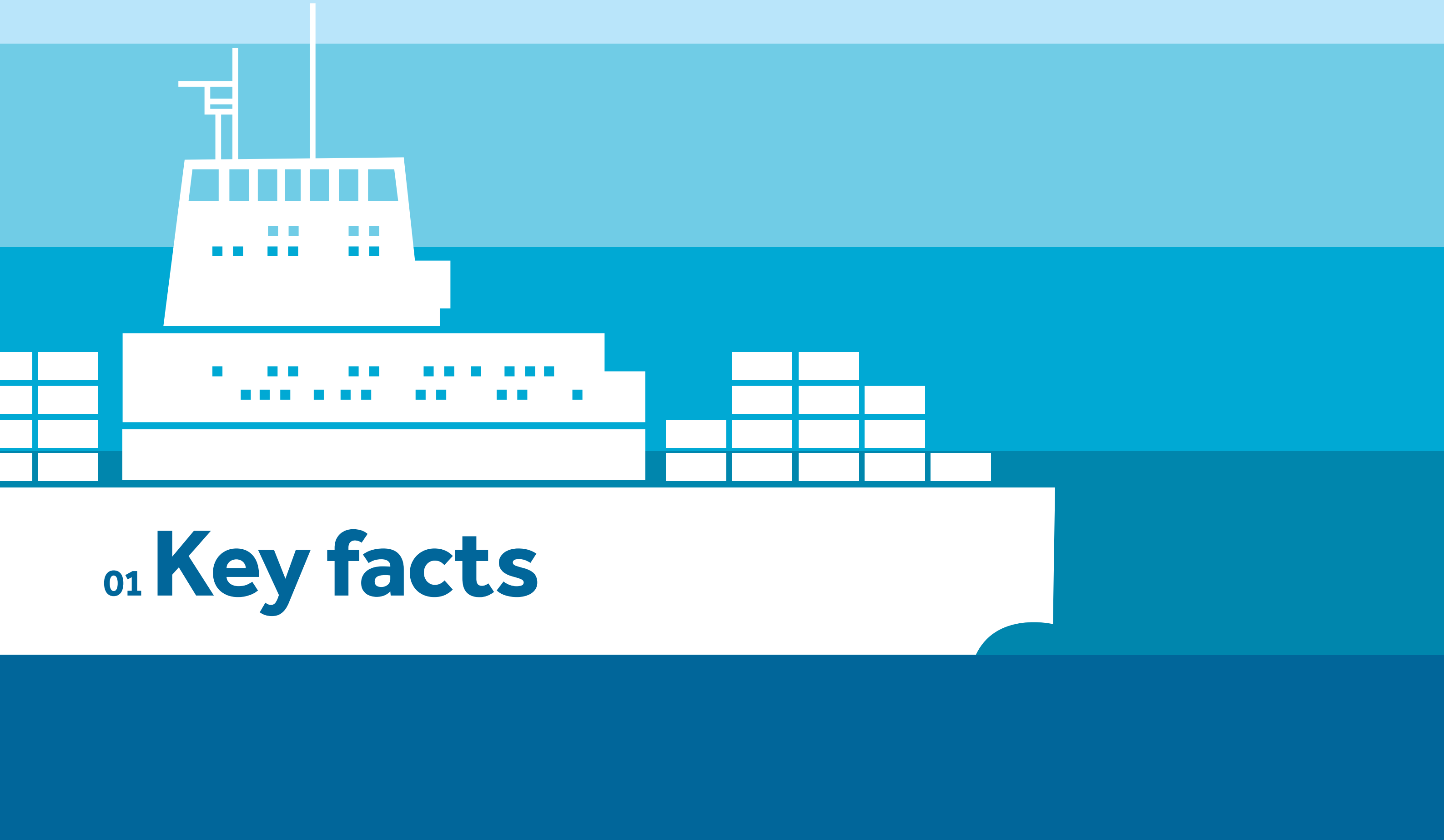




The Standard Club Ltd

standard-club.com

* Appendices I, II and III are unaudited.



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

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.

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.

Chairman's statement continued

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.

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.

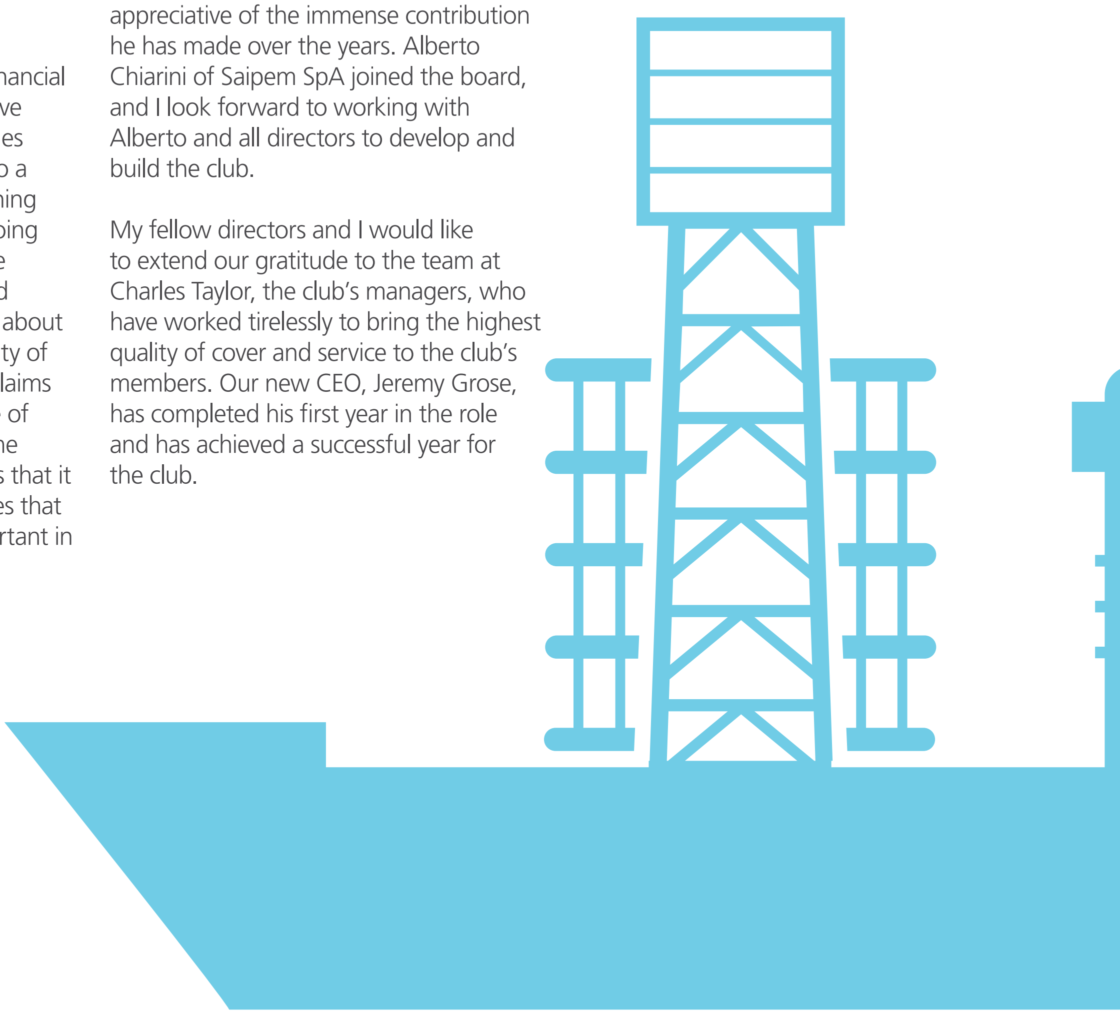
Our concern is that the resulting financial pressures on ship operators will drive expansion into new unfamiliar trades and geographies, and could lead to a reduction in maintenance and training expenditures. In addition, the ongoing growth in the fleet exacerbates the shortage of skilled and experienced 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 The directors

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 J W Swan KBE JP
Vice-President
(Resigned 18 October 2014)

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[1,5]
Pacific Basin Shipping Limited
(Appointed 16 May 2014)

A Chiarini
Saipem SpA
(Appointed 18 October 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

A J Groom[1,2,3,4,6]
Non-Executive Director

N Hadjioannou
Alassia Holdings Inc
(Appointed 16 May 2014)

B Harinsuit[2,5]
Harinsuit Transportation Co Ltd

B J Hurst-Bannister[1,3,4,6]
Insurance Expert

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.

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
(Resigned 28 May 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

P Senkbeil
SBM Offshore

M Sørensen[1]
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.

04 Report of the directors

Business review

The directors have pleasure in presenting the audited consolidated financial statements of the club for the year ended 20 February 2015.

Principal activities

The principal activity of The Standard Club Ltd was to act as a holding company for subsidiaries that 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 2015, there were approximately 135m gross tons of shipping entered in the club.

Directors

The directors of the club who were in office since the last report and up to the date of signing the financial statements are shown on page 9 of this report. The board was pleased to welcome Alberto Chiarini. As a director appointed during the year, he offers himself for re-election at the AGM. Marianne Sørensen, Andrew Broomhead and Nicolas Hadjioannou were appointed to the board on 16 May 2014 and were re-elected as directors at the Annual General Meeting held in 2014. 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, S S Teo, Ricardo Menendez Ross, Luigi D'Amato, Cesare d'Amico, Paolo Clerici, Constantine Peraticos, Alistair Groom, Rod Jones, J B Rae-Smith, Erik Johnsen, Andreas Martinos, Bhumindr Harinsuit, Barnabas Hurst-Bannister, David Koo, Gunther Jaegers and Matthew Cox. Details of those directors seeking annual re-election are included in the notice of the AGM, set out on page 57. The board said farewell to Yoshihiko Nakagami, The Hon. Sir John W Swan KBE JP and John Reinhart.

Meetings of the board

Since the date of the last report, the board has met on three occasions: on 15 October 2014 in Bermuda, on 27 January 2015 in Dubai and on 12 May 2015 in Copenhagen. 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 have both met on three occasions since the date of the last report. The 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 $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).

2015	$956m
2014	$949m
2013	$917m

Reserves available for claims

Business review continued

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).

Average expense ratio
The average expense ratio for the club's P&I class for the five years ended 20 February 2015 is 11.4% (2014: 10.9%). The ratio was 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.

Open and closed policy year balances – 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 2012/13 policy year at its meeting on 12 May 2015 on the basis of the financial position at 20 February 2015. The total open policy year balance at 20 February 2015 amounted to $298m after closure of the 2012/13 policy year. Included in this balance are estimated reinsurance recoveries of $166m. The estimate of net outstanding claims liabilities for the closed years amounted to $257m (including liabilities for the 2012/13 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 $380m at the year-end (2014: $369m). This increase reflected a modest investment return on top of a break-even underwriting result.

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.

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.

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.

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.

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.

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.

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.

Operational review

Overview

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.

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. A benchmark release call rate is calculated as this amount plus a risk transfer premium, adjusted to take into account any commercial or market considerations. On this basis the club has agreed to set release calls at 2% for 2013/14, 3% for 2014/15 and 7% for 2015/16, a reduction on the rates set last year and amongst the lowest in the International Group.

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.

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.

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).

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.

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.

Additional covers and The Standard Syndicate at Lloyd's
The Standard Club is committed to offering a wide range of attractive, customised marine and energy covers that meet members' needs, in addition to providing cost-effective P&I insurance, with first-class service and leading financial security. The club has steadily expanded its range of covers since 2012, and many members have chosen to benefit from the club's high standards of service, reasonable pricing and leading financial stability across a broad range of marine and energy covers. Many members now consider the club to be their first port of call for all their marine insurance needs.

Operational review continued

As part of this strategy, the club's board decided in early 2014 to set up a new marine and energy syndicate at Lloyd's. Following the required regulatory approvals and the successful raising of capital, The Standard Syndicate at Lloyd's – Syndicate 1884 – commenced underwriting on 1 April 2015. The Syndicate offers a range of fixed premium covers for property, casualty and liability risks, to both club members and other insureds. It focuses on hull, marine and energy liability, energy physical damage, D&O and E&O, marine and energy-related property, and cargo. These classes have been selected based on the expected insurance requirements of the club's members.

In addition to The Standard Syndicate, the club has continued to develop its fixed premium P&I cover for members wanting limits below those offered by the International Group structure and for business that cannot be pooled with the other IG clubs. Demand from members has continued to grow and the underwriting performance has been satisfactory. The limits were increased during 2014 from $500m to $1bn, making this one of the leading facilities in the market.

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.

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.

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 in the free reserves section of the business review.

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.

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.

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).

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.

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

Industry issues continued

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.

Principal risks and uncertainties

How the club manages 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 impact. The club's management 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. Acting through its Risk Committee, the club's management regularly monitors the effectiveness of the risk management system, including the impact of changes in the club's risk profile and emerging risks.

A risk register is maintained which records the risks and 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 including risk assessment tools, pricing models and clear authority levels; – monitoring for undue concentrations of risk, acceptability of results and consistency with risk appetite; and – a dedicated 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.

Principal risks and uncertainties continued

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; (ii) within the risk tolerance agreed by the board, to maximise the overall returns as measured over rolling three-year periods; and (iii) to ensure there are ready funds to meet liabilities as they fall due. • 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. The club is exposed to equity price fluctuation risk but the investment rules limit equity exposure. • Currency of investment is matched to the profile of liabilities to which the club is exposed. 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. • Interest rate risk exposure is measured and controlled through regular consideration of the appropriate duration of the fixed interest part of the portfolio. • 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.
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 46.

Corporate governance

Overview

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 principally regulated in Bermuda, the UK and Singapore 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 the 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 the 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 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, and 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.

Remuneration

Directors receive fees agreed by the club membership in the general meeting (other than the fees of non-member 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.

Corporate governance continued

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, which reports to the board, of the managers' budgets, performance and costs, 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.

Committees of the board

The board's three main committees – Nomination and Governance, Audit and Risk and Strategy – meet at each board meeting and each have written terms of reference which are available on the club's website.

The Nomination and Governance Committee
The committee's main responsibilities 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 performance of the board, its committees and the chairman are reviewed periodically, and the Nomination and Governance Committee conducted an evaluation of the board's effectiveness in 2014 and considered the board to be operating effectively.

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 in 2013. 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. 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 auditors' 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 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.

Strategy Committee
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 discussed new products and services, and the effective marketing of the aforesaid.

The committee has also considered and made recommendations to the board regarding the establishment of a new Lloyd's syndicate and managing agency, and discussed the long-term strategic and financial value of the new Lloyd's syndicate. Finally, the committee considered the underwriting and renewal strategy for 2015/16.

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

Risk management

Approach
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 the 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 those business risks.

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

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 the 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.

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 crystalised or have come close to doing so.

Internal audit
An internal audit function operates within the club. The function is 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 internal audit department is an independent unit within Charles Taylor and is not involved with the day-to-day management of the club.

The board has direct access to the head of internal audit, who attends all Audit and Risk Committee and board meetings in person. The internal audit reports submitted to each meeting summarise the audits undertaken and identify progress against the agreed annual audit timetable. Once a year, an assurance map is tabled for discussion.

The three-year forward-looking audit plan, annual 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.

Key policies

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 conflict 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, 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 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 aims to ensure that members are kept up to date with relevant sanctions information to assist them in ensuring that 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.

The environment
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.

Corporate governance continued

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.

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 its environmental policy into practical guidelines to 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
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 a 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.

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 2015 of which the auditors are unaware; and
- each director has taken all steps that they ought to have taken in their duty as a director in order to make themselves 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 31, 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 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

12 May 2015

05

Independent auditors' report

Independent auditors' report

We have audited the group and parent club financial statements (the 'financial statements') of The Standard Club Ltd for the year ended 20 February 2015 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 29 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 2015 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

12 May 2015

Financial statements and other information

* Appendices I, II and III are unaudited.

06 Financial statements and other information

Consolidated income and expenditure account
For the year ended 20 February 2015

	Notes	Total 2015 $m	Total 2014 $m	Class 1 – P&I 2015 $m	Class 1 – P&I 2014 $m	Class 2 – Defence 2015 $m	Class 2 – Defence 2014 $m	Class 3 – London 2015 $m	Class 3 – London 2014 $m	Class 4 – War 2015 $m	Class 4 – War 2014 $m
Technical account – general business											
Earned premiums, net of reinsurance											
Gross premiums earned including calls	3	**354.0**	336.1	**329.3**	309.6	**13.7**	13.5	**10.4**	11.9	**0.6**	1.1
Outward reinsurance premiums	4	**(92.0)**	(82.9)	**(89.7)**	(80.4)	**–**	–	**(1.9)**	(1.5)	**(0.4)**	(1.0)
Earned calls, net of reinsurance		**262.0**	253.2	**239.6**	229.2	**13.7**	13.5	**8.5**	10.4	**0.2**	0.1
Total income		**262.0**	253.2	**239.6**	229.2	**13.7**	13.5	**8.5**	10.4	**0.2**	0.1
Expenditure											
Claims paid	6	**484.7**	518.0	**469.9**	502.8	**7.8**	9.7	**7.0**	5.5	**–**	–
Reinsurers' share	7	**(248.1)**	(314.3)	**(246.8)**	(313.1)	**(1.6)**	(1.1)	**0.3**	(0.1)	**–**	–
Net claims paid		**236.6**	203.7	**223.1**	189.7	**6.2**	8.6	**7.3**	5.4	**–**	–
Change in provision for claims		**17.3**	(21.2)	**23.1**	(5.2)	**(7.0)**	(15.2)	**1.2**	(0.8)	**–**	–
Reinsurers' share		**(20.1)**	48.4	**(19.1)**	44.8	**0.8**	1.1	**(1.8)**	2.5	**–**	–
Change in net provision for claims		**(2.8)**	27.2	**4.0**	39.6	**(6.2)**	(14.1)	**(0.6)**	1.7	**–**	–
Claims incurred, net of reinsurance		**233.8**	230.9	**227.1**	229.3	**–**	(5.5)	**6.7**	7.1	**–**	–
Net operating expenses	8	**28.6**	26.5	**25.8**	23.4	**0.6**	0.7	**2.0**	2.2	**0.2**	0.2
Total expenditure		**262.4**	257.4	**252.9**	252.7	**0.6**	(4.8)	**8.7**	9.3	**0.2**	0.2
Balance on the technical account for general business		**(0.4)**	(4.2)	**(13.3)**	(23.5)	**13.1**	18.3	**(0.2)**	1.1	**–**	(0.1)
Non-technical account											
Balance on the technical account for general business		**(0.4)**	(4.2)	**(13.3)**	(23.5)	**13.1**	18.3	**(0.2)**	1.1	**–**	(0.1)
Investment income	5	**49.3**	30.8	**43.4**	27.3	**2.6**	1.2	**3.2**	2.0	**0.1**	0.3
Unrealised gains on investments	5	**34.8**	40.4	**31.5**	38.6	**0.4**	0.8	**2.8**	1.0	**0.1**	–
Investment expenses and charges											
Investment management expenses	5	**(4.0)**	(3.0)	**(3.9)**	(2.7)	**(0.1)**	(0.1)	**–**	(0.1)	**–**	(0.1)
Losses on realisation of investments	5	**(12.0)**	(18.5)	**(11.5)**	(16.3)	**(0.1)**	(1.5)	**(0.3)**	(0.7)	**(0.1)**	–
Unrealised losses on investments	5	**(45.2)**	(40.8)	**(41.8)**	(37.7)	**(1.8)**	(0.9)	**(1.4)**	(2.0)	**(0.2)**	(0.2)
Exchange (losses)/gains		**(5.7)**	(0.3)	**(0.7)**	(1.0)	**(0.1)**	–	**(4.9)**	0.7	**–**	–
Other (charges)/income including value adjustments		**(2.5)**	1.6	**(2.5)**	1.6	**–**	–	**–**	–	**–**	–
Share of operating loss of associate undertaking	5	**(2.4)**	–	**(2.4)**	–	**–**	–	**–**	–	**–**	–
Excess/(shortfall) of income over expenditure before taxation		**11.9**	6.0	**(1.2)**	(13.7)	**14.0**	17.8	**(0.8)**	2.0	**(0.1)**	(0.1)
Tax on excess/(shortfall) of income over expenditure	9	**(0.1)**	(0.1)	**(0.1)**	–	**–**	–	**–**	(0.1)	**–**	–
Excess/(shortfall) of income over expenditure after tax		**11.8**	5.9	**(1.3)**	(13.7)	**14.0**	17.8	**(0.8)**	1.9	**(0.1)**	(0.1)
Excess/(shortfall) of income over expenditure for the financial year transferred to/(from) contingency reserve	18	**11.8**	5.9	**(1.3)**	(13.7)	**14.0**	17.8	**(0.8)**	1.9	**(0.1)**	(0.1)

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

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

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

The notes on pages 37 to 53 form part of the financial statements.

Consolidated balance sheet
At 20 February 2015

		Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	Notes	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Assets											
Investments											
Investment property	12	**30.8**	31.5	**30.8**	31.5	**–**	–	**–**	–	**–**	–
Investment in participating undertakings	16	**1.1**	–	**1.1**	–	**–**	–	**–**	–	**–**	–
Other financial investments	13	**771.9**	735.7	**683.2**	650.6	**40.0**	41.8	**38.0**	33.5	**10.7**	9.8
Reinsurers' share of technical provisions											
Claims outstanding	11	**424.2**	406.1	**423.4**	404.3	**0.6**	1.4	**0.2**	0.4	**–**	–
Provision for unearned premiums		**1.9**	–	**1.9**	–	**–**	–	**–**	–	**–**	–
		426.1	406.1	**425.3**	404.3	**0.6**	1.4	**0.2**	0.4	**–**	–
Debtors											
Debtors arising out of direct insurance operations	17	**104.8**	85.3	**102.8**	83.7	**1.5**	0.9	**0.5**	0.6	**–**	0.1
Other debtors		**15.0**	2.5	**14.0**	1.3	**0.9**	0.9	**0.1**	0.3	**–**	–
		119.8	87.8	**116.8**	85.0	**2.4**	1.8	**0.6**	0.9	**–**	0.1
Other assets											
Tangible assets	15	**4.9**	6.5	**4.8**	6.4	**–**	–	**0.1**	0.1	**–**	–
Cash at bank and in hand		**84.6**	119.9	**74.8**	110.2	**8.1**	3.5	**1.4**	5.3	**0.3**	0.9
Deferred tax asset	10	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
		89.5	126.4	**79.6**	116.6	**8.1**	3.5	**1.5**	5.4	**0.3**	0.9
Prepayments and accrued income		**10.4**	8.3	**9.6**	6.2	**0.7**	0.9	**0.1**	1.1	**–**	0.1
Total assets		**1,449.6**	1,395.8	**1,346.4**	1,294.2	**51.8**	49.4	**40.4**	41.3	**11.0**	10.9
Liabilities											
Reserves											
Statutory reserve		**0.2**	0.2	**0.2**	0.2	**–**	–	**–**	–	**–**	–
Contingency reserve	18	**380.1**	368.3	**298.4**	299.7	**43.6**	29.6	**27.4**	28.2	**10.7**	10.8
		380.3	368.5	**298.6**	299.9	**43.6**	29.6	**27.4**	28.2	**10.7**	10.8
Technical provisions											
Gross claims outstanding	11	**1,000.4**	986.9	**978.5**	955.4	**12.9**	19.9	**9.0**	11.6	**–**	–
Provision for unearned premiums		**2.3**	–	**2.3**	–	**–**	–	**–**	–	**–**	–
		1,002.7	986.9	**980.8**	955.4	**12.9**	19.9	**9.0**	11.6	**–**	
Provisions for other risks and charges											
Deferred tax provisions	10	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Creditors											
Creditors arising out of direct insurance operations		**42.9**	34.4	**40.6**	32.3	**1.7**	1.6	**0.3**	0.4	**0.3**	0.1
Other creditors including taxation and social security	19	**23.2**	4.4	**23.2**	4.2	**–**	–	**–**	0.2	**–**	–
Current account between classes		**–**	–	**2.7**	0.9	**(6.4)**	(1.7)	**3.7**	0.8	**–**	–
		66.1	38.8	**66.5**	37.4	**(4.7)**	(0.1)	**4.0**	1.4	**0.3**	0.1
Accruals and deferred income		**0.5**	1.6	**0.5**	1.5	**–**	–	**–**	0.1	**–**	–
Total liabilities		**1,449.6**	1,395.8	**1,346.4**	1,294.2	**51.8**	49.4	**40.4**	41.3	**11.0**	10.9

The financial statements were approved by the board of directors on 12 May 2015 and were signed on its behalf by:

R Jones
Chairman

The notes on pages 37 to 53 form part of the financial statements.

Club balance sheet
At 20 February 2015

	Notes	Total 2015 $m	Total 2014 $m	Class 1 – P&I 2015 $m	Class 1 – P&I 2014 $m	Class 2 – Defence 2015 $m	Class 2 – Defence 2014 $m	Class 3 – London 2015 $m	Class 3 – London 2014 $m	Class 4 – War 2015 $m	Class 4 – War 2014 $m
Assets											
Investments											
Investments in group undertakings and participating interests	16	**13.5**	11.2	**13.5**	11.2	**–**	–	**–**	–	**–**	–
Debtors											
Amounts owed by group undertakings		**0.1**	–	**0.1**	–	**–**	–	**–**	–	**–**	–
Other debtors		**12.0**	–	**12.0**	–	**–**	–	**–**	–	**–**	–
		12.1	–	**12.1**	–	**–**	–	**–**	–	**–**	–
Other assets											
Cash at bank and in hand		**0.4**	0.4	**0.4**	0.4	**–**	–	**–**	–	**–**	–
Prepayments and accrued income		**0.1**	0.1	**0.1**	0.1	**–**	–	**–**	–	**–**	–
Total assets		**26.1**	11.7	**26.1**	11.7	**–**	–	**–**	–	**–**	–
Liabilities											
Reserves											
Statutory reserve		**0.2**	0.2	**0.2**	0.2	**–**	–	**–**	–	**–**	–
Contingency reserve	18	**5.1**	8.8	**5.1**	8.8	**–**	–	**–**	–	**–**	–
		5.3	9.0	**5.3**	9.0	**–**	–	**–**	–	**–**	–
Creditors											
Amounts owed to group undertakings		**20.6**	2.4	**20.6**	2.4	**–**	–	**–**	–	**–**	–
Accruals and deferred income		**0.2**	0.3	**0.2**	0.3	**–**	–	**–**	–	**–**	–
Total liabilities		**26.1**	11.7	**26.1**	11.7	**–**	–	**–**	–	**–**	–

The financial statements were approved by the board of directors on 12 May 2015 and were signed on its behalf by:

R Jones
Chairman

The notes on pages 37 to 53 form part of the financial statements.

Consolidated cash flow statement
For the year ended 20 February 2015

	Notes	Total 2015 $m	Total 2014 $m	Class 1 – P&I 2015 $m	Class 1 – P&I 2014 $m	Class 2 – Defence 2015 $m	Class 2 – Defence 2014 $m	Class 3 – London 2015 $m	Class 3 – London 2014 $m	Class 4 – War 2015 $m	Class 4 – War 2014 $m
Net cash inflow/(outflow) from operating activities	20	**5.1**	40.7	**(3.0)**	17.6	**3.6**	21.7	**4.1**	0.7	**0.4**	0.7
Taxation											
Taxation paid		**(0.3)**	(0.8)	**(0.3)**	(0.4)	**–**	–	**–**	(0.4)	**–**	–
Net cash inflow/(outflow)		**4.8**	39.9	**(3.3)**	17.2	**3.6**	21.7	**4.1**	0.3	**0.4**	0.7
Cash flows were invested/(applied) as follows											
(Decrease)/increase in cash holdings		**(34.4)**	36.0	**(35.4)**	36.6	**4.7**	2.3	**(3.0)**	(3.0)	**(0.7)**	0.1
Net portfolio investments											
Purchase of shares and other variable-yield securities		**122.0**	80.6	**115.3**	63.5	**0.9**	7.7	**5.8**	9.4	**–**	–
Purchase of debt securities and other fixed-income securities		**657.5**	489.0	**563.4**	408.4	**47.6**	44.1	**34.2**	29.6	**12.3**	6.9
Sale of shares and other variable-yield securities		**(128.4)**	(89.3)	**(120.8)**	(81.0)	**(2.3)**	–	**(5.3)**	(8.4)	**–**	0.1
Sale of debt securities and other fixed-income securities		**(611.9)**	(476.4)	**(525.8)**	(410.3)	**(47.3)**	(32.4)	**(27.6)**	(27.3)	**(11.2)**	(6.4)
Net cash flow from investing activities		**39.2**	3.9	**32.1**	(19.4)	**(1.1)**	19.4	**7.1**	3.3	**1.1**	0.6
Net investment/(application) of cash flows		**4.8**	39.9	**(3.3)**	17.2	**3.6**	21.7	**4.1**	0.3	**0.4**	0.7

The notes on pages 37 to 53 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 (l) 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 utilised the exemption in Section 408 of the Companies Act 2006 and as a result does 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. The directors consider it appropriate to adopt the going-concern basis of accounting in the preparation of these financial statements and are not aware of any material uncertainties to the company's ability to continue to do so for at least 12 months from the date of these financial statements.

(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.

Associated undertakings are companies other than subsidiary undertakings in which the club holds 20% or more of the equity share capital for the long term and over which the club exercises significant influence. Associated undertakings are accounted for using the equity method of accounting.

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) Unearned premiums
Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

Notes to the financial statements continued

2. Accounting policies continued

(f) 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.

(g) 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.

(h) 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' i.e., with potential liabilities several years after the end of the policy year. Consequently, 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; and
- 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 and/or projected on a case-by-case basis 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 very 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.

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

(j) 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

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) General administration expenses

General administration expenses, including managers' remuneration, are included on an accruals basis.

(p) 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 earned including calls

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Estimated total premium, other premiums and releases 2014/15 (2013/14)	**354.1**	335.7	**321.8**	301.4	**13.9**	13.5	**17.8**	19.7	**0.6**	1.1
Adjustments to previous policy years	**2.2**	0.4	**2.0**	0.1	**0.1**	0.3	**0.1**	–	**–**	–
Interclass reinsurance	**–**	–	**7.8**	8.1	**(0.3)**	(0.3)	**(7.5)**	(7.8)	**–**	–
Change in the gross provision for unearned premiums	**(2.3)**	–	**(2.3)**	–	**–**	–	**–**	–	**–**	–
Total calls and premiums	**354.0**	336.1	**329.3**	309.6	**13.7**	13.5	**10.4**	11.9	**0.6**	1.1

4. Outward reinsurance premiums

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
International Group excess of loss	**46.8**	43.7	**46.8**	43.7	**–**	–	**–**	–	**–**	–
Adjustment to prior years	**(2.5)**	(0.3)	**(2.5)**	(0.3)	**–**	–	**–**	–	**–**	–
Other premiums	**49.9**	38.2	**47.5**	35.3	**–**	0.3	**1.9**	1.5	**0.5**	1.1
Adjustment to prior years	**(0.3)**	1.3	**(0.2)**	1.7	**–**	(0.3)	**–**	–	**(0.1)**	(0.1)
Change in the provision for unearned premiums, reinsurers' share	**(1.9)**	–	**(1.9)**	–	**–**	–	**–**	–	**–**	–
Reinsurance premiums paid	**92.0**	82.9	**89.7**	80.4	**–**	–	**1.9**	1.5	**0.4**	1.0

5. Investment return

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Investment income										
Shares and other variable-yield securities and unit trusts	**4.0**	3.1	**2.8**	3.0	**1.1**	–	**0.1**	0.1	**–**	–
Debt securities and other fixed-income securities	**11.8**	14.1	**10.6**	12.7	**0.7**	0.7	**0.4**	0.5	**0.1**	0.2
Deposit interest	**0.3**	0.3	**0.2**	0.3	**0.1**	–	**–**	–	**–**	–
Income from investment property	**1.7**	1.9	**1.7**	1.9	**–**	–	**–**	–	**–**	–
Gains arising on realisation of investments	**31.5**	11.4	**28.1**	9.4	**0.7**	0.5	**2.7**	1.4	**–**	0.1
	49.3	30.8	**43.4**	27.3	**2.6**	1.2	**3.2**	2.0	**0.1**	0.3
Share of operating loss of associate undertaking	**(2.4)**	–	**(2.4)**	–	**–**		**–**	–	**–**	–
Investment expenses and charges										
Investment management expenses	**(4.0)**	(3.0)	**(3.9)**	(2.7)	**(0.1)**	(0.1)	**–**	(0.1)	**–**	(0.1)
Losses on realisation of investments	**(12.0)**	(18.5)	**(11.5)**	(16.3)	**(0.1)**	(1.5)	**(0.3)**	(0.7)	**(0.1)**	–
	(16.0)	(21.5)	**(15.4)**	(19.0)	**(0.2)**	(1.6)	**(0.3)**	(0.8)	**(0.1)**	(0.1)
Unrealised gains on investments	**34.8**	40.4	**31.5**	38.6	**0.4**	0.8	**2.8**	1.0	**0.1**	–
Unrealised losses on investments	**(45.2)**	(40.8)	**(41.8)**	(37.7)	**(1.8)**	(0.9)	**(1.4)**	(2.0)	**(0.2)**	(0.2)
	(10.4)	(0.4)	**(10.3)**	0.9	**(1.4)**	(0.1)	**1.4**	(1.0)	**(0.1)**	(0.2)
Total investment return	**20.5**	8.9	**15.3**	9.2	**1.0**	(0.5)	**4.3**	0.2	**(0.1)**	–

6. Claims

	Total 2015 $m	Total 2014 $m	Class 1 – P&I 2015 $m	Class 1 – P&I 2014 $m	Class 2 – Defence 2015 $m	Class 2 – Defence 2014 $m	Class 3 – London 2015 $m	Class 3 – London 2014 $m	Class 4 – War 2015 $m	Class 4 – War 2014 $m
Members' claims	**456.3**	489.9	**436.0**	465.2	**7.8**	9.7	**12.5**	15.0	**–**	–
Other P&I clubs' Pool claims	**28.4**	28.1	**28.4**	28.1	**–**	–	**–**	–	**–**	–
Interclass reinsurance	**–**	–	**5.5**	9.5	**–**	–	**(5.5)**	(9.5)	**–**	–
Gross claims paid	**484.7**	518.0	**469.9**	502.8	**7.8**	9.7	**7.0**	5.5	**–**	–

7. Reinsurers' share of claims paid

	Total 2015 $m	Total 2014 $m	Class 1 – P&I 2015 $m	Class 1 – P&I 2014 $m	Class 2 – Defence 2015 $m	Class 2 – Defence 2014 $m	Class 3 – London 2015 $m	Class 3 – London 2014 $m	Class 4 – War 2015 $m	Class 4 – War 2014 $m
Claims recoverable from group GXL reinsurers	**(186.0)**	(248.3)	**(186.0)**	(248.3)	**–**	–	**–**	–	**–**	–
Claims recoverable from other reinsurers	**(10.0)**	(19.2)	**(8.7)**	(18.0)	**(1.6)**	(1.1)	**0.3**	(0.1)	**–**	–
Claims recoverable from the Pool	**(52.1)**	(46.8)	**(52.1)**	(46.8)	**–**	–	**–**	–	**–**	–
Reinsurers' share of claims paid	**(248.1)**	(314.3)	**(246.8)**	(313.1)	**(1.6)**	(1.1)	**0.3**	(0.1)	**–**	–

8. Net operating expenses

	Total 2015 $m	Total 2014 $m	Class 1 – P&I 2015 $m	Class 1 – P&I 2014 $m	Class 2 – Defence 2015 $m	Class 2 – Defence 2014 $m	Class 3 – London 2015 $m	Class 3 – London 2014 $m	Class 4 – War 2015 $m	Class 4 – War 2014 $m
Acquisition costs										
Management fee	**10.2**	9.0	**9.1**	7.7	**0.3**	0.4	**0.8**	0.9	**–**	–
General expenses	**2.4**	2.5	**2.3**	2.4	**–**	–	**0.1**	0.1	**–**	–
Administrative expenses										
Management fee	**9.2**	8.4	**7.9**	7.0	**0.3**	0.3	**0.8**	0.9	**0.2**	0.2
General expenses	**3.3**	3.5	**3.2**	3.4	**–**	–	**0.1**	0.1	**–**	–
Depreciation	**1.1**	1.1	**1.1**	1.1	**–**	–	**–**	–	**–**	–
Safety and loss control	**1.2**	1.0	**1.1**	0.9	**–**	–	**0.1**	0.1	**–**	–
Directors' fees	**0.9**	0.7	**0.8**	0.6	**–**	–	**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	**28.6**	26.5	**25.8**	23.4	**0.6**	0.7	**2.0**	2.2	**0.2**	0.2

The highest paid director received directors fees of $128,000 during the year (2014: $90,000). 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 2015 $m	Total 2014 $m	Class 1 – P&I 2015 $m	Class 1 – P&I 2014 $m	Class 2 – Defence 2015 $m	Class 2 – Defence 2014 $m	Class 3 – London 2015 $m	Class 3 – London 2014 $m	Class 4 – War 2015 $m	Class 4 – War 2014 $m
Audit services										
Fees payable to the club's auditors for the audit of the parent company and consolidated accounts	**0.1**	0.1	**0.1**	0.1	**–**	–	**–**	–	**–**	–
Other services										
The audit of the club's subsidiaries, pursuant to legislation	**0.1**	0.1	**0.1**	0.1	**–**	–	**–**	–	**–**	–
Fees payable to the club's auditors and its associates for other services:										
(a) other services pursuant to legislation, including the audit of the regulatory return	**0.1**	0.1	**0.1**	0.1	**–**	–	**–**	–	**–**	–
(b) tax services	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
	0.3	0.3	**0.3**	0.3	**–**	–	**–**	–	**–**	–

Notes to the financial statements continued

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

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Analysis of charge in the period										
Current UK corporation tax on taxable investment profits	**0.1**	–	**0.1**	–	**–**	–	**–**	–	**–**	–
Adjustments in respect of prior years	**–**	0.1	**–**	–	**–**	–	**–**	0.1	**–**	–
Total current tax	**0.1**	0.1	**0.1**	–	**–**	–	**–**	0.1	**–**	–
Deferred tax										
Origination and reversal of timing differences	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total deferred tax (note 10)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Tax on investment income	**0.1**	0.1	**0.1**	–	**–**	–	**–**	0.1	**–**	–

Factors affecting tax charge for the period
The tax assessed for the year is lower than (2014: lower than) the standard rate of corporation tax in the UK (21% (2014: 23%)). The differences are explained below:

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Excess/(shortfall) of income over expenditure before taxation	**11.9**	6.0	**(1.2)**	(13.7)	**14.0**	17.8	**(0.8)**	2.0	**(0.1)**	(0.1)
Multiplied by the standard rate of tax at 21% (2014: 23%)	**2.4**	1.4	**(0.3)**	(3.2)	**2.9**	4.1	**(0.2)**	0.5	**–**	–
(Income)/expenses not assessable for tax purposes	**(2.3)**	(1.4)	**0.4**	3.2	**(2.9)**	(4.1)	**0.2**	(0.5)	**–**	–
Adjustments in respect of prior years	**–**	0.1	**–**	–	**–**	–	**–**	0.1	**–**	–
Current tax charge for the period	**0.1**	0.1	**0.1**	–	**–**	–	**–**	0.1	**–**	–

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 2012/13 policy year at its meeting on 12 May 2015. The table below provides the position after closure.

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Open years										
Claims	**479.3**	514.2	**456.2**	490.7	**8.7**	9.8	**14.4**	13.7	**–**	–
Interclass reinsurance	**–**	–	**8.0**	6.9	**–**	–	**(8.0)**	(6.9)	**–**	–
Reinsurance recoveries	**(166.2)**	(185.9)	**(166.2)**	(185.9)	**–**	–	**–**	–	**–**	–
Net claims provision for open years	**313.1**	328.3	**298.0**	311.7	**8.7**	9.8	**6.4**	6.8	**–**	–
Closed years										
Claims	**521.1**	472.7	**509.0**	451.0	**4.2**	10.1	**7.9**	11.6	**–**	–
Interclass reinsurance	**–**	–	**5.3**	6.8	**–**	–	**(5.3)**	(6.8)	**–**	–
Reinsurance recoveries	**(258.0)**	(220.2)	**(257.2)**	(218.4)	**(0.6)**	(1.4)	**(0.2)**	(0.4)	**–**	–
Net claims provision for closed years	**263.1**	252.5	**257.1**	239.4	**3.6**	8.7	**2.4**	4.4	**–**	–
Total										
Claims	**1,000.4**	986.9	**965.2**	941.7	**12.9**	19.9	**22.3**	25.3	**–**	–
Interclass reinsurance	**–**	–	**13.3**	13.7	**–**	–	**(13.3)**	(13.7)	**–**	–
Reinsurance recoveries	**(424.2)**	(406.1)	**(423.4)**	(404.3)	**(0.6)**	(1.4)	**(0.2)**	(0.4)	**–**	–
Net claims provision	**576.2**	580.8	**555.1**	551.1	**12.3**	18.5	**8.8**	11.2	**–**	–

12. Investment property

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Group										
Net book value at 21 February 2014	**31.5**	26.7	**31.5**	26.7	**–**	–	**–**	–	**–**	–
Revaluation (deficit)/surplus	**(0.7)**	4.8	**(0.7)**	4.8	**–**	–	**–**	–	**–**	–
Net book value at 20 February 2015	**30.8**	31.5	**30.8**	31.5	**–**	–	**–**	–	**–**	–

Investment property comprises the club's freehold premises at Essex Street, London. The property was valued at 20 February 2015 by Newton Perkins property consultants at £20.0m (2014 directors' valuation: £18.8m).

Notes to the financial statements continued

13. Other financial investments

	Total 2015 $m	Total 2014 $m	Class 1 – P&I 2015 $m	Class 1 – P&I 2014 $m	Class 2 – Defence 2015 $m	Class 2 – Defence 2014 $m	Class 3 – London 2015 $m	Class 3 – London 2014 $m	Class 4 – War 2015 $m	Class 4 – War 2014 $m
Group										
At market value										
Shares and other variable-yield securities and units in unit trusts	**151.9**	183.3	**135.6**	159.2	**9.0**	14.9	**7.3**	9.2	**–**	–
Debt securities and other fixed-income securities	**624.3**	554.3	**550.8**	493.2	**31.0**	26.9	**31.8**	24.4	**10.7**	9.8
Open forward currency contracts	**(4.3)**	(1.9)	**(3.2)**	(1.8)	**–**	–	**(1.1)**	(0.1)	**–**	–
Total investments at market value	**771.9**	735.7	**683.2**	650.6	**40.0**	41.8	**38.0**	33.5	**10.7**	9.8
At cost										
Shares and other variable-yield securities and units in unit trusts	**116.2**	143.4	**101.2**	119.7	**9.4**	15.2	**5.6**	8.5	**–**	–
Debt securities and other fixed-income securities	**610.7**	535.1	**536.8**	473.7	**32.4**	27.0	**30.6**	24.5	**10.9**	9.9
Total investments at cost	**726.9**	678.5	**638.0**	593.4	**41.8**	42.2	**36.2**	33.0	**10.9**	9.9

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 2015 $m	Total 2014 $m	Class 1 – P&I 2015 $m	Class 1 – P&I 2014 $m	Class 2 – Defence 2015 $m	Class 2 – Defence 2014 $m	Class 3 – London 2015 $m	Class 3 – London 2014 $m	Class 4 – War 2015 $m	Class 4 – War 2014 $m
Group										
Shares and other variable-yield securities and unit trusts	**119.4**	130.2	**105.1**	115.2	**9.0**	14.9	**5.3**	0.1	**–**	–
Debt securities and other fixed-income securities	**236.9**	195.0	**196.1**	179.3	**19.6**	13.1	**17.1**	2.6	**4.1**	–
	356.3	325.2	**301.2**	294.5	**28.6**	28.0	**22.4**	2.7	**4.1**	–

Open forward currency contracts	Total 2015 $m	Total 2014 $m	Class 1 – P&I 2015 $m	Class 1 – P&I 2014 $m	Class 2 – Defence 2015 $m	Class 2 – Defence 2014 $m	Class 3 – London 2015 $m	Class 3 – London 2014 $m	Class 4 – War 2015 $m	Class 4 – War 2014 $m
Group										
Fair value asset	**(4.3)**	(1.9)	**(3.2)**	(1.8)	**–**	–	**(1.1)**	(0.1)	**–**	–
Contract/notional amount	**159.5**	226.3	**143.3**	226.3	**–**	–	**16.1**	–	**–**	–

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 2015 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 $(4.3m) (2014: $(1.8m)), as broken down by local currency in the following table:

	Class 1 – P&I 2015 Local currency $m		Class 1 – P&I 2014 Local currency $m	
	Purchase	**Sell**	Purchase	Sell
Australian dollar	**–**	**(2.5)**	–	(7.0)
Brazilian real	**–**	**(4.9)**	–	(10.5)
British pound sterling	**18.0**	**(2.0)**	8.2	(34.8)
Chinese yuan	**–**	**–**	1.6	(5.1)
European euro	**47.3**	**(20.7)**	14.0	(65.9)
HK Offshore Chinese yuan	**–**	**(13.0)**	–	(18.1)
Indian rupee	**–**	**–**	–	(1.5)
Japanese yen	**–**	**(7.0)**	–	(12.0)
Mexican peso	**–**	**(7.5)**	–	(5.6)
Norwegian krone	**–**	**–**	–	(6.5)
Polish zloty	**–**	**(4.0)**	–	(12.8)
Singapore dollar	**–**	**–**	–	(2.4)
South African rand	**–**	**(6.1)**	–	(4.1)
Swiss franc	**–**	**–**	–	(4.3)
Turkish lira	**–**	**(0.2)**	8.0	(8.1)
US dollar	**68.5**	**(69.8)**	182.6	(17.6)

	Class 3 – London 2015 Local currency $m		Class 3 – London 2014 Local currency $m	
	Purchase	**Sell**	Purchase	Sell
British pound sterling	**–**	**(15.7)**	2.7	(10.5)
European euro	**0.5**	**(4.3)**	–	(3.1)
US dollar	**19.6**	**(0.5)**	13.6	(2.7)

The net US dollar position of the above transactions at cost is $nil (2014: $nil).

The forward currency contracts outstanding at year-end expire by 23 June 2015 (2014: 29 April 2014).

During the year, a loss of $3.8m (2014: loss $3.3m) relating to such contracts was recognised. This is included in the net exchange loss of $5.7m (2014: loss $0.3m) 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 81% (2014: 75%) of the club's investment portfolio was invested in fixed interest assets. The weighted duration of the investment portfolio was 3.5 years (2014: 3.5 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 $33.5m.

– 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 $15.2m.

– 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 2015, had sterling strengthened by 10% against the dollar with all other variables held constant, profit for the year would have been $5.6m higher. Had the euro strengthened by 10% against the dollar, profit for the year would have been $3.0m higher.

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; and
- 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		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Derivative financial instruments	**(4.3)**	(1.9)	**(3.2)**	(1.8)	**–**	–	**(1.1)**	(0.1)	**–**	–
Debt securities	**624.3**	554.3	**550.8**	493.2	**31.0**	26.9	**31.8**	24.4	**10.7**	9.8
Loans and receivables	**113.4**	81.7	**110.4**	78.9	**2.4**	1.8	**0.6**	0.9	**–**	0.1
Assets arising from reinsurance contracts held	**7.0**	6.1	**7.0**	6.1	**–**	–	**–**	–	**–**	–
Cash at bank and in hand	**84.6**	119.9	**74.8**	110.2	**8.1**	3.5	**1.4**	5.3	**0.3**	0.9
Total assets bearing credit risk	**825.0**	760.1	**739.8**	686.6	**41.5**	32.2	**32.7**	30.5	**11.0**	10.8
AAA	**96.8**	62.3	**77.0**	47.8	**11.6**	5.8	**2.7**	7.6	**5.5**	1.1
AA	**298.5**	288.5	**264.3**	252.9	**12.2**	17.2	**16.5**	10.3	**5.5**	8.1
A	**163.7**	183.0	**154.9**	175.6	**3.9**	0.1	**4.9**	7.3	**–**	–
BBB	**127.6**	106.4	**123.1**	104.5	**–**	–	**4.5**	1.9	**–**	–
BB	**8.9**	–	**8.9**	–	**–**	–	–	–	**–**	–
Not rated	**129.5**	119.9	**111.6**	105.8	**13.8**	9.1	**4.1**	3.4	**–**	1.6
Total assets bearing credit risk	**825.0**	760.1	**739.8**	686.6	**41.5**	32.2	**32.7**	30.5	**11.0**	10.8

The concentration of credit risk is substantially unchanged compared to the 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, the amounts that are due for payment or the assets that 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 2015						
Shares and other variable-yield securities and units in unit trusts	136.2	12.4	–	–	3.3	**151.9**
Debt securities and other fixed-income securities	624.3	–	–	–	–	**624.3**
Forward currency contracts	(4.3)	–	–	–	–	**(4.3)**
Cash balances	84.6	–	–	–	–	**84.6**
Investment property	–	–	–	–	30.8	**30.8**
Debtors	23.0	97.4	–	–	–	**120.4**
Reinsurers' share of claims outstanding	–	125.3	80.2	118.5	100.2	**424.2**
	863.8	**235.1**	**80.2**	**118.5**	**134.3**	**1,431.9**
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

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 2015					
Gross outstanding claims	295.4	189.1	279.5	236.4	**1,000.4**
Financial liabilities under investment contracts	–	–	–	–	**–**
Creditors	66.1	–	–	–	**66.1**
	362.5	**189.1**	**279.5**	**236.4**	**1,066.5**
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

Company	Within 1 year $m	1–2 years $m	2–5 years $m	Over 5 years $m	Total $m
As at 20 February 2015					
Gross outstanding claims	–	–	–	–	**–**
Financial liabilities under investment contracts	–	–	–	–	**–**
Creditors	20.6	–	–	–	**20.6**
	20.6	**–**	**–**	**–**	**20.6**
As at 20 February 2014					
Gross outstanding claims	–	–	–	–	–
Financial liabilities under investment contracts	–	–	–	–	–
Creditors	2.4	–	–	–	2.4
	2.4	–	–	–	2.4

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 that 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); and
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 club's assets and liabilities measured at fair value at 20 February 2015 and at 20 February 2014.

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 2015				
Shares and other variable-yield securities and units in unit trusts	136.2	7.8	7.9	**151.9**
Debt securities and other fixed-income securities	624.3	–	–	**624.3**
Forward currency contracts	(4.3)	–	–	**(4.3)**
	756.2	**7.8**	**7.9**	**771.9**
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

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 movements in exchange rates; and
- to retain financial flexibility by maintaining strong liquidity.

The club's principal regulator is the Bermuda Monetary Authority, 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.

Notes to the financial statements continued

15. Tangible assets

	Total		Computer software		Furniture, fixtures and fittings	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Group						
Book cost						
As at 21 February 2014	**13.8**	13.8	**7.7**	7.7	**6.1**	6.1
Currency fluctuation adjustments	**(0.1)**	–	**(0.1)**	–	**–**	–
As at 20 February 2015	**13.7**	13.8	**7.6**	7.7	**6.1**	6.1
Accumulated depreciation						
As at 21 February 2014	**7.3**	6.4	**5.9**	5.1	**1.4**	1.3
Charge for the year	**1.5**	0.9	**0.7**	0.8	**0.8**	0.1
As at 20 February 2015	**8.8**	7.3	**6.6**	5.9	**2.2**	1.4
Net book value	**4.9**	6.5	**1.0**	1.8	**3.9**	4.7

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) Limited, incorporated in the United Kingdom[1]	Note 1	20 Feb	Marine mutual	75	75
The Standard Club (Asia) Limited, 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	–
Charles Taylor Managing Agency Holdings Limited, incorporated in the United Kingdom[3]	Ordinary	20 Feb	Lloyd's managing agent	49.9	49.9
The Standard Club Corporate Name Limited, incorporated in the United Kingdom	Ordinary	20 Feb	Lloyd's corporate name	100	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.
2 The results of Poseidon Insurance Company are included up to its most recent year-end, 30 June 2014. Since that date, there have been no material changes to its net assets.
3 The group has an investment of $1.1m in an associate company, Charles Taylor Managing Agency Holdings Limited (CTMAH), a Lloyd's managing agent holding company. The group holds 49.9% of the nominal value of the allotted ordinary shares of CTMAH. The cost of this investment was $2.4m.

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	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Group										
Members	**97.6**	78.7	**95.7**	77.2	**1.5**	0.9	**0.4**	0.5	**–**	0.1
Intermediaries	**0.2**	0.5	**0.1**	0.4	**–**	–	**0.1**	0.1	**–**	–
Reinsurers	**7.0**	6.1	**7.0**	6.1	**–**	–	**–**	–	**–**	–
Debtors arising out of direct insurance operations	**104.8**	85.3	**102.8**	83.7	**1.5**	0.9	**0.5**	0.6	**–**	0.1

18. Contingency reserve

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Group										
Balance at beginning of year	**368.3**	362.4	**299.7**	313.4	**29.6**	11.8	**28.2**	26.3	**10.8**	10.9
Excess/(shortfall) of income over expenditure for the year	**11.8**	5.9	**(1.3)**	(13.7)	**14.0**	17.8	**(0.8)**	1.9	**(0.1)**	(0.1)
Balance on contingency reserve at end of year	**380.1**	368.3	**298.4**	299.7	**43.6**	29.6	**27.4**	28.2	**10.7**	10.8
Company										
Balance at beginning of year	**8.8**	2.3	**8.8**	2.3	**–**	–	**–**	–	**–**	–
(Shortfall)/excess of income over expenditure for the year	**(3.7)**	6.5	**(3.7)**	6.5	**–**	–	**–**	–	**–**	–
Balance on contingency reserve at end of year	**5.1**	8.8	**5.1**	8.8	**–**	–	**–**	–	**–**	–

19. Other creditors including taxation and social security

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Group										
Corporation tax	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Trade creditors	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other creditors	**23.2**	4.4	**23.2**	4.2	**–**	–	**–**	0.2	**–**	–
Other creditors including taxation and social security	**23.2**	4.4	**23.2**	4.2	**–**	–	**–**	0.2	**–**	–

20. Reconciliation of operating surplus/(deficit) to net cash flow from operating activities

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Excess/(shortfall) of income over expenditure before tax	**11.9**	6.0	**(1.2)**	(13.7)	**14.0**	17.8	**(0.8)**	2.0	**(0.1)**	(0.1)
Gains arising on realisation of investments	**(31.5)**	(11.4)	**(28.1)**	(9.4)	**(0.7)**	(0.5)	**(2.7)**	(1.4)	**–**	(0.1)
Losses arising on realisation of investments	**12.0**	18.5	**11.5**	16.3	**0.1**	1.5	**0.3**	0.7	**0.1**	–
Unrealised losses/(gains) on revaluation of investments	**10.4**	(2.2)	**10.3**	(3.5)	**1.4**	0.1	**(1.4)**	1.0	**0.1**	0.2
Depreciation	**1.1**	1.1	**1.1**	1.1	**–**	–	**–**	–	**–**	–
(Increase)/decrease in debtors	**(37.9)**	10.9	**(35.2)**	21.1	**(0.4)**	–	**(2.4)**	(10.9)	**0.1**	0.7
(Decrease)/increase in net claims provision	**(2.4)**	27.2	**4.4**	39.6	**(6.2)**	(14.1)	**(0.6)**	1.7	**–**	–
Increase/(decrease) in creditors	**30.8**	(11.0)	**28.2**	(35.5)	**(4.6)**	16.9	**7.0**	7.6	**0.2**	–
Other charges including value adjustments	**4.9**	1.6	**4.9**	1.6	**–**	–	**–**	–	**–**	–
Investment in associate undertaking	**1.1**	–	**1.1**	–	**–**	–	**–**	–	**–**	–
Exchange differences	**4.7**	–	**–**	–	**–**	–	**4.7**	–	**–**	–
Net cash inflow/(outflow) from operating activities	**5.1**	40.7	**(3.0)**	17.6	**3.6**	21.7	**4.1**	0.7	**0.4**	0.7

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	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Net cash (outflow)/inflow for the year	**(34.4)**	36.0	**(35.4)**	36.6	**4.7**	2.3	**(3.0)**	(3.0)	**(0.7)**	0.1
Portfolio investments	**39.2**	3.9	**32.1**	(19.4)	**(1.1)**	19.4	**7.1**	3.3	**1.1**	0.6
Movement arising from cash flows	**4.8**	39.9	**(3.3)**	17.2	**3.6**	21.7	**4.1**	0.3	**0.4**	0.7
Change in market value	**(4.6)**	(4.9)	**(0.2)**	(4.0)	**(0.8)**	(1.2)	**(3.5)**	0.5	**(0.1)**	(0.2)
Total movement in portfolio investments	**0.2**	35.0	**(3.5)**	13.2	**2.8**	20.5	**0.6**	0.8	**0.3**	0.5
Portfolio investments at 21 February 2014	**887.1**	852.1	**792.3**	779.1	**45.3**	24.8	**38.8**	38.0	**10.7**	10.2
Portfolio investments at 20 February 2015	**887.3**	887.1	**788.8**	792.3	**48.1**	45.3	**39.4**	38.8	**11.0**	10.7

22. Movements in cash and portfolio investments

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
At 21 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	**554.3**	592.5	**493.2**	535.1	**26.9**	23.5	**24.4**	24.5	**9.8**	9.4
Open forward contracts	**(1.9)**	0.1	**(1.8)**	0.1	**–**	–	**(0.1)**	–	**–**	–
Total balance at 21 February 2014	**887.1**	852.1	**792.3**	779.1	**45.3**	24.8	**38.8**	38.0	**10.7**	10.2
Cash flow										
Cash at bank and in hand	**(34.4)**	36.0	**(35.4)**	36.6	**4.7**	2.3	**(3.0)**	(3.0)	**(0.7)**	0.1
Shares and other variable-yield securities and unit trusts	**(6.4)**	(8.7)	**(5.5)**	(17.5)	**(1.4)**	7.7	**0.5**	1.0	**–**	0.1
Debt securities and other fixed-income securities	**45.6**	12.6	**37.6**	(1.9)	**0.3**	11.7	**6.6**	2.3	**1.1**	0.5
Cash flow for year	**4.8**	39.9	**(3.3)**	17.2	**3.6**	21.7	**4.1**	0.3	**0.4**	0.7
Changes in market value										
Cash at bank and in hand	**(0.9)**	–	**–**	–	**(0.1)**	–	**(0.9)**	–	**0.1**	–
Investment property (revalued)	**(0.7)**	4.8	**(0.7)**	4.8	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**(25.0)**	43.1	**(18.1)**	33.1	**(4.5)**	7.1	**(2.4)**	3.0	**–**	(0.1)
Debt securities and other fixed-income securities	**24.4**	(50.8)	**20.0**	(40.0)	**3.8**	(8.3)	**0.8**	(2.4)	**(0.2)**	(0.1)
Open forward contracts	**(2.4)**	(2.0)	**(1.4)**	(1.9)	**–**	–	**(1.0)**	(0.1)	**–**	–
Changes in market value for year	**(4.6)**	(4.9)	**(0.2)**	(4.0)	**(0.8)**	(1.2)	**(3.5)**	0.5	**(0.1)**	(0.2)
At 20 February 2015										
Cash at bank and in hand	**84.6**	119.9	**74.8**	110.2	**8.1**	3.5	**1.4**	5.3	**0.3**	0.9
Investment property	**30.8**	31.5	**30.8**	31.5	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**151.9**	183.3	**135.6**	159.2	**9.0**	14.9	**7.3**	9.2	**–**	–
Debt securities and other fixed-income securities	**624.3**	554.3	**550.8**	493.2	**31.0**	26.9	**31.8**	24.4	**10.7**	9.8
Open forward contracts	**(4.3)**	(1.9)	**(3.2)**	(1.8)	**–**	–	**(1.1)**	(0.1)	**–**	–
Total balance at 20 February 2015	**887.3**	887.1	**788.8**	792.3	**48.1**	45.3	**39.4**	38.8	**11.0**	10.7

23. Movement in prior years' provision for claims outstanding

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Improvement/(deterioration) in respect of prior years	**17.9**	9.6	**9.9**	10.2	**7.8**	0.3	**0.2**	(0.9)	**–**	–

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 $54m (2014: $52m).

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 three, one director and shareholder of Charles Taylor plc, the ultimate holding company of the club's managers, Charles Taylor & Co (Bermuda), one independent non-executive director and one insurance expert) 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 $54.2m (2014: $48.0m)

26. Post balance sheet events

The club has entered into an agreement to sell its 100% holding in Poseidon Insurance Company Pty Limited after the balance sheet date for a value of A$1.8m. Poseidon's net assets at 30 June 2014 were valued at A$2.5m and so this sale is expected to result in a loss on disposal of A$0.7m ($0.6m).

27. Rates of exchange

	2015	2014
The following rates of exchange were applicable to $1 at 20 February 2015 (2014)		
Australian dollars	**1.29**	1.11
Bermudan dollars	**1.00**	1.00
Canadian dollars	**1.25**	1.10
European euro	**0.88**	0.73
Japanese yen	**118.68**	101.87
Singapore dollars	**1.35**	1.26
Swiss francs	**0.93**	0.89
UK sterling	**0.65**	0.60

Appendix I (unaudited): Funds available, 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 2015			
Total closed policy years	III	**257.1**	**257.1**
Open policy years			
2014/15	II	163.7	163.7
2013/14	II	134.3	134.3
Total of open policy years		**298.0**	**298.0**
Reserves			
Contingency reserve	III	298.4	–
Statutory reserve		0.2	–
Total reserves		**298.6**	**–**
Funds available for outstanding and unreported claims		**853.7**	**555.1**

These appendices should be read in conjunction with the notes on the preceding pages.

Appendix II (unaudited): Funds available, class 1 – P&I open years

		2014 One year from inception $m	2013 Two years from inception $m	2012 Three years from inception $m
At 20 February 2015				
Calls and premiums		327.3	311.1	272.3
Less: Claims, reinsurance premiums, administration expenses and tax		(192.6)	(240.2)	(217.1)
		134.7	70.9	55.2
Investment income to date		14.5	8.2	46.7
Funds available for outstanding and unreported claims	**A**	**149.2**	**79.1**	**101.9**
Estimated known outstanding claims and forecast of unreported claims		260.0	204.1	164.4
Estimated reinsurance recoveries		(96.3)	(69.8)	(86.9)
	B	**163.7**	**134.3**	**77.5**
Anticipated deficit at closure	A–B	(14.5)	(55.2)	–
Surplus on closure of 2012/13 year		–	–	24.4
Transferred from/(to) contingency reserve at 20 February 2014		–	45.9	(14.8)
Transferred from/(to) contingency reserve at 20 February 2015		14.5	9.3	(9.6)
		–	–	–
Product of a 10% supplementary call		24.5	23.2	20.1

Notes
Estimated known outstanding claims and the forecast of unreported claims of open years (excluding the 2012/13 policy year) include the club's share of other clubs Pool claims amounting to $43.2m.

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 $129.6m and anticipated recoveries from other reinsurers of $36.5m.

Investment income
All investment income received in the year has been allocated to the 2014/15 policy year.

Fixed premium and non-poolable business
Of the $327m of calls and premiums on the 2014 P&I policy year, $75m represents non-poolable business which is all fixed premium. The comparative figures for 2013 are $310m and $70m, and for 2012 $272m and $65m.

Appendix III (unaudited): Funds available, class 1 – P&I closed years

	Closed policy years		Contingency reserve	
	2015 $m	2014 $m	**2015 $m**	2014 $m
At 20 February 2015				
Balance available at 20 February 2014 (2013)	**239.4**	235.7	**299.7**	313.4
Transfers on closure of 2012/13 (2011/12) policy year	**77.5**	57.6	**9.6**	12.2
Premium adjustment	**–**	–	**0.7**	0.3
Claims paid net of reinsurance recoveries	**(45.2)**	(50.6)	**–**	–
	271.7	242.7	**310.0**	325.9
Transfer of anticipated deficit on open years	**–**	–	**(23.8)**	(31.1)
Other (charges)/income including value adjustments	**–**	–	**(2.4)**	1.6
Improvement of claims in closed policy years	**(14.6)**	(3.3)	**14.6**	3.3
Balance available at 20 February 2015 (2014)	**257.1**	239.4	**298.4**	299.7

Closed policy years
The balance available for outstanding claims of closed policy years (including the 2012/13 year which was closed at the club's meeting on 12 May 2015) includes a provision for incurred but not reported claims (IBNR) of $43.8m (2014: $40.0m) and is shown net of pool recoveries of $10.2m (2014: $14.9m), recoveries from Group excess of loss reinsurers of $141.3m (2014: $167.8m) and other non-Group reinsurance recoveries which amount to $105.7m (2014: $35.5m). The balance available including IBNR includes $50.2m (2014: $43.5m) 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 44th Annual General Meeting of the company will be held on Friday 30 October 2015 at 8.40am (the meeting) at Mandarin Oriental Hotel, 48 Oriental Avenue, Bangkok 10500, Thailand, 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 2015 be received and adopted.

Re-election of directors appointed since the last AGM

2. THAT Alberto Chiarini be re-elected as a director of the company.

Annual re-election of directors

3. THAT Necdet Aksoy be re-elected as a director of the company.
4. THAT Luigi D'Amato be re-elected as a director of the company.
5. THAT Cesare d'Amico be re-elected as a director of the company.
6. THAT Paolo Clerici be re-elected as a director of the company.
7. THAT Alistair Groom be re-elected as a director of the company.
8. THAT Rod Jones be re-elected as a director of the company.
9. THAT Ricardo Menendez Ross be re-elected as a director of the company.
10. THAT Constantine Peraticos be re-elected as a director of the company.
11. THAT J B Rae-Smith be re-elected as a director of the company.
12. THAT S S Teo be re-elected as a director of the company.
13. THAT Erik Johnsen be re-elected as a director of the company.
14. THAT Andreas Martinos be re-elected as a director of the company.
15. THAT Bhumindr Harinsuit be re-elected as a director of the company.
16. THAT Barnabas Hurst-Bannister be re-elected as a director of the company.
17. THAT David Koo be re-elected as a director of the company.
18. THAT Gunther Jaegers be re-elected as a director of the company.
19. THAT Matthew Cox 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: 12 May 2015

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

Notice of annual general meeting continued

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.
Luigi D'Amato (appointed 24 January 2006)	Principal of Fratelli D'Amato S.p.A
Cesare d'Amico (appointed 28 January 2004)	CEO of d'Amico Soc di Navigazione, Italy.
Alistair Groom (appointed 1 October 2004)	Former CEO of the managers' London agents.
Erik Johnsen (appointed 26 September 2003)	CEO of International Shipholding Corporation.
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 their 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, or scanned and emailed to pandi.bermuda@ctplc.com not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
4. A corporate member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same vote.

Form of proxy

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

44th Annual General Meeting
30 October 2015 at 8.40am (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 Mandarin Oriental Hotel, 48 Oriental Avenue, Bangkok 10500, Thailand on Friday, 30 October 2015 at 8.40am, and at any adjournment thereof.

Signature ……………………………………………………

Dated …………………………………………………… 2015

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 2015 be received and adopted.		
2. THAT Alberto Chiarini be re-elected as a director of the company.		
3. THAT Necdet Aksoy be re-elected as a director of the company.		
4. THAT Luigi D'Amato be re-elected as a director of the company.		
5. THAT Cesare d'Amico be re-elected as a director of the company.		
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17. THAT David Koo be re-elected as a director of the company.		
18. THAT Gunther Jaegers be re-elected as a director of the company.		
19. THAT Matthew Cox 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.

Managers and offices

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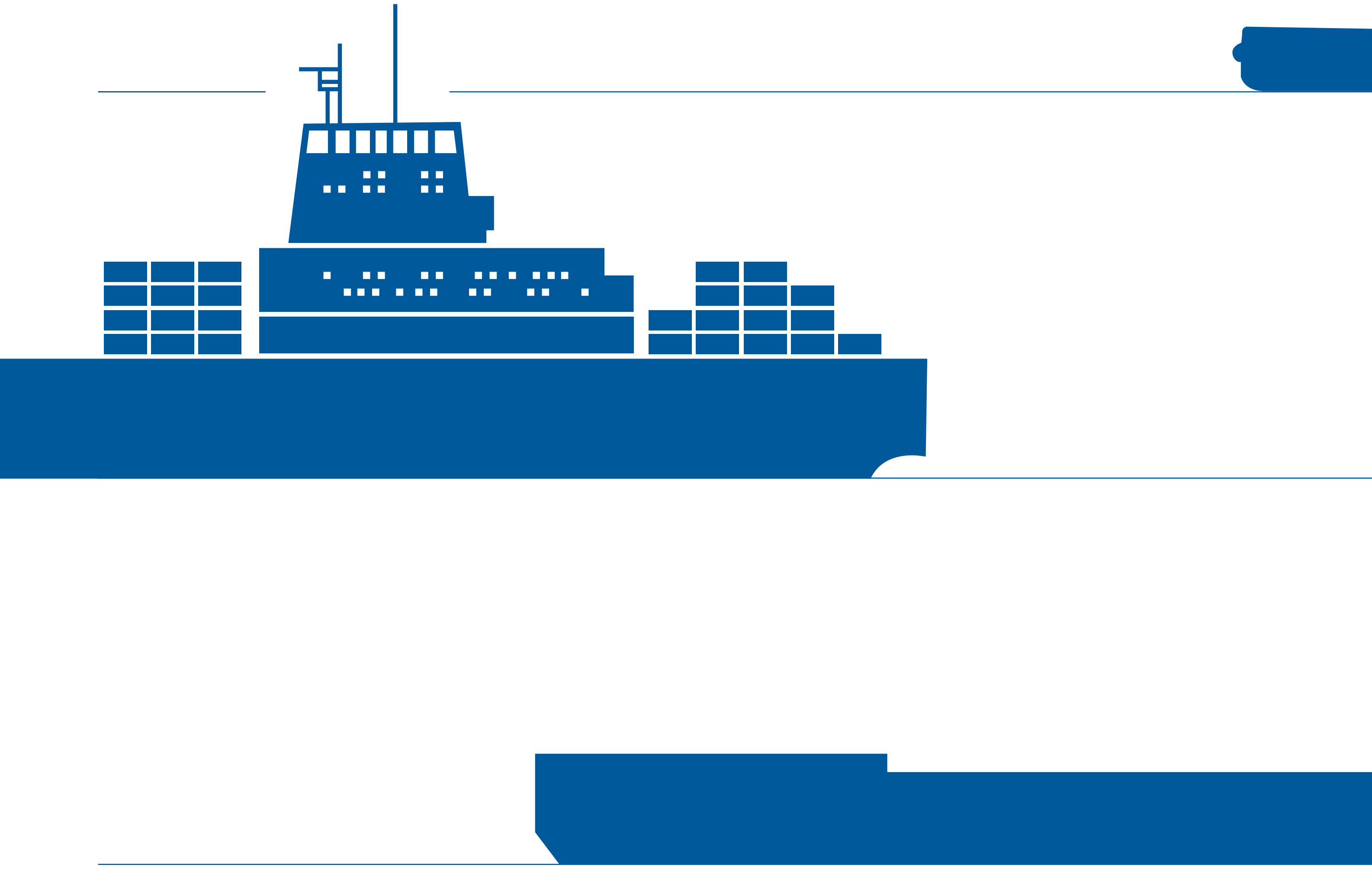

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