



The Standard Club Europe Ltd

Annual report
and financial
statements
2016

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THE DIRECTORS

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

A J Groom ^{1,2}

Chairman
Non-executive director

R Clarke ¹

British Columbia Ferry Services Inc
Non-executive director

M Cox ¹

Matson Navigation Co Inc
Non-executive director

C d'Amico ²

d'Amico Societa di Navigazione SpA
Non-executive director
(Appointed 23 Dec 2015)

J Grose

Manager
(Appointed 27 Jan 2016)

B Hurst-Bannister ¹

Insurance Expert Director
Non-executive director

E Johnsen ¹

International Shipholding Corporation
Non-executive director
(Appointed 6 Jan 2016)

R Jones ^{1,2}

CSL Group Inc
Non-executive director

D Marock

Manager

M Sørensen ¹

Maersk Drilling A/S
Non-executive director
(Appointed 7 March 2016)

C Peraticos

Pleiades Shipping Agents SA
Non-executive director
(Resigned 26 Jan 2016)

R Menendez Ross ^{1,2}

Interocean Transportation Inc
Non-executive director

1. Member of Audit and Risk Committee.
2. Member of Nomination and Governance Committee.

Registered no: 17864

STRATEGIC REPORT

The directors have pleasure in presenting the audited financial statements of the club for the year ended 20 February 2016.

Principal activities

The principal activities of The Standard Club Europe Ltd during the year were the insurance and reinsurance of marine protection and indemnity (P&I) and related risks, war risks, and defence risks, on behalf of the members.

Directors

Since the last report and up to the date of signing the financial statements, the directors of the club who were in office are shown on page 2 of this report. The board was pleased to welcome Cesare d'Amico, Jeremy Grose, Erik Johnsen and Marianne Sørensen as new directors. Having been appointed during the year, they offer themselves for re-election at AGM. The board said farewell to Constantine Peraticos. The directors who retire by rotation in accordance with the articles of association 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 offered themselves for re-election, are Alistair Groom, Barnabas Hurst-Bannister, Rod Jones and Ricardo Menendez Ross.

Meetings of the board

Since the date of the last report, the board met on four occasions during the year: on 16 July 2015 in London, 30 October 2015 in Bangkok, 26 January 2016 in Bermuda and on 13 May 2016 in Athens.

Summary financial results

As set out in the statement of income and contingency reserves, there is a deficit for the financial year of \$(0.5)m (2015: profit \$3m). Total reserves available for claims stand at \$198m (2015: \$215m).

Statement of income and contingency reserves

Revenue from calls, premiums and releases amounted to \$300m (2015: \$310m). Paid claims, net of reinsurance recoveries were \$20m (2015: \$24m). Pool and reinsurance recoveries amounted to \$295m (2015: \$422m).

Statement of financial position

Total estimated claims liabilities, including the provision for claims incurred but not reported ('IBNR'), net of reinsurance recoveries, amounted to \$51m (2015: \$58m) at the year end. The amount available to meet these liabilities was \$163m at 20 February 2016 (2015: \$215m).

Free reserves

These represent the surpluses built up out of open and closed policy years and represent the core capital of the club. The club's free reserves decreased to \$112m at the year-end (2015: \$158m), reflecting the deficit on the statement income and contingency reserves for the year of \$(0.5)m (2015: profit \$3m) and the payment of dividends of \$45m (2015: nil).

This year, the board reviewed the strategic purposes and appropriate level for the free reserves. The level of free reserves or capital to be held should be sufficient to meet the following criteria:

To ensure that the club has sufficient capital to reflect its business risks and to comply with regulatory requirements.

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, and so that they are levied only in extreme stressed scenarios.

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 pricing and quality discipline.

To maintain an S&P or similar rating of A or above.

The board recognises the need to ensure that the free reserves reflect the club's size. The reserves are within the target strategic range set by the board. This is set by reference to various solvency tests, and the board will ensure that the free reserves continue to be aligned with the volume of, and risks in, the club's business.

The board keeps the need to make supplementary calls under review when considering the overall financial resources available to the club and has decided that no supplementary call is currently needed for any of the open policy years, nor is any expected.

Key performance indicators

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

	2016	2015
Premium \$m	300	310
Free reserves \$m	112	158
Claims cover ¹	3.21	3.71
Combined ratio % ²	100	99
Tonnage mgt	117	114

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.

Future outlook

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

Dividends

The directors have paid dividends of \$45m (2015: nil) during the financial year.

Strategy and business plan

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

PRINCIPAL RISKS AND UNCERTAINTIES

How we manage risk

The board is responsible for identifying and managing the club's risk. 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 the management and mitigation of those risks. The board sets the club's risk appetite in relation to all key aspects of the club's operations, and the club's strategy reflects that appetite.

All risks are evaluated to assess their probability and their potential value and impact. The club's management, acting through its Risk Committee, sets controls which are designed to ensure that the tolerances contained in the board's risk appetite are not exceeded, and where possible puts in place arrangements or processes to mitigate the club's risks, and monitors emerging risks.

A risk register is maintained which records the risks, their values, impact, mitigation and controls. The club's internal model reflects the risk 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.

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.

Premium risk is managed by:

- clear underwriting controls
- monitoring for undue concentrations of risk and acceptability of results consistent with risk appetite
- a dedicated safety and loss prevention function, aimed at ensuring that the club underwrites only those shipowners who operate to an acceptable standard, as well as encouraging good risk management by members.

Premium risk is mitigated by appropriate reinsurance programmes, including the International Group pooling and reinsurance programme, the club's own non-Pool and retention reinsurance and the quota-share agreement with Standard Reinsurance (Bermuda) Limited.

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
- 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.

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:

- 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
- within the risk tolerance agreed by the board, to maximise the overall returns as measured over rolling three-year periods.

There are clear and regularly-reviewed investment rules, and the club manages its investment risk through investing widely and in different asset classes to diversify the overall portfolio and produce reasonable returns for lower volatility. Currency of investment is matched to the profile of liabilities to which the club is exposed. Interest rate risk exposure is measured and controlled through regular consideration of the appropriate duration of the fixed interest part of the portfolio. The club is exposed to equity price fluctuation risk, but the investment rules limit equity exposure. The investment asset and currency benchmarks are modified from time to time to reflect the board's reassessment of market risk appetite, as informed by their assessment of the investment markets as well as by risk appetite and regulatory considerations. The club makes use of forward currency contracts to hedge its exposure to fluctuations in the value of non-core currencies, and to maintain the matching of the investment profile to the liability profile.

Liquidity risk

The risk arising from insufficient financial resources being available to meet liabilities as they fall due.

The club continually monitors its cash and investments to ensure that the club meets its liquidity requirements. Adequate cash holdings are maintained at all times and the club's asset allocation strategy is designed in part to enable the ready availability of funds to meet insurance liabilities as they fall due. The club regularly reviews the time period required to liquidate the investment portfolio. The likely cash outflows in relation to specific large claims are projected and kept under review. Significant claim settlements through the International Group Pool and reinsurance arrangements are subject to special settlement provisions that provide the club with access to funding for large claims that are subject to reinsurance recoveries.

Operational risk

The risk resulting from inadequate or failed internal processes, people and systems, or from external events.

The club has identified its operational risks and has in place appropriate controls to manage and mitigate such risks, consistent with good practice, regulatory guidance and legislation relating to human resources, financial crime, business continuity and information security. As the club employs independent third-party managers to manage its day-to-day activities, appropriate controls are also in place to monitor the club's outsourcing of its operations.

Detailed risk disclosures for credit, market and liquidity risk are set out in detail in note 11 to the financial statements, starting on page 23.

By order of the board,
Charles Taylor & Co Limited
Company Secretary
13 May 2016

Registered no: 17864

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The club comprises members from the international shipping community and seeks to follow good governance principles that would be generally recognised throughout world markets. The club is regulated in the UK, as an insurance operation, and the club has had particular regard for UK regulatory and reporting requirements.

Board responsibilities

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

- govern and direct the club's affairs,
- ensure that the club's objectives are being fulfilled,
- set overall strategy and key policies,
- set and review the club's risk appetite,
- oversee risk management and compliance issues,
- ensure that there is a suitable and clear allocation of responsibility between itself and the managers,
- satisfy itself that the managers have an appropriate structure for the management of the club,
- direct and supervise the managers and consider their reports on all significant aspects of the club's affairs, and
- ensure that there are suitable systems of control.

At each board meeting, the directors are provided with up-to-date reports on the key financial indicators for the club, and on risk, controls, underwriting, claims, investment and general policy issues. The directors are provided with board meeting papers in sufficient time before each board meeting to enable them to understand the relevant issues and to focus upon decisions that need to be made. The board has delegated to the managers the implementation of the board's strategy and policies, and management of the day-to-day operations. A formal management agreement between the club and the managers sets out their respective obligations and responsibilities. In addition, there is a service level agreement against which the board reviews the performance of the managers.

Board membership

The great majority of directors are non-executive, and are not involved in day-to-day executive management of the club and are, by virtue of the articles of associations, 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. The chairman is elected for a term of three years but may be re-elected for four further terms. The board also has the benefit of an insurance market professional and expert insurance and investment guidance from its managers and personnel within the managers' group, as well as access to independent insurance, regulatory, financial and investment expertise as required. One third of the directors must retire from office by rotation at each annual general meeting (AGM) and all directors appointed since the date of the last AGM must put themselves forward for re-election. Additionally, directors who have held office for nine years must seek annual re-election. Directors must retire from the board at the next AGM if they are no longer eligible to be elected to the board according to the articles of association.

Nomination and Governance Committee

The Nomination and Governance Committee's main responsibilities are set out in written terms of reference which are available on the club's website and include identifying suitable candidates for board membership and membership of board committees, ensuring that members of the board collectively have the appropriate mix of qualifications, experience and knowledge, 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 (as the joint Nomination and Governance Committee of The Standard Club and Standard Europe) 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 reviewed the board induction and training processes. The committee also leads the review of the managers' performance, and in this respect during the year reviewed their performance against the specific requirements of an updated service level agreement, as well as the managers' remuneration. The committee also considered an assessment of the club's compliance with the European Insurance and Occupational Pensions Authority Guidelines on Systems of Governance, as a result of which several minor enhancements were made to the club's board policies and procedures.

During the year the club became subject to the Solvency II Regime. The Senior Insurance Managers' Regime (SIMR), which was established by the PRA to meet the Solvency II requirement that national regulators introduce a regime of fitness and propriety, also came into force. The committee considered various matters introduced by SIMR, including the club's governance map and the allocation of prescribed responsibilities to non-executive directors and key function holders.

At a meeting held on 13 May 2016, the board agreed that the joint Nomination and Governance Committee of Standard Europe and The Standard Club be separated into two distinct committees such that both Standard Europe and The Standard Club each have their own Nomination and Governance Committees.

Board evaluation

The performance of the board, its committees, and the chairman are reviewed annually. An evaluation of the board's effectiveness was conducted in 2015, the results of which were assessed by the Nomination and Governance Committee. Each member of the board was requested to complete a detailed questionnaire focusing on the board structure and composition of the board, the effectiveness of board meetings, the adequacy of induction and on-going board training, the effectiveness of the board in fulfilling its key responsibilities, the quality of the support provided by the managers, the corporate governance structure of the club, and the effectiveness of the chairman. This evaluation indicated that the board was operating effectively, although several recommendations for enhancements to current procedures were considered and agreed by the board. A similar evaluation was also undertaken in respect of the Audit and Risk Committee; this evaluation also indicated that the committee was operating effectively. Evaluation of the board and board committees' effectiveness will next be undertaken in the autumn of 2016.

Member engagement

Ensuring that members are satisfied with the club's performance and that they are receiving fair treatment from the club are high priorities for the board. A formal member survey was undertaken during the year. Additionally, informal regular monitoring of member satisfaction, is carried out to gauge the members' views of the club and identify any areas for improvement. The results of this monitoring process are reviewed by the Nomination and Governance Committee. The managers also 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 2016.

Audit and Risk Committee

The Audit and Risk Committee's role includes the review of the financial statements of the club, its financial regulatory returns, relations with and reports from the external and internal auditors, and oversight of the club's risk management and internal controls. The main responsibilities are set out in written terms of reference which are available on the club's website. During the year the committee gave consideration to the nature and scope of the year-end audit and reviewed the annual report. It considered compliance with accounting standards, the independence and effectiveness of the external auditors, and the scope and extent of non-audit services provided by them. It received a direct report from the external auditor's engagement leader and challenged 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, including whistleblowing arrangements, were reviewed by the committee and the board.

During the year, the club became subject to Solvency II regulation. The Senior Insurance Managers' Regime also came into force and the European Insurance and Occupational Pensions Authority Guidelines on Systems of Governance were published. The committee considered the club's compliance with the regulatory requirements and several minor enhancements to policies and procedures were recommended and agreed.

The committee has also monitored the club's capital requirements, reviewed the progress of the club's Own Risk and Solvency Assessment, and reviewed the development of the club's internal model, including its inputs, assumptions, methodology, sensitivities and outputs.

Maintenance of a sound system of internal controls

The board has satisfied itself, through a comprehensive review by the Audit and Risk Committee, that there are suitable and appropriate systems of control within the club's management, including a process for identifying, evaluating and managing the risks that the club faces, and that controls operate effectively, including monitoring that the club operates within its risk appetite and complies with its regulatory responsibilities. The club adopts the 'three lines of defence' system of internal control, supplementing operational management with risk management and compliance monitoring and internal audit assurance, through regular reviews and tests of controls to ensure their adequacy. The risk management, compliance, actuarial and internal audit functions report to every meeting of the board's Audit and Risk Committee.

Risk management

The board, and its Audit and Risk Committee, sets and reviews on a regular basis the club's risk appetite, the major business risks facing the club, their potential impact, and the systems to manage and mitigate those risks. During the year, the board has continued to revise its risk appetite statement to provide guidance to the management. Detailed measures of the club's appetite for all key risks have been established, with key risk indicators reported at each board meeting. The managers have a comprehensive risk management system, which provides an effective method of monitoring and controlling risks, and continuously assess business risks and the effectiveness of control processes in place. The club's risk management processes and systems are designed to ensure that management and the club's business units regularly review the risks in the risk register to ensure that outstanding risk mitigation actions or controls are occurring in a timely manner and are properly followed up. The club has developed a framework for identifying and managing those risks and their impact on economic capital. The risk management system and processes are linked into the club's internal model whose outputs assist in the management of the business as well as in the assessment of the capital required to reflect the financial impact of these business risks. The principal risks facing the group and the risk mitigation actions, controls and processes by which they are managed are explained on page 5 of this report.

Compliance and regulation

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

Internal Audit

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

management of the club. The board has direct access to the head of internal audit, who also attends most Audit and Risk Committee and board meetings in person. Internal Audit reports provided to those meetings summarise the findings of the audits together with a schedule of the outstanding audit issues and progress against the agreed audit timetable. The audit timetable and audit universe are designed to be risk-focused and to cover the full range of the club's operations. They reflect, amongst other things, the operational, financial and administrative aspects of the club's businesses, taking as their points of reference the internal procedures, the controls recorded in the risk register and any reported incidents. Some audits may be carried out by external consultants or by staff from outside the Internal Audit function.

Remuneration

The club does not have a formal remuneration committee although the Nomination and Governance Committee oversees remuneration matters. Directors receive fees agreed by the club membership in general meeting, (other than the fees of independent directors which are agreed by the board), and which are appropriate to their non-executive status. The fees paid to the directors are in line with those paid in other P&I clubs. In October 2015, following a review of the fees paid to the directors of other P&I clubs, and having regard to the increased responsibilities of board and committee members, the board proposed to increase the level of fees payable to board and committee members, subject to the agreement of members in general meeting. Resolutions in relation to the proposed fee increases are contained in the notice of Annual General Meeting on page 34 of this report. Directors who are employed by the managers do not receive director's fees. However, the performance-related elements of their remuneration are reviewed by Charles Taylor Group's Remuneration Committee to ensure that they are stretching and designed to promote the long-term success of the business.

The club's administrative functions are undertaken by the managers who receive a management fee for their services, which is agreed by the board annually. This follows a review by the Nomination and Governance Committee, reporting to the board, of the managers' budgets, performance and costs, including a comparison with other clubs. The club's financial statements provide full disclosure of the management fee paid; the board is keen to encourage greater transparency of administration costs by P&I clubs generally, although this does not appear to be a high priority for some clubs.

Insurance and indemnity

The club maintains liability insurance for its directors and officers with a cover limit of £30m, which is renewed on an annual basis. The club also indemnifies its directors through its constitutional documents.

Conflicts of interest

The board has considered the potential conflicts of interest that exist within the club's and the board's operations, and has adopted a conflicts of interest policy. A conflicts register is maintained, identifying potential conflicts of interest that could affect the club. In a mutual organisation, the members are also the insured parties. Negotiations relating to any matter concerning members or directors in their capacity as insureds are conducted at arm's length. Directors do not participate in board discussions on specific matters concerning their companies as insureds. Procedures are in place to ensure that potential conflicts of interest between the club and the managers, and between the club's members, and between members and other clients of the managers' group, are identified and managed.

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 has adopted a treating customers fairly policy. The board and the managers are committed to treating customers and all stakeholders fairly, and keep under review the quality of service that the club provides. There is a complaints system, which is published on the website.

Prevention of financial crime and whistleblowing

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

Sanctions compliance

The club is committed to ensuring that it complies with all applicable legislation relating to international sanctions, and has implemented internal procedures and an automated screening process to ensure compliance. The club also does its best to ensure that members are kept up-to-date with relevant sanctions information to assist them in ensuring they too are compliant and do not inadvertently breach sanctions.

Health and safety

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

Business continuity

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

Environmental policy

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

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

Equality of opportunity and gender diversity policy

The managers have formal policies which aim to attract and retain a diverse and flexible workforce. As far as board appointments are 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.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each person who is a director at the date of this report confirms that:

- As far as each director is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 20 February 2016 of which the auditors are unaware; and
- each director has taken all the steps that they ought to have taken as a director in order to make him / herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report and Business Review, Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the company's financial statements in accordance with United Kingdom accounting standards including Financial Reporting Standard 102 - "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103 - "Insurance Contracts" ("FRS 103"), both issued by the Financial Reporting Council and in compliance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies and other requirements of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the Statement Income and Contingency Reserves of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time, the financial position of the company, and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board,
Charles Taylor & Co Limited
Company Secretary
13 May 2016

Registered no: 17864

FINANCIAL STATEMENTS

STATEMENT OF INCOME AND CONTINGENCY RESERVES
for the financial year 20 February 2016

	Note	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
		US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Technical account - general business											
Earned premiums, net of reinsurance											
Gross premiums earned including calls	3	300.3	310.3	273.4	280.5	11.4	12.3	15.1	16.9	0.4	0.6
Outward reinsurance premiums	4	(267.5)	(266.2)	(240.5)	(243.2)	(9.9)	(10.5)	(16.7)	(12.1)	(0.4)	(0.4)
Earned calls net of reinsurance		32.8	44.1	32.9	37.3	1.5	1.8	(1.6)	4.8	-	0.2
Claims incurred, net of reinsurance											
Claims paid	5	314.7	446.0	296.5	426.3	5.2	7.2	13.0	12.5	-	-
Reinsurers' share	6	(294.8)	(421.7)	(279.7)	(405.2)	(4.7)	(6.6)	(10.4)	(9.9)	-	-
Net claims paid		19.9	24.3	16.8	21.1	0.5	0.6	2.6	2.6	-	-
Change in provision for claims		1.9	20.1	5.1	25.7	(0.9)	(6.8)	(2.3)	1.2	-	-
Reinsurers' share		(9.1)	(24.5)	(5.6)	(28.9)	0.6	5.4	(4.1)	(1.0)	-	-
Change in net provision for claims		(7.2)	(4.4)	(0.5)	(3.2)	(0.3)	(1.4)	(6.4)	0.2	-	-
Claims incurred, net of reinsurance		12.7	19.9	16.3	17.9	0.2	(0.8)	(3.8)	2.8	-	-
Net operating expenses	7	20.9	21.4	18.0	18.5	0.7	0.6	2.1	2.1	0.1	0.2
Balance on the technical account for general business		(0.8)	2.8	(1.4)	0.9	0.6	2.0	0.1	(0.1)	(0.1)	-
Non-technical account											
Balance on the technical account for general business		(0.8)	2.8	(1.4)	0.9	0.6	2.0	0.1	(0.1)	(0.1)	-
Investment return net of expenses and charges	8	1.6	(1.1)	(0.2)	(0.2)	-	0.4	1.6	1.0	0.2	(0.1)
Exchange (losses)/gains		(1.3)	(1.0)	(0.6)	3.2	(0.1)	0.2	(0.6)	(4.4)	-	-
(Shortfall)/excess of income over expenditure before taxation		(0.5)	2.9	(2.2)	3.9	0.5	2.6	1.1	(3.5)	0.1	(0.1)
(Shortfall)/excess of income over expenditure for the financial year transferred (from)/to contingency reserve		(0.5)	2.9	(2.2)	3.9	0.5	2.6	1.1	(3.5)	0.1	(0.1)
Contingency reserves at the beginning of the financial year		157.5	154.6	117.2	113.3	5.8	3.2	23.8	27.3	10.7	10.8
Profit/(loss) for the financial year		(0.5)	2.9	(2.2)	3.9	0.5	2.6	1.1	(3.5)	0.1	(0.1)
Dividends	19	(45.0)	-	(45.0)	-	-	-	-	-	-	-
Contingency reserves at the end of the financial year		112.0	157.5	70.0	117.2	6.3	5.8	24.9	23.8	10.8	10.7

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

STATEMENT OF FINANCIAL POSITION

as at 20 February 2016

	Note	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
		2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m
Assets											
Investments											
Other financial investments	10	47.1	94.9	19.5	57.4	2.3	6.2	14.5	20.6	10.8	10.7
Reinsurers' share of technical provisions											
Claims outstanding	12	839.7	830.9	812.7	807.1	9.1	9.7	17.9	14.1	-	-
Provision for unearned premiums		0.6	1.9	0.6	1.9	-	-	-	-	-	-
		840.3	832.8	813.3	809.0	9.1	9.7	17.9	14.1	-	-
Debtors											
Debtors arising out of direct insurance operations	13	76.2	92.0	74.1	89.9	1.0	1.5	1.0	0.5	0.1	0.1
Amounts owed by group undertakings		61.8	70.3	50.2	57.8	0.1	-	11.5	12.5	-	-
Other debtors		4.3	2.5	3.1	1.5	1.1	0.9	0.1	0.1	-	-
		142.3	164.8	127.4	149.2	2.2	2.4	12.6	13.1	0.1	0.1
Other assets											
Intangible assets	14	0.4	1.0	0.3	0.9	-	-	0.1	0.1	-	-
Cash at bank and in hand		56.1	49.7	49.8	42.6	4.3	5.6	1.6	1.2	0.4	0.3
		56.5	50.7	50.1	43.5	4.3	5.6	1.7	1.3	0.4	0.3
Prepayments and accrued income		4.9	5.8	4.5	5.3	0.2	0.4	0.1	0.1	0.1	-
Total assets		1,091.1	1,149.0	1,014.8	1,064.4	18.1	24.3	46.8	49.2	11.4	11.1
Liabilities											
Reserves											
Contingency reserve		112.0	157.5	70.0	117.2	6.3	5.8	24.9	23.8	10.8	10.7
Technical provisions											
Gross claims outstanding	12	890.3	888.6	860.5	855.3	10.1	11.0	19.7	22.3	-	-
Provision for unearned premiums		0.7	2.3	0.7	2.3	-	-	-	-	-	-
		891.0	890.9	861.2	857.6	10.1	11.0	19.7	22.3	-	-
Provisions for other risks and charges											
Creditors											
Creditors arising out of direct insurance operations	15	29.5	40.6	27.3	38.6	1.7	1.6	0.5	0.3	-	0.1
Other creditors including taxation and social security	16	3.5	9.0	2.9	9.0	-	-	0.6	-	-	-
Amounts owed to group undertakings		54.1	50.8	54.1	39.8	-	11.0	-	-	-	-
Current account between classes		-	-	(1.6)	2.3	-	(5.1)	1.1	2.8	0.5	-
		87.1	100.4	82.7	89.7	1.7	7.5	2.2	3.1	0.5	0.1
Accruals and deferred income		1.0	0.2	0.9	(0.1)	-	-	-	-	0.1	0.3
Total liabilities		1,091.1	1,149.0	1,014.8	1,064.4	18.1	24.3	46.8	49.2	11.4	11.1

The financial statements were approved by the board of directors on 13 May 2016 and were signed on its behalf by:

Alistair Groom
Chairman

Registered company number 17864

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution

The Standard Club Europe Ltd ("the club") is incorporated in England 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. The address of its registered office is Standard House, 12-13 Essex Street, London WC2R 3AA. The registered company number is 17864.

2. Accounting policies

(a) Basis of preparation

These financial statements have been prepared in compliance with applicable accounting standards in the United Kingdom including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006. The club first adopted these standards for the year-ended 20 February 2016.

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.

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) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the club's key sources of estimation uncertainty:

- Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported (IBNR), at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and the Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the statement of financial position date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to

variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based, in part, on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance services provided under a contract requires amortisation of unearned premium on a basis other than time apportionment.

– Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying these estimates is that past premium development can be used to project future premium development.

– Fair value of financial assets and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/ or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as estimated future cash flows based on management's best estimates and discount rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity, and financial conditions or counterparties. Discount rates are influenced by risk-free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Exemptions for qualifying entities under FRS 102

The company has taken advantage of the following exemptions:

- the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.
- disclosing transactions with the ultimate parent.

(d) 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.

(e) 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 statement of financial position date are treated as prepaid and are not included in the income and expenditure account.

(f) Unearned premiums

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

(g) 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.

(h) 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 statement of financial position are shown gross and the reinsurance recoveries are shown as an asset.

(i) 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. An allowance for future claims handling costs is included in the provision.

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.

Claims reserves are estimated on an undiscounted basis apart from asbestos related claims. Due to the very long delay between the inception date of the policy and the final settlement of a claim which has arisen

due an exposure to asbestos, such asbestos related claims provisions and IBNR thereon are discounted to take account of the expected investment income receivable between inception, notification and settlement on the assets held to cover these provisions.

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.

(j) Reinsurance premiums

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

(k) 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 statement of financial position date and their purchase price or, if they have been previously valued, their valuation at the last statement of financial position 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.

(l) Financial instruments

The club has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments.

– 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.

(m) Intangible assets

Intangible assets are stated at historic purchase cost less accumulated amortisation.

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.

(n) Foreign currencies

The club's financial statements are presented in US dollars which is the club's functional currency.

Monetary assets and liabilities in foreign currencies are translated at the US dollar rate of exchange at the statement of financial position 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 Statement of Income and Contingency Reserve.

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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Estimated total premium, other premiums and releases 2015/16 (2014/15)	298.6	309.7	270.5	279.3	11.4	12.0	16.3	17.8	0.4	0.6
Adjustment for previous policy years	0.1	2.9	0.3	2.5	-	0.3	(0.2)	0.1	-	-
Interclass reinsurance	-	-	1.0	1.0	-	-	(1.0)	(1.0)	-	-
Change in the gross provision for unearned premiums	1.6	(2.3)	1.6	(2.3)	-	-	-	-	-	-
Total calls and premiums	300.3	310.3	273.4	280.5	11.4	12.3	15.1	16.9	0.4	0.6

4. Outward reinsurance premiums

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Quota-share reinsurance premium payable to Standard Reinsurance (Bermuda) Limited	194.7	190.0	169.8	169.3	9.9	10.5	15.0	10.2	-	-
Other reinsurance premiums	71.5	78.1	69.4	75.8	-	-	1.7	1.9	0.4	0.4
Change in the provision for unearned premiums, reinsurers' share	1.3	(1.9)	1.3	(1.9)	-	-	-	-	-	-
Reinsurance premiums paid	267.5	266.2	240.5	243.2	9.9	10.5	16.7	12.1	0.4	0.4

5. Claims paid

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Members' claims	299.7	446.0	281.5	426.3	5.2	7.2	13.0	12.5	-	-
Other P&I clubs' pool claims	15.0	-	15.0	-	-	-	-	-	-	-
Total claims	314.7	446.0	296.5	426.3	5.2	7.2	13.0	12.5	-	-

6. Reinsurers' share of claims paid

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Claims recoverable from other reinsurers	(1.2)	(9.0)	(1.1)	(7.7)	-	(1.6)	(0.1)	0.3	-	-
Claims recoverable from group GXL reinsurers	(54.0)	(183.4)	(54.0)	(183.4)	-	-	-	-	-	-
Quota share reinsurance	(165.9)	(177.3)	(150.9)	(162.0)	(4.7)	(5.1)	(10.3)	(10.2)	-	-
Claims recoverable from the Pool	(73.7)	(52.1)	(73.7)	(52.1)	-	-	-	-	-	-
Total reinsurers' share of claims paid	(294.8)	(421.8)	(279.7)	(405.2)	(4.7)	(6.7)	(10.4)	(9.9)	-	-

7. Net operating expenses

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Acquisition costs										
Management fee	8.1	8.2	6.9	7.1	0.4	0.3	0.8	0.8	-	-
General expenses	1.9	2.0	1.8	1.9	-	-	0.1	0.1	-	-
Administrative expenses										
Management fee	7.7	8.0	6.5	6.7	0.3	0.3	0.8	0.8	0.1	0.2
General expenses	1.2	1.1	1.0	1.0	-	-	0.2	0.1	-	-
Depreciation	0.6	0.8	0.6	0.8	-	-	-	-	-	-
Safety and loss control	1.1	1.0	1.0	0.8	-	-	0.1	0.2	-	-
Directors' fees	0.1	0.1	-	-	-	-	0.1	0.1	-	-
Auditors' remuneration for audit services	0.1	0.1	0.1	0.1	-	-	-	-	-	-
Auditors' remuneration for other services	0.1	0.1	0.1	0.1	-	-	-	-	-	-
Net operating expenses	20.9	21.4	18.0	18.5	0.7	0.6	2.1	2.1	0.1	0.2

All the directors of the club are also directors of the ultimate parent undertaking from whom they receive remuneration for their services. The club has no employees.

Fees payable to the club's auditors for the tax services was \$13k (2015 \$12k)

8. Investment return net of expenses and charges

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Investment income										
Shares and other variable-yield securities and unit trusts	0.2	0.2	0.2	0.2	-	-	-	-	-	-
Debt securities and other fixed-income securities	1.1	1.5	0.7	0.9	0.1	0.2	0.2	0.3	0.1	0.1
Deposit interest	0.1	-	0.1	-	-	-	-	-	-	-
Gains arising on realisation of investments	7.4	2.3	5.5	1.1	-	0.4	1.8	0.8	0.1	-
	8.8	4.0	6.5	2.2	0.1	0.6	2.0	1.1	0.2	0.1
Investment expenses and charges										
Investment management expenses	(0.4)	(0.4)	(0.4)	(0.4)	-	-	-	-	-	-
Losses on realisation of investments	(5.8)	(0.6)	(4.9)	(0.3)	(0.4)	-	(0.1)	(0.2)	(0.4)	(0.1)
	(6.2)	(1.0)	(5.3)	(0.7)	(0.4)	-	(0.1)	(0.2)	(0.4)	(0.1)
Unrealised gains on investments	4.2	3.9	2.5	3.7	0.3	-	1.0	0.1	0.4	0.1
Unrealised losses on investments	(5.2)	(5.8)	(3.9)	(5.4)	-	(0.2)	(1.3)	-	-	(0.2)
	(1.0)	(1.9)	(1.4)	(1.7)	0.3	(0.2)	(0.3)	0.1	0.4	(0.1)
Total investment return	1.6	1.1	(0.2)	(0.2)	-	0.4	1.6	1.0	0.2	(0.1)

9. Tax on shortfall of income over expenditure

Tax on shortfall of income over expenditure for the year is nil (2015: nil).

Factors affecting tax on investment income for the year

The tax assessed for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
(Shortfall)/excess of income over expenditure before taxation	(0.5)	2.9	(2.2)	3.9	0.5	2.6	1.1	(3.5)	0.1	(0.1)
Multiplied by the standard rate of corporate tax in the UK of 20% (2015: 21%)	(0.1)	0.6	(0.4)	0.9	0.1	0.5	0.2	(0.8)	-	-
Income not taxable for tax purposes	0.1	(0.6)	0.4	(0.9)	(0.1)	(0.5)	(0.2)	0.8	-	-
Current tax on investment income for the financial year	-	-	-	-	-	-	-	-	-	-

Corporation tax is charged on a proportion of the club's investment income. The mutual activities of the club are not subject to corporation tax.

10. Other financial investments

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m
Financial assets at fair value through profit or loss	47.1	94.9	19.5	57.4	2.3	6.2	14.5	20.6	10.8	10.7
Total financial assets at market value	47.1	94.9	19.5	57.4	2.3	6.2	14.5	20.6	10.8	10.7
Financial assets at fair value through profit or loss	46.7	93.6	19.7	56.3	2.3	6.5	14.1	19.9	10.6	10.9
Total financial assets at cost	46.7	93.6	19.7	56.3	2.3	6.5	14.1	19.9	10.6	10.9
Included in the carrying values above are amounts in respect of listed investments as follows:										
- Shares and other variable-yield securities and units in unit trusts	5.6	6.2	5.5	5.6	-	-	0.1	0.6	-	-
- Debt securities and other fixed income securities	26.9	43.4	4.5	21.1	2.3	3.4	11.7	14.8	8.4	4.1
Total listed investments	32.5	49.6	10.0	26.7	2.3	3.4	11.8	15.4	8.4	4.1
- Shares and other variable-yield securities and units in unit trusts	1.1	1.4	-	-	-	-	1.1	1.4	-	-
- Debt securities and other fixed income securities	13.5	43.9	9.5	30.7	-	2.8	1.6	3.8	2.4	6.6
Total unlisted investments	14.6	45.3	9.5	30.7	-	2.8	2.7	5.2	2.4	6.6
Total financial assets at market value	47.1	94.9	19.5	57.4	2.3	6.2	14.5	20.6	10.8	10.7
Open forward currency contracts										
Fair value asset	-	(1.5)	-	(0.4)	-	-	-	(1.1)	-	-
Contract/notional amount	-	36.2	-	20.1	-	-	-	16.1	-	-

11. Management of insurance and financial risk

The club is exposed to a range of insurance and financial risks through its operations as a protection and indemnity insurer.

This section summarises these risks and the way the club manages those risks (in addition to the risk management policies set out in the report of the directors).

11.1 Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. This risk can be divided into premium risk (the risk that premiums charged will not be sufficient to meet all associated claims and expenses) and 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. These risks are managed as follows:

Premium Risk

Premium risk is managed by clear underwriting controls including risk assessment tools, pricing models and clear authority levels. This risk monitored for undue concentrations of risk and consistency with the club's risk appetite as set by the board. The risk management process is aided by a dedicated loss prevention function, aimed at ensuring that the club underwrites only those shipowners who operate to an acceptable standard.

Premium risk is mitigated through the acquisition of appropriate reinsurance programmes, including the International Group pooling and reinsurance programme, and also the club's own non-Pool, retention and stop-loss reinsurances. 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

Reserve risk is managed by the prompt reserving of potential losses, regular review of individual estimates and overall reserve adequacy, as well as regular, systematic claims audits and the monitoring of consistency of estimating approaches, and the modelling of technical provisions by the club's actuarial function.

While the board considers that the liability for insurance claims recognised in these financial statements is adequate, it recognises that actual experience will differ from the expected outcome. The following table presents the sensitivity of the value of insurance liabilities disclosed in note 15 to movements in the assumptions used in the estimation of insurance liabilities. These sensitivities relate mainly to the P&I class as this represents the club's largest exposure.

	Increase		Decrease	
	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m
Impact on profit - gross of reinsurance				
Increase in loss ratio by 5 percentage points	(15.0)	(15.6)	15.0	15.6
10% increase in the number of occupational disease claims	(4.1)	(3.3)	4.1	3.3
10% increase in claims handling expenses	(2.8)	(1.4)	2.8	1.4
10% increase in number of IBNR claims	(20.4)	(14.9)	20.4	14.9
Impact on profit - net of reinsurance				
Increase in loss ratio by 5 percentage points	(1.6)	(2.2)	1.6	2.2
10% increase in the number of occupational disease claims	(0.4)	(0.3)	0.4	0.3
10% increase in claims handling expenses	(2.8)	(1.4)	2.8	1.4
10% increase in number of IBNR claims	(1.4)	(1.3)	1.4	1.3

11.2 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.

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Market risk

- Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities.

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

At the end of the financial year, approximately 86% (2015: 93%) of the club's investment portfolio were invested in fixed interest assets. The weighted duration of the investment portfolio was 7.2 years (2015: 3.2 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 deficit for the club of \$4.5m.

- Equity and hedge fund 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 \$0.7m.

- 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 2016, had sterling strengthened by 10% against the US dollar with all other variables held constant, the surplus for the year would have been \$1.4m higher (2015: \$2.1m higher). Had the euro strengthened by 10% against the USD dollar the surplus for the year would have been \$1.3m higher (2015: \$0.5m 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
- counterparty risk with respect to cash and investments

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

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m
Derivative financial instruments	-	(0.4)	-	(0.4)	-	-	-	-	-	-
Debt securities	40.4	88.0	14.1	52.3	2.3	6.2	13.2	18.8	10.8	10.7
Loans and receivables	158.8	117.9	155.4	114.9	2.2	2.4	1.1	0.6	0.1	-
Assets arising from reinsurance contracts held	4.2	6.7	4.2	6.7	-	-	-	-	-	-
Cash at bank and in hand	56.1	49.7	49.8	42.6	4.3	5.6	1.6	1.2	0.4	0.3
Total assets bearing credit risk	259.5	261.9	223.5	216.1	8.8	14.2	15.9	20.6	11.3	11.0
AAA	30.6	32.2	9.5	19.3	2.5	4.8	10.3	2.6	8.3	5.5
AA	33.7	72.8	23.9	45.1	4.1	7.0	2.8	15.2	2.9	5.5
A	32.4	32.9	31.3	31.9	-	-	1.1	1.0	-	-
BBB	3.5	5.1	2.9	3.9	-	-	0.6	1.2	-	-
Not rated	159.3	118.9	155.9	115.9	2.2	2.4	1.1	0.6	0.1	-
Total assets bearing credit risk	259.5	261.9	223.5	216.1	8.8	14.2	15.9	20.6	11.3	11.0

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the financial year. 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 date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost:

	Short term assets US\$m	Within 1 year US\$m	1-2 years US\$m	2-5 years US\$m	Over 5 years US\$m	Total US\$m
As at 20 February 2016						
Shares and other variable-yield securities and units in unit trusts	6.7	-	-	-	-	6.7
Debt securities and other fixed income securities	40.4	-	-	-	-	40.4
Forward currency contracts	-	-	-	-	-	-
Cash balances	56.1	-	-	-	-	56.1
Debtors	9.1	71.3	-	-	-	80.4
Reinsurers' share of claims outstanding	-	243.5	209.9	260.3	126.0	839.7
	112.3	314.8	209.9	260.3	126.0	1,023.3
As at 20 February 2015						
Shares and other variable-yield securities and units in unit trusts	4.2	3.1	-	-	0.1	7.4
Debt securities and other fixed income securities	88.0	-	-	-	-	88.0
Forward currency contracts	(0.4)	-	-	-	-	(0.4)
Cash balances	49.7	-	-	-	-	49.7
Debtors	9.3	97.7	-	-	-	107.0
Reinsurers' share of claims outstanding	-	245.3	156.4	231.6	197.5	830.8
	150.8	346.1	156.4	231.6	197.6	1,082.5

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:

	Within 1 year US\$m	1-2 years US\$m	2-5 years US\$m	Over 5 years US\$m	Total US\$m
As at 20 February 2016					
Gross outstanding claims	258.2	222.6	276.0	133.5	890.3
Financial liabilities under investment contracts	-	-	-	-	-
Creditors	87.1	-	-	-	87.1
	345.3	222.6	276.0	133.5	977.4
As at 20 February 2015					
Gross outstanding claims	262.3	167.3	247.7	211.3	888.6
Financial liabilities under investment contracts	-	-	-	-	-
Creditors	100.4	-	-	-	100.4
	362.7	167.3	247.7	211.3	989.0

Fair value estimations

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Listed quoted prices in active markets and external broker quotes which are publicly, readily and regularly available on an active market.

Level 2 - Inputs other than quoted prices included within level 1 that are observable, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the assets and liabilities measured at fair value at 20 February 2016 and at 20 February 2015.

Financial assets at fair value through statement of income and contingency reserves:

	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
As at 20 February 2016				
Shares and other variable-yield securities and units in unit trusts	5.6	1.1	-	6.7
Debt securities and other fixed income securities	40.1	0.3	-	40.4
Forward currency contracts	-	-	-	-
	45.7	1.4	-	47.1
As at 20 February 2015				
Shares and other variable-yield securities and units in unit trusts	4.2	3.1	0.1	7.4
Debt securities and other fixed income securities	88.0	-	-	88.0
Forward currency contracts	(0.4)	-	-	(0.4)
	91.8	3.1	0.1	95.0

Capital management

The club maintains an efficient capital structure from the use of members' funds (reserves) along with the ability to make unbudgeted calls, if required, consistent with the club's risk profile and the regulatory and market requirements of its business.

The club's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business
- to satisfy the requirements of its members and meet regulatory requirements
- to maintain an 'A' rating with Standard and Poor's
- to manage exposures to movement in exchange rates
- to retain financial flexibility by maintaining strong liquidity

The club's regulators are the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and the club is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. The club manages capital in accordance with these rules and has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations. Under the PRA's ICA regime the club is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5 per cent confidence level of solvency. The club complied with PRA's capital requirements until 31 December 2015.

Effective from 1 January 2016 the club manages its capital in accordance with Solvency II. Solvency II require insurers to maintain capital also on a 99.5% per cent confidence level but over a one-year time horizon. Throughout the financial year the club complied with the requirements in the other countries in which it operates.

12. Claims outstanding

The board closed the 2015/16 policy year at its meeting on 13 May 2016. The table below provides the position after closure.

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m	2016 US\$m	2015 US\$m
Open years										
Claims	341.0	411.6	321.7	389.6	7.3	7.6	12.0	14.4	-	-
Reinsurance recoveries	(316.0)	(385.9)	(298.7)	(366.2)	(6.5)	(6.7)	(10.8)	(13.0)	-	-
Net claims provision for open years	25.0	25.7	23.0	23.4	0.8	0.9	1.2	1.4	-	-
Closed years										
Claims	549.3	477.0	538.8	465.7	2.8	3.4	7.7	7.9	-	-
Reinsurance recoveries	(523.7)	(445.0)	(514.0)	(440.9)	(2.6)	(3.0)	(7.1)	(1.1)	-	-
Net claims provision for closed years	25.6	32.0	24.8	24.8	0.2	0.4	0.6	6.8	-	-
Total										
Claims	890.3	888.6	860.5	855.3	10.1	11.0	19.7	22.3	-	-
Reinsurance recoveries	(839.7)	(830.9)	(812.7)	(807.1)	(9.1)	(9.7)	(17.9)	(14.1)	-	-
Net claims provision	50.6	57.7	47.8	48.2	1.0	1.3	1.8	8.2	-	-

Claims outstanding includes provision for IBNR claims which is set by reference to, amongst other factors, standard actuarial techniques and projections. Also included in the provision is an estimate for the internal and external costs of handling the outstanding claims.

12.1 Movement in prior years' provision for claims outstanding

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Improvement in respect of prior years	8.0	1.9	1.4	1.2	0.2	0.7	6.4	-	-	-

12.2 Development claims tables

Claims outstanding (gross)											
Policy year	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	Total
	US\$m										
Estimate of ultimate claims costs:											
- at end of policy year	176.8	169.4	156.0	229.6	270.0	418.9	308.1	312.1	309.8	304.2	2,654.9
- one year later	177.2	139.8	187.4	220.9	311.4	622.1	284.6	344.1	271.5		2,559.0
- two years later	168.2	142.8	171.5	206.8	303.9	789.7	273.6	383.9			2,440.4
- three years later	173.5	141.2	165.6	196.6	290.2	939.4	273.5				2,180.0
- four years later	169.5	139.0	162.6	194.6	278.8	928.2					1,872.7
- five years later	173.7	139.8	161.3	195.7	275.7						946.2
- six years later	168.7	137.8	160.0	193.8							660.3
- seven years later	169.7	137.1	158.5								465.3
- eight years later	168.4	143.7									312.1
- nine years later	167.8										167.8
Current estimate of cumulative claims	167.8	143.7	158.5	193.8	275.7	928.2	273.5	383.9	271.5	304.2	3,100.8
Cumulative payments to date	(160.6)	(127.9)	(152.6)	(184.8)	(249.0)	(828.0)	(142.0)	(233.6)	(167.4)	(67.4)	(2,313.3)
Liability recognised in the Statement of financial position	7.2	15.8	5.9	9.0	26.7	100.2	131.5	150.3	104.1	236.8	787.5
Provision in respect of prior years											102.8
Total provision included in the statement of financial position											890.3

Claims outstanding (net)											
Policy year	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	Total
	US\$m										
Estimate of ultimate claims costs:											
- at end of policy year	15.5	15.5	14.4	15.8	16.7	21.4	22.0	23.0	21.2	23.0	188.5
- one year later	14.3	13.3	15.0	15.1	18.7	22.5	19.6	23.6	19.1		161.2
- two years later	13.1	13.5	13.9	14.0	17.0	20.6	18.3	23.6			134.0
- three years later	13.3	13.6	13.8	14.2	16.4	20.5	18.0				109.8
- four years later	13.7	13.3	13.4	14.0	15.7	19.7					89.8
- five years later	14.0	13.3	13.2	14.1	15.4						70.0
- six years later	13.5	13.0	13.1	14.0							53.6
- seven years later	13.6	13.0	13.0								39.6
- eight years later	13.4	12.9									26.3
- nine years later	13.4										13.4
Current estimate of cumulative claims	13.4	12.9	13.0	14.0	15.4	19.7	18.0	23.6	19.1	23.0	172.1
Cumulative payments to date	(12.7)	(12.1)	(12.5)	(13.2)	(14.4)	(18.1)	(13.7)	(16.5)	(11.2)	(5.9)	(130.3)
Liability recognised in the statement of financial position	0.7	0.8	0.5	0.8	1.0	1.6	4.3	7.1	7.9	17.1	41.8
Provision in respect of prior years											8.8
Total provision included in the statement of financial position											50.6

12.3 Discounted Claims

The claims relating to asbestos related liabilities have been discounted as below.

	Discount rates		Mean term of liabilities	
	2016	2015	2016	2015
Asbestos related liabilities	2.8%	2.5%	8.6 years	9.1 years

The period that will elapse before claims are settled is determined using a statistical analysis of historical settlement patterns.

The claims provisions before discounting are as follows:

	Before discounting		Effect of discounting		Discounted provision	
	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Total claims provisions	901.4	888.6	(11.0)	-	890.3	888.6
Reinsurers share of claims provision	(849.6)	(830.9)	9.9	-	(839.7)	(830.9)
	51.7	57.7	(1.1)	-	50.6	57.7

As this is the first year that the club has applied a discount the net impact in the club's account is \$1.1m. The investment return on the long-term assets supporting the liabilities being discounted was 2.6% (2015: not applicable).

13. Debtors arising out of direct insurance operations

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Members	71.3	84.9	69.7	82.9	1.0	1.5	0.5	0.4	0.1	0.1
Intermediaries	0.7	0.2	0.2	0.1	-	-	0.5	0.1	-	-
Reinsurers	4.2	6.9	4.2	6.9	-	-	-	-	-	-
Debtors arising out of direct insurance operations	76.2	92.0	74.1	89.9	1.0	1.5	1.0	0.5	0.1	0.1

14. Intangible assets

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Computer software										
Book Cost										
As at 21 February 2015	4.1	4.1	3.9	3.9	-	-	0.2	0.2	-	-
Additions	-	-	-	-	-	-	-	-	-	-
Currency fluctuation adjustments	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
As at 20 February 2016	4.1	4.1	3.9	3.9	-	-	0.2	0.2	-	-
Accumulated depreciation										
As at 21 February 2015	3.1	2.3	3.0	2.2	-	-	0.1	0.1	-	-
Charge for the year	0.6	0.8	0.6	0.8	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
As at 20 February 2016	3.7	3.1	3.6	3.0	-	-	0.1	0.1	-	-
Net book value	0.4	1.0	0.3	0.9	-	-	0.1	0.1	-	-

15. Creditors arising out of direct insurance operations

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Members	4.8	3.8	3.1	2.3	1.4	1.3	0.3	0.1	-	0.1
Intermediaries	6.1	7.8	5.6	7.3	0.3	0.3	0.2	0.2	-	-
Reinsurers	18.6	29.0	18.6	29.0	-	-	-	-	-	-
Creditors arising out of direct insurance operations	29.5	40.6	27.3	38.6	1.7	1.6	0.5	0.3	-	0.1

16. Other creditors including tax and social security

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Corporation tax	0.1	-	-	-	-	-	0.1	-	-	-
Trade creditors	0.9	-	-	-	-	-	0.4	-	0.5	-
Other creditors	2.5	9.0	2.9	9.0	-	-	0.1	-	(0.5)	-
Other creditors including tax and social security	3.5	9.0	2.9	9.0	-	-	0.6	-	-	-

17. Reconciliation of income over expenditure before tax to net cash flow from operation activities

	Total		Class 1 - P&I		Class 2 - Defence		Class 3 - London		Class 4 - War	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Excess of income over expenditure before tax	(0.5)	2.9	(2.2)	3.9	0.5	2.6	1.1	(3.5)	0.1	(0.1)
Gains arising on realisation of investments	(7.4)	(2.3)	(5.5)	(1.1)	-	(0.4)	(1.8)	(0.8)	(0.1)	-
Losses arising on realisation of investments	5.8	0.6	4.9	0.3	0.4	-	0.1	0.2	0.4	0.1
Unrealised losses/(gains) on revaluation of investments	1.0	1.9	1.4	1.7	(0.3)	0.2	0.3	(0.1)	(0.4)	0.1
Depreciation	0.8	0.8	0.8	0.8	-	-	-	-	-	-
Decrease/(increase) in debtors	23.4	(12.5)	22.6	(12.7)	0.4	0.3	0.5	(0.2)	(0.1)	0.1
(Decrease)/increase in net technical provision	(7.5)	(4.1)	(0.7)	(2.9)	(0.4)	(1.4)	(6.4)	0.2	-	-
(Decrease)/increase in creditors	(12.6)	(11.5)	(6.0)	(10.8)	(5.9)	(5.4)	(0.9)	4.4	0.2	0.3
Net cash flow from operating activities	3.0	(24.2)	15.3	(20.8)	(5.3)	(4.1)	(7.1)	0.2	0.1	0.5

18. Rates of exchange

	2016	2015
<i>The following rates of exchange were applicable to US\$1 at 20 February 2016 / 2015</i>		
Australian dollars	1.41	1.29
Bermudian dollars	1.00	1.00
Canadian dollars	1.39	1.25
Euro	0.89	0.88
Japanese yen	112.75	118.68
Singapore dollars	1.40	1.35
Swiss francs	0.98	0.93
UK sterling	0.69	0.65

19. Dividends

The directors have paid dividends of \$45m (2015: nil) during the year. The directors are not proposing any further dividends for the year ended 20 February 2016.

20. Ultimate parent undertaking

The directors regard The Standard Club Ltd, a company registered in Bermuda, as the immediate and ultimate parent undertaking and ultimate controlling party. Copies of the consolidated financial statements of The Standard Club Ltd can be obtained from the registered office: Swan Building, 26 Victoria Street, Hamilton HM 12, Bermuda.

A parental guarantee exists to ensure that the club is able to meet its liabilities as they fall due.

21. Related parties

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.

Six of the directors are representatives or agents of member companies, two are expert non-executive directors (one of whom is a shareholder of Charles Taylor plc, the ultimate holding company of the club's managers, Charles Taylor & Co (Bermuda)), one is a director and shareholder of Charles Taylor plc and

another is a senior executive and also a shareholder of Charles Taylor plc. Other than the insurance and membership interest of the directors' companies, the directors have no financial interests in the club.

22. Transition to FRS 102

This is the first year that the club has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 20 February 2015. The date of transition to FRS 102 was 20 February 2014. Set out below are the changes in accounting policies between UK GAAP as previously reported and FRS 102. There were no changes to the club results for the financial year ended 20 February 2015 and the club reserves as at 20 February 2014 and 20 February 2015 as a result of the adoption of FRS 102.

(a) Insurance balances treated as monetary items

FRS 103 requires that all assets and liabilities arising from an insurance contract are treated as monetary items for foreign currency translation purposes. Previously, balances such as unearned premiums and deferred acquisition costs were treated as non-monetary items. This had no impact as insurance assets and liabilities previously treated as non-monetary items were not in foreign currencies and therefore not translated.

(b) Intangible assets

Computer software, with a net book value of \$1m at 20 February 2015, has been reclassified from tangible to intangible assets as required under FRS 102. This has no effect on the Group's net assets nor on the profit for the year, except that the previous depreciation charge is now described as amortisation.

(c) Investments in subsidiaries and associates

Change in terminology from "net realisable value" to "fair value less cost to sell" under FRS 102 has no impact on the measurement of assets.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STANDARD CLUB EUROPE LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion, The Standard Club Europe Ltd's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 20 February 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 20 February 2016;
- the Statement of Income and Contingency Reserves for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities set out on page 13, 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 and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report 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.

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13 May 2016

OTHER INFORMATION

NOTICE OF ANNUAL GENERAL MEETING

THE STANDARD CLUB EUROPE LTD Registered no: 17864

Notice is hereby given that the 132nd Annual General Meeting of the company will be held on Friday 21 October 2016 at 9.00am ('the meeting') at Palace Hotel Tokyo, 1-1-1 Marunouchi, Chioda-ku, Tokyo 100-0005 Japan for the purpose of considering and, if thought fit, passing the following resolutions.

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 2016 be received and adopted.

Re-election of directors appointed since the last AGM

2. THAT Cesare d'Amico be re-elected as a director of the company
3. THAT Jeremy Grose be re-elected as a director of the company
4. THAT Erik Johnsen be re-elected as a director of the company
5. THAT Marianne Sørensen be re-elected as a director of the company

Annual re-election of directors

6. THAT Alistair Groom be re-elected as a director of the company.
7. THAT Barnabas Hurst-Bannister 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

Director fees

10. THAT the remuneration for the non-executive directors of Standard Europe be increased to a \$6,000 annual retainer fee and a \$3,000 attendance fee for each meeting attended in person with effect from noon GMT on 20 February 2016.

Committee fees

11. THAT the remuneration for the chairman of the Audit and Risk Committee be increased to \$4,000 for each meeting attended in person with effect from noon GMT on 20 February 2016.
12. THAT the remuneration for the committee members of the Audit and Risk Committee be increased to \$2,000 for each meeting attended in person with effect from noon GMT on 20 February 2016.

Appointment of auditors

13. THAT PricewaterhouseCoopers LLP be re-appointed as auditors, and that the directors be authorised to fix their remuneration.

Date: 13 May 2016

By order of the Board
Charles Taylor & Co Limited
Secretary

Registered Office:

Standard House
12-13 Essex Street
London
WC2R 3AA

Notes:

1. A member of the company entitled to attend, speak and vote at the above meeting is entitled to appoint one or more proxies to attend, speak and vote on his/her behalf. The proxy need not be a member of the company. A proxy will have the same number of votes on a show of hands as if the member who appointed the proxy was at the meeting.
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 Limited, Standard House, 12-13 Essex Street, London WC2R 3AA, or scanned and emailed to p&i.london@ctplc.com not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
4. A corporate shareholder 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 EUROPE LTD ('the company')

Registered no: 17864

132nd ANNUAL GENERAL MEETING 21 October 2016 at 9.00am ('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 Palace Hotel Tokyo, 1-1-1 Marunouchi, Chioda-ku, Tokyo 100-0005 Japan address on Friday 21 October 2016 at 9.00am, and at any adjournment thereof.

Signature.....

Dated.....2016

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 2016 be received and adopted.		
2. THAT Cesare d'Amico be re-elected as a director of the company.		
3. THAT Jeremy Grose be re-elected as a director of the company.		
4. THAT Erik L Johnsen be re-elected as a director of the company.		
5. THAT Marianne Sørensen be re-elected as a director of the company.		
6. THAT Alistair Groom be re-elected as a director of the company.		
7. THAT Barnabas Hurst-Bannister 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 the remuneration for the non-executive directors of Standard Europe be increased to a \$6,000 annual retainer fee and a \$3,000 attendance fee for each meeting attended in person with effect from noon GMT on 20 February 2016.		
11. THAT the remuneration for the chairman of the Audit and Risk Committee be increased to \$4,000 for each meeting attended in person with effect from non GMT on 20 February 2016.		
12. THAT the remuneration for the committee members of the Audit and Risk Committee of thebe increased to \$2,000 for each meeting attended in person with effect from noon GMT on 20 February 2016.		
13. THAT PricewaterhouseCoopers LLP be re-appointed as auditors, and that the directors be authorised to fix their remuneration.		

Re-election of directors holding office for over nine years: Directors' biographies

Alistair Groom Former CEO of the managers' London agents

Ricardo Menendez Ross CEO Interocean Transportation Inc.

Notes

1. A member may appoint a proxy of his own choice. If such an appointment is made, delete the words 'the chairman of the meeting' and insert the name of the person appointed proxy in the space provided.
2. If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
3. If this form is returned without any indication as to how the person appointed proxy shall vote, he will exercise his discretion as to how he votes or whether he abstains from voting.
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 Limited, Standard House, 12-13 Essex Street, London WC2R 3AA, or scanned and emailed to p&i.london@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 OFFICERS

Managers

Charles Taylor & Co (Bermuda)

Company Secretary

Charles Taylor & Co Limited

Registered office of the club

Standard House
12-13 Essex Street
London WC2R 3AA

Telephone +44 20 3320 8888

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