The Standard Club Europe Ltd

Public report

Solvency and Financial Condition Report (SFCR)

2017

Registered company number 17864

CONTENTS

SUMMARY

The new, harmonised EU-wide regulatory regime for Insurance Companies, known as Solvency II, came into force with effect from 1 January 2016. The regime requires new reporting and public disclosure arrangements to be put in place by insurers and some of that is required to be published on the Company's public website. This document is the first version of the Solvency and Financial Condition Report ("SFCR") that is required to be published by The Standard Club Europe Limited (Standard Europe or 'the club').

This report covers the Business and Performance of the Company, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management. In addition the annual quantitative reporting templates are included at the end of this report.

The ultimate Administrative Body that has the responsibility for all of these matters is the club's Board of Directors, with the help of various governance and control functions that it has put in place to monitor and manage the business.

The club's financial year runs to 20 February each year and it reports its results in US dollars.

A. BUSINESS AND PERFORMANCE

A.1 BUSINESS

Company Information

1. **Name**

   The Standard Club Europe Limited

2. **Legal form**

   A private company limited by guarantee, registered in England and Wales No. 17864

3. **Supervisory authority of company**

   Prudential Regulation Authority
   20 Moorgate
   London EC2R 6DA

   Financial Conduct Authority
   25 The North Colonnade
   London E14 5HS

4. **Supervisory authority of parent**

   Bermuda Monetary Authority
   BMA House
   43 Victoria Street
   Hamilton

   PO Box 2447
   Hamilton HMJX
   Bermuda
   Tel: (441) 295 5278

5. **Auditors**

   PricewaterhouseCoopers LLP
   7 More London Riverside
   London
   SE1 2RT

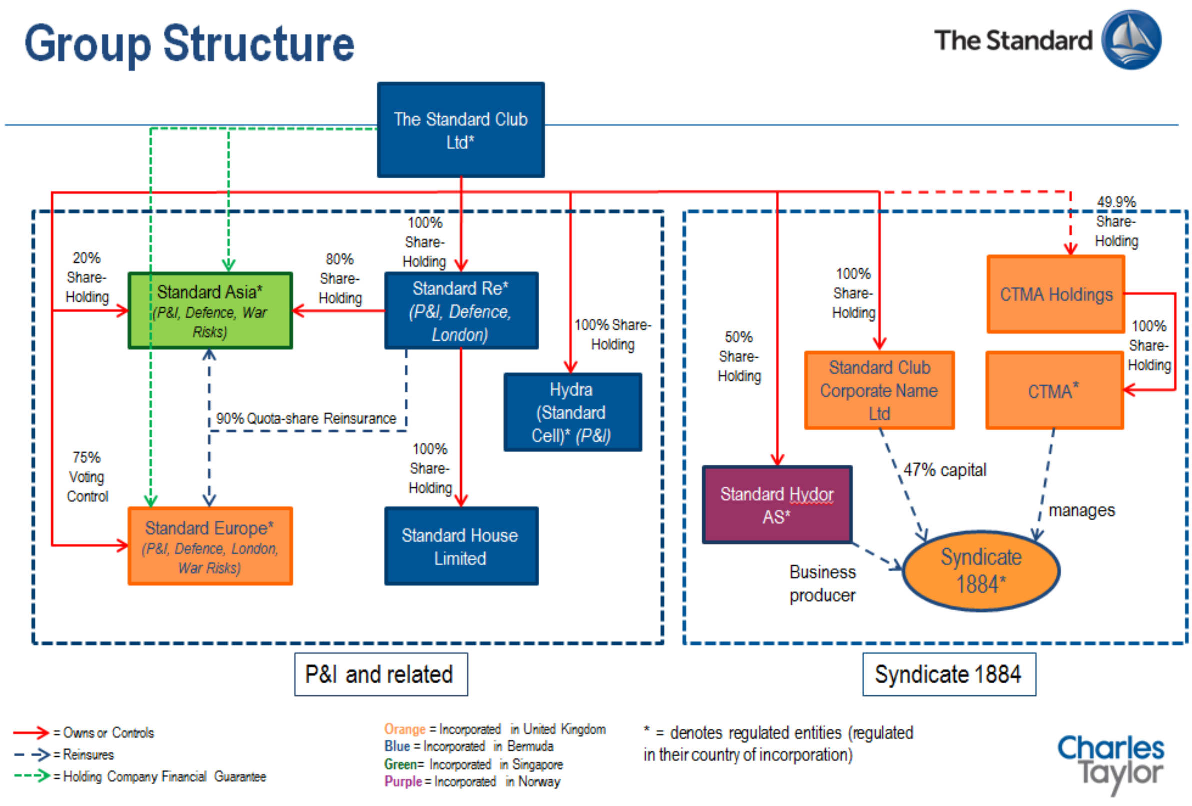
6. **Holders of qualifying holdings**

   The directors regard The Standard Club Limited ("Standard Club"), a company limited by guarantee and registered in Bermuda (no. 1836), as the immediate and ultimate parent undertaking and ultimate controlling party by virtue of it holding 75% of the voting rights of the club (the remaining 25% are held by the club's members, who are also members of The Standard Club Ltd).

   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.

7. **Group structure**

   The group structure chart indicating the position of Standard Europe within the Standard Club group is shown below.



8. **Principal activities**

The principal activities of Standard Europe are the insurance and reinsurance of marine protection and indemnity (P&I) and related risks, war risks, and defence risks, on behalf of its members.

The company conducts business internationally; the material geographical areas where it carries out business are Europe and North America. Standard Europe is registered as an alien insurer in New York State, permitting it to write surplus lines insurance throughout the United States. Standard Europe provides insurance on a freedom of services basis throughout the European Union and European Economic Area, and has a permanent branch establishment in Greece.

9. **Other information**

The day to day management of the Standard Club group is outsourced to Charles Taylor and Co (Bermuda), a member of the Charles Taylor Plc group (collectively referred to as “the manager”). The outsourced management of the club by Charles Taylor and Co (Bermuda) and its predecessor companies has existed since the establishment of the Standard Club in 1884. As a consequence, the Standard Club has no direct employees, with all staff being provided by the manager. Further information is provided below in section B7 Outsourcing.

10. **Planning for Brexit**

While there is still much uncertainty about how the UK will withdraw from the EU, it seems likely that there could be a so-called ‘hard Brexit’, which may mean that UK insurance companies lose the automatic right to offer insurance to EU insureds. The club is closely monitoring these developments and is considering a number of options to ensure that it retains the flexibility to continue to offer a high standard of service to its members across the EU.

A.2 UNDERWRITING PERFORMANCE

As a mutual insurance company, the club does not aim to make underwriting surpluses and instead its goal is break-even underwriting with investment returns used to strengthen the club's capital base.

For the 2016/17 financial year, the club achieved a positive result for members with a financial year combined ratio of 99.6% (96% before application of the quota share reinsurance with the club's fellow subsidiary, Standard Re).

In addition, the club announced no general increase at the 2017 renewal and returned 5% of mutual calls on the 2016/17 policy year. This has been returned as of right to all mutual members entered in the year and irrespective of other considerations, such as renewal into 2017 or record. After the 5% return of the 2016/17 mutual call to members, the club's free reserves stood at $112m at the year-end.

The club's income and expenditure account for the year to 20 February 2017 (as set out in the club's financial statements) is summarised below.

	P&I	Defence	London	War	Combined
As at 20 February 2017	$m	$m	$m	$m	$m
Premium Income	235.8	12.6	15.1	0.3	263.8
RI Premium	(203.3)	(11.0)	(10.3)	(0.2)	(224.8)
Net Premium	**32.5**	**1.6**	**4.8**	**0.1**	**39.0**
Gross claims	238.4	4.5	8.3	-	251.2
RI Recovery	(222.2)	(4.1)	(6.1)	-	(232.4)
Net Claims	**16.2**	**0.4**	**2.2**	-	**18.8**
Operating Costs	16.5	0.4	2.2	0.1	19.2
Net Costs	**32.7**	**0.8**	**4.4**	**0.1**	**38.0**
Underwriting Result	**(0.2)**	**0.8**	**0.4**	-	**1.0**
Dividend payment	-	-	-	-	-
Investment Return	(0.3)	(0.1)	(0.7)	0.3	(0.8)
Estimated Surplus/Deficit	**(0.5)**	**0.7**	**(0.3)**	**0.3**	**0.2**
Reserves brought forward	70.0	6.3	24.9	10.8	112.0
Reserves carried forward	69.5	7.0	24.6	11.1	112.2
Gross combined ratio	**100%**	**93%**	**97%**	**98%**	**100%**
Net combined ratio	*101%*	*48%*	*92%*	*94%*	*97%*

Premium income for the year ended 20 February 2017 analysed by territory is as follows:

Italy	14%
Greece	10%
United States of America	8%
Nordic region	7%
Rest of Europe	7%
The Netherlands	7%
Turkey	7%
Germany	6%
Canada	5%
United Kingdom	5%
Japan	5%
Switzerland	4%
Monaco	4%
Qatar	1%
Middle East	2%
Rest of Asia	5%
Rest of World	3%

A.3 INVESTMENT PERFORMANCE

The investment portfolio (including investment and operational cash) was allocated as follows:

	20 Feb 2017 (US$ '000)	20 Feb 2016 (US$ '000)
Government Bonds	**22,514**	37,133
Corporate Bonds	**1,429**	3,013
Collateralised securities	**638**	0
Bonds	**24,580**	40,146
Equities — listed	**2,185**	5,576
Equities — unlisted	**0**	1,102
Equities	**2,185**	6,678
Collective Investments Undertakings	**50,930**	262
Deposits other than cash equivalents	**5,762**	0
Cash and cash equivalents	**7,633**	56,018
Investments	**91,091**	103,104

The currency allocation was:

US and Canadian dollars 86%
European currencies (excluding sterling) 6%
Sterling 6%
Other currencies 2%

The investment return by assets (excluding unrealised gains and losses) is set out below:

	Total (US$ '000)
Government Bonds	1,188
Corporate Bonds	45
Collateralised securities	22
Bonds	1,255
Equities	242
Collective Investments Undertakings	1,137
Deposits	26
Investments	2,660

Investments in securitisations constitute 0.7% of assets as at 20 February 2017.

Investment management expenses for the year came to $269k.

B. SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON SYSTEM OF GOVERNANCE

System of Governance

1. Governing body – the board of The Standard Club Europe Limited

The board of Standard Europe comprises ten directors, of which:

- Six are drawn from leadership positions within shipping businesses which are insured by Standard Europe;
- Two (including the Chairman) are non-executive directors with insurance industry experience;
- Two are drawn from the managers, including the CEO of the Standard Club (executive director), and the CEO of Charles Taylor Plc (acting in a non-executive capacity).

All of the directors of Standard Europe are also directors of the Standard Club.

a) Role of the board

The role of the board is to focus on those tasks that are unique to it as the representative of the members and necessary for it to undertake for the effective promotion of their interests.

The board will assure itself that the club is achieving the purpose by satisfying itself that the business plan developed by the managers and accepted by the board represents a satisfactory means of progressing the purpose.

The board's tasks include:

- to ensure that the club achieves its purpose, and in doing so ensures that the concept of mutuality is maintained and that all members are treated fairly;
- to set the club's strategy and to agree its business plan;
- to set the club's risk appetite;
- to ensure that the club is managed in accordance with good business principles ;
- to ensure that suitable systems and controls are in place to ensure that the club is managed prudently and in accordance with legal and regulatory requirements;
- subject to the Articles, to review the performance of the managers and agree their remuneration;
- to decide such other specific matters which are, according to the Articles or the rules or as determined from time to time by the board, reserved for the board's decision.

2. Board committees

The board has established an Audit and Risk Committee ("ARC") and Nomination and Governance Committee ("NGC"), each of which is entirely composed of non-executive directors.

a) The Audit and Risk Committee is delegated duties relating to:

- Financial reporting;
- Internal controls and risk management systems;
- Whistleblowing and fraud;
- Internal audit – monitoring of IA effectiveness; make recommendations on the appointment/removal of the head of IA; consider the remit and resources of IA; assess the annual audit plan; review reports from IA; monitor the managers' responsiveness to findings and recommendations of IA; meet with IA without management (at least annually);
- External audit – make recommendations on the appointment, re-appointment and removal of the external auditor, oversee the relationship with the external auditor (including, inter alia: fees, independence and non-audit work);
- Solvency of the club;

- Reporting to the board on its proceedings after each meeting, making appropriate recommendations and reporting to members in the annual report.

b) The Nomination and Governance Committee is delegated the following duties:

- Identification and recommendation of board and committee candidates
- Succession planning and board member rotation
- Ensure fitness and propriety of senior executives, key function positions and board members
- Review and recommendation of directors' fees
- Review and report on the governance structure, policies and practices of the company

3. Advisory body – the board of The Standard Club Limited

The board of The Standard Club Ltd, the parent company acts as an advisory body to the board of Standard Europe. The board comprises 32 directors, the vast majority of whom are representatives of the member insureds. All of the directors of Standard Europe are also directors of Standard Club.

The purpose, role and duties of the board are set out in the board policies statement. The board has a schedule of matters reserved for consideration by the board and has established three board committees: Audit and Risk Committee, Nomination and Governance Committee, and Strategy Committee.

a) Audit and Risk Committee – is delegated similar duties to those set out above in respect of the Audit and Risk Committee for Standard Europe.

b) Nomination and Governance Committee – is delegated similar duties to those set out above in respect of the Nomination and Governance Committee for Standard Europe. It additionally performs the following duties:

- Evaluate the performance and effectiveness of the managers pursuant to the service level agreement and the management agreement;
- Review the level of management costs and assess the appropriateness of the remuneration policy of the managers to ensure that they align with the club's interests;
- Review, for consideration by the board, the management fee.

c) The Strategy Committee is delegated the following duties**:**

- Consider and make recommendations on the strategy to be adopted;
- Review the performance of the club in meeting its strategic objectives;
- Review the club's business environment and make recommendations arising from developments therein;
- Consider and make recommendations to the board on the club's business plan;
- Consider new strategic initiatives, alliances and potential mergers; make decisions on strategic opportunities where necessary, between board meetings, in accordance with the club's business plan as authorised by the board;
- Consider matters relating to the International Group and reinsurance market.

In addition a 'Chairman's Group' comprising the chairmen and deputy chairmen of the Standard Club and Standard Europe, the chairmen of each committee, and two additional directors, review the affairs of the club with the managers between board meetings.

4. Delegation of responsibilities and allocation of functions

a) Delegation of day-to-day management

The day-to-day management of the Standard Club and its subsidiary companies (including Standard Europe) is delegated to the managers by virtue of a management agreement.

b) Management Agreement

The management agreement sets out the terms upon which Charles Taylor plc provides management services to the Standard Club.

c) Service Level Agreement and Key Performance Indicators

The services provided by the managers are subject to a Service Level Agreement (SLA) which forms part of, and is subject to, the Management Agreement. The SLA sets out the key performance indicators (KPI's) for the club's success. The following measures are adopted in the SLA:

- Tonnage
- Premium income
- Free reserves
- Underwriting result
- Investment result
- Financial ratios – in the annual ratio analysis
- Member satisfaction
- Implementation of the business plan

The Standard Club Ltd Nomination and Governance Committee and the board review the managers' performance against KPIs set out in the SLA on an annual basis.

d) Oversight of the outsourced function

The chairman of Standard Europe is responsible for overseeing the performance of the outsourcing arrangements with the managers with respect to Standard Europe in accordance with the requirements of the Senior Insurance Managers' Regime and EIOPA Guidelines on Systems of Governance.

e) Standard Club Europe Governance Map

Standard Europe has approved a governance map which sets out the Senior Insurance Manager Functions and key function holders identified by the board. The governance map is reviewed at least annually by the Nomination and Governance Committee. Recommendations in respect of enhancements or confirmation of its continuing appropriateness are made to the board by the managers.

f) Executive management arrangements

The day to day management of the Standard Club, including Standard Europe, is led by executives who are members of the P&I executive committee of the managers. The executive committee comprises the chief executive, each of the Senior Insurance Management Function holders, and key function holders employed by the managers. The head of internal audit, whilst not a member, attends meetings of the committee.

The following committees report to the executive committee:

- Risk committee
- Claims committee
- Finance committee
- Underwriting committee
- Portfolio management committee
- Reinsurance review committee
- Reserving committee
- IT steering committee

Each of the committees has prescribed terms of reference setting out the roles, duties and reporting requirements.

The board has established a Board reporting policy, pursuant to which the managers are required to provide the board with a full and complete overview of the affairs of Standard Europe, covering all key areas of its operations in sufficient detail to allow the board to properly discharge its responsibilities.

5. Training – an annual programme of training is provided to the board and its committees, key function holders and employees

6. Internal audit and compliance reviews of management functions are carried out to assess performance against KPIs.

7. Annual appraisal process / board evaluation
As part of the club's governance processes, and in line with good corporate governance practices, the club conducts a periodic board and committee evaluation.

The purpose of the evaluation is to help the board, committees and individual directors perform to their maximum capabilities, and:

- assess the balance of skills within the board / committee;
- identify attributes required for any new appointments;
- review practices and procedures to improve efficiency and effectiveness;
- consider the effectiveness of the board / committee's decision making processes;
- recognise the board / committee's outputs and achievements.

The board last conducted a full evaluation in November 2016, which was considered by the Nomination and Governance Committee in January 2017.

The Nomination and Governance Committee makes recommendations to the board in respect of enhancements that it considers desirable following its review of the evaluation results. Each October, it considers the progress against actions in respect of improvements identified in the results of the annual evaluation process.

Material changes in the system of governance that have taken place over the reporting period

No material changes have occurred during the reporting period.

Remuneration policy and practices

1. Directors' fees (including committees) – The Nomination and Governance Committee's terms of reference include the review and recommendation of changes to directors' fees. A detailed benchmarking exercise was conducted during 2015 to ensure fees were brought into line with market rates, and a further review was conducted during 2016.

2. Management fee – The managers submit a proposal in respect of the proposed fee to be paid by the Standard Club to the managers, for the services provided under the management agreement for the following year, to the October meeting of the Nomination and Governance Committee, following prior discussion of the proposed fee level with the Chairman's Group.

The Nomination and Governance Committee reviews the fee proposals and makes a recommendation to the board. The Nomination and Governance Committee in reviewing the fee takes account of the fees paid by the other P&I clubs to their respective management companies.

3. Remuneration policy - The Nomination and Governance Committee considers the remuneration policy of the managers to ensure that it aligns with the interests of the club and that it does not promote excessive risk taking. In doing so, it additionally reviews the performance appraisal of the chief executive in respect of the previous year and the objectives of the chief executive and members of the managers' executive team for the following year. The chairman of the Nomination and Governance Committee reports to the board on its review of the policy.

4. Summary of the remuneration policy of the managers – The managers' policy is to adopt and encourage a total view of remuneration, with the reward strategy being to place more emphasis on variable pay and alignment to performance based on the achievement of objectives, rather than to focus on base pay. The total remuneration of the managers' employees consists of annual base salary, a discretionary annual bonus, pension, private medical insurance, group life assurance and group income protection cover.

The managers participate in the Spinnaker survey, which is the main source of benchmarking data for P&I clubs. For more senior roles, in respect of which the survey lacks detail, additional sources are used to help guide and inform.

Annual base salary – this is set at a market rate for the role being performed.

Discretionary annual bonus – bonus awards are based upon the employee's performance against a set of objectives during the performance period and are aligned with the interests of the Standard Club and Standard Europe.

Deferred equity schemes are additionally used to motivate senior employees' performance over the longer-term.

As the club does not have employees, there are no supplementary pension or early retirement schemes to disclose.

Material transactions during the reporting period

The club, which is limited by guarantee, has no share capital and is controlled by the members who are also its insureds. Ship owner members enter into insurance contracts negotiated with the club's managers on arm's length terms. The Standard Club pays an annual management fee to the club's managers (of whom two are also directors of Standard Europe and the Standard Club), and has some limited transactions with other Charles Taylor companies as part of the normal course of insurance business.

Aside from these there were no other material transactions during the reporting period with shareholders, persons who exercise a significant influence on the undertaking, or with members of the administrative, management or supervisory body.

B.2 FIT AND PROPER REQUIREMENTS

The Standard Club (and subsidiaries) outsources to a Club manager, as is common for P&I Clubs across the world. The central relationship is with Charles Taylor and Co (Bermuda) and with other Charles Taylor group entities. There are three basic groups of roles that can be considered key to the Standard Club (and Standard Europe):

- The Non-Executive Directors of the Club who act as Chair of the Board, Audit and Risk Committee or the Nomination and Governance Committee;
- The Charles Taylor resources that perform significant roles for the Club and are individually approved by the UK regulators. These include the individuals performing the functions of Chief Executive, Chief Financial Officer, Chief Underwriting Officer, Chief Risk Officer, Head of Internal Audit and Chief Actuary. The Chief Executive of Charles Taylor plc (who provide the outsourced management of the Club) is also approved by the UK regulators under the FCA's RAPR regime;
- Other key function holders are notified to the PRA and FCA but are not reported on the FCA register. These include those Non-Executive Directors who do not perform a prescribed responsibility and the Directors of Investment, Strategy, Claims and the Managing Director of Standard Europe.

There is also a skills and knowledge matrix used by Standard Europe to ensure that the board has the right combination of skills, knowledge and experience to meet its regulatory obligations and the firm's strategic and operational objectives.

A Fit and Proper Policy is in place for the Standard group and describes the objectives, roles and responsibilities and governance around the selection, due diligence and appointment of resources into the key roles. The Fit and Proper Policy is owned by the Board of Directors as a body and by the Standard Club CEO as a business owner. The policy is reviewed and approved at least annually.

The Fit and Proper Policy splits the necessary scrutiny into ensuring honesty, integrity and sound reputation, financial soundness of the individual proposed, and competency and capability in the role. The Policy applies to service providers if they hold a key function and is applied by the board's Nomination and Governance Committee.

The Nomination and Governance Committee oversees that:

- Key roles are fit and proper at all material times;
- Appointments to key roles are appropriately reviewed;
- Due diligence is exercised in line with the policy when assessing individuals for key roles;
- The board composition in aggregate meets the aggregate needs of the Club's governing body;
- Professional training is available to those individuals in key roles; and
- A clear rationale exists for changes to the senior management team.

B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

1. Overview of the club's risk management system

Risk management system

The risk management system is owned and defined by the board and designed to ensure that the risk strategy operates effectively within its risk appetite. The risk management system includes classification of risks in the risk register, assessment of risks in terms of likelihood and impact, and identification of key risk controls and indicators for each risk type. Oversight of the risk framework governance is delegated by the Board to the Audit and Risk Committee, and formal roles, responsibilities and governance of risk are set out in the scope of individual senior management role descriptions, terms of reference of internal oversight committees and the policies and procedures used within the business.

The organisation of the Standard Club group includes mechanisms which integrate the risk profile of Standard Europe with the wider affairs of the group – for example, through the reinsurance of 90% of the operating results of Standard Europe to Standard Re. This reflects the ultimate beneficial ownership of Standard Europe which resides with members of the Standard Club who are policyholders of either Standard Europe or Standard Asia. As a consequence the risk management system for Standard Europe considers risk at both a group level and with explicit consideration of the differing nature and view of risk at the Standard Europe level.

"Three lines of defence" principle

The risk management system follows 'three lines of defence' principles widely used within the insurance industry. Management of risk is performed by business units on a day to day basis, supplemented by oversight and review of controls by the risk management function and independent assurance that controls are adequate through testing performed by the internal audit department.

Risk management function

The risk management function consists of the risk management department and other members of the executive team involved in oversight of the risk management processes of the business, for example members of the executive risk committee. The risk management department is responsible for co-ordinating the activities of the risk management function and maintaining a high level of risk management awareness across the business.

Risk strategy and appetite

Risk management strategy is subject to a formal strategic risk appetite statement, which sets out the degree of risk considered prudent to accept in the overall long-term interests of the club's stakeholders. Risk appetite and strategy are explicitly linked with the capital management objectives of the Standard Club group and the nature of its mutual ownership and objectives.

The strategic risk appetite statement requires the business to manage its affairs in a manner intended to:

- Reduce the chance that it is required to make an unbudgeted supplementary call on its members to an acceptable minimum;
- Target a breakeven underwriting result over the business planning horizon;
- Ensure it maintains delivery of excellent levels of service to members;
- Ensure the degree of risk to which mutual members subject to supplementary calls are exposed from activities other than core underwriting activities (for example, from investments or fixed premium mutual business) is appropriate and commensurate with the expected benefits.

In addition, the business monitors the level of capital held to ensure it does not exceed that required for the orderly management of its affairs consistent with its mutual objectives, including maintaining its financial strength and external credit rating.

At a more granular level (for example, by risk category) risk appetite is expressed in terms of impact and likelihood using a risk assessment matrix, where the impact is measured as a proportion of free reserves.

Risk governance

The ARC and Board review the club's risk appetite and risk policies at least annually in respect of the major business risks facing the Standard group, their potential impact, and the systems to manage and mitigate those risks.

Responsibility for day to day management of risk is the responsibility of executives as part of the performance of their roles, as set out in individual job descriptions, defined processes and procedures identifying levels of authority within the management structure, and risk policies. The Standard Club operates an internal executive risk committee led by the Chief Risk Officer and including key senior managers which monitors and provides oversight of risk and capital issues across the business. The risk committee is responsible for making recommendations and ensuring that the executive management committee is kept informed of key risk information and issues, and escalating matters of concern to the ARC.

Management information

Tools, models and systems have been developed in order to provide qualitative and quantitative management information for use in risk management decisions. In particular the Standard group makes use of its internal model in order to quantify the levels of aggregate risk carried at both group and Standard Europe level and to monitor whether levels of risk are within strategic risk appetite. Detailed measures of the club's appetite for risk have also been established, with key risk indicators reported at each board meeting against pre-set board and management tolerances, for example with respect to key financial ratios, maximum exposure to individual investment counterparties, maximum exposure to specific ship types, or acceptable levels of new business growth.

Policies and procedures

Policies and procedures are in place in respect of the material risks of the club which, amongst other matters, set out the roles and responsibilities with respect to the management of risk. Specific procedures are in place to manage risks arising from the business, and are designed to ensure that transactions and decisions are made by individuals with appropriate levels of experience and authority and consider relevant risks.

2. Implementation and integration of the club's risk management function

Strategy and appetite

The risk management function provides significant input into the design and implementation of risk appetite which assists in setting the strategy of the club, for example with respect to the key underwriting and investment risks.

The risk management department co-ordinates the monitoring of whether the club is likely to, or has, exceeded risk appetite and assists in making decisions in those eventualities. The assessment is reviewed by the risk committee on a quarterly basis.

Risk assessment and control effectiveness reviews

The risk management department has implemented a rolling programme of reviews to assess business risks and the effectiveness of mitigating controls in place. This programme is designed to cover all areas of risk identified in the risk register on a semi-annual basis. These reviews, which are performed in conjunction with each business unit, consider whether controls are effective and ensure that outstanding risk mitigation actions are occurring in a timely manner.

Incident reporting and embedding risk management

There is an emphasis upon continual education of senior management and staff in considering good risk management practice in individual aspects of their roles. The risk management department maintains an incident reporting process which records control failures and "near miss" events and is designed to identify underlying root causes and whether any control improvements can be implemented. Incidents are reported across the senior executive management team and to the board.

Use of internal model

The risk management system and processes are linked to the club's internal model. The internal model is used to create the financial projections which form the business plan. Key assumptions used in the model reflect expectations of future insured exposure and premium rate changes, claims frequency and severity trends and investment returns. Assumptions with respect to the degree of uncertainty and volatility arising from risk taking activities are based on a combination of analysis performed by the actuarial function and inputs provided by business units. Internal model assumptions are reviewed by relevant business experts and the ARC. Internal model outputs are a key input into the ORSA process described below, and its uses include assessing levels of risk compared with risk appetite, assessing the adequacy of reinsurance arrangements, and informing pricing and capital management decisions.

3. ORSA process

Key elements of Own Risk and Solvency Assessment (ORSA) process

The ORSA process brings together the key elements of risk, capital and strategy. The ORSA process is performed at both a Standard Club group and Standard Europe level, and is summarised in a single annual report which is approved by the board. At a group level the ORSA report meets the Bermuda regulatory requirement to prepare a Commercial Insurers Solvency Self Assessment report.

The ORSA process combines outputs from business strategy and planning processes with the results of risk profile monitoring, stress and scenario testing and outputs from the internal model on aggregate levels of risk. The annual ORSA report consolidates the results of these analyses in a single document in order to provide a coherent view of capital adequacy, risk profile, the effectiveness of the risk management system and key risk mitigating actions required to ensure the business remains within risk appetite.

In addition, each Board meeting receives a summarised “Risk Overview” which sets out the status of key risks to achieving strategic objectives together with actions designed to mitigate these, an assessment of capital adequacy, an analysis of key investment risks, and an analysis of the likely range of outcomes for the current financial year.

Financial information and business plan

The prior year results used in the financial reporting provide the basis for the first stage of the ORSA and strategic planning processes. The internal model is used to create a business plan over a three year time horizon including projected levels of free reserves and the potential distribution of outcomes around the central projection. These results are used to review the business plan against risk appetite and amend plans if required.

Stress and scenario testing and emerging risk review

The ORSA process includes a pre-defined set of stress and scenario tests. There is a structured annual process to review potential emerging risks which is designed to identify whether any changing or new risk could have a significant impact on the business risk profile, and whether any consequent actions are required (for example, a new risk mitigating action or set of controls). The significance of new or emerging risks is typically assessed through development of appropriate stress tests.

Assessment of capital adequacy and comparison with standard formula capital requirements

Standard Europe is required to hold capital calculated using the Solvency II standard formula methodology. The ORSA report includes an analysis of the level of capital required under the standard formula calculation compared with the equivalent level of capital calculated using the internal model. The broad underlying structure of the standard formula is consistent with the internal model developed in-house based on the evaluation of the business risk profile. As a consequence, changes in the risk profile of the business are expected to cause directionally similar changes in both regulatory capital requirements and the equivalent internal model requirement. While there are some differences in approach and calibration, such as in the treatment of default risk on the 90% quota share arrangement in place with Standard Re, these are not sufficiently material to suggest the standard formula is inappropriate to use for regulatory capital requirement purposes.

ORSA report governance

The Chief Risk Officer is responsible for the preparation of the ORSA report, including ensuring that it articulates a coherent overall strategic plan that fits with the agreed risk appetite. The Board reviews and approve the ORSA report in conjunction with the strategy and business plans. A key expectation is that the ORSA report and strategic and business plans are aligned and fit within strategic risk appetite.

ORSA process timing

The ORSA process is continuous, with various elements conducted through the year and integrated into the final ORSA report. For example, internal model outputs are used to inform decisions on potential changes in premium rates for renewals in the following policy year. A draft assessment of capital levels based on internal model outputs incorporating the results of February renewals is provided at the May board meeting.

The board reviews the ORSA report twice a year. A draft ORSA report is provided for the July board meeting for input and the finalised ORSA report is reviewed and approved at the October board meeting.

Internal Audit perform an independent review of the ORSA report to provide assurance that it has been prepared in line with the board's ORSA policy and is consistent with underlying financial and other information.

B.4 INTERNAL CONTROL SYSTEM

The club has a robust system of internal controls which are used to manage the risks faced by the club to within its documented risk appetite. This system covers all functions and all activities undertaken by the managers on behalf of the Standard Club and Standard Europe.

Business functions (such as underwriting, loss prevention or claims) own the functional controls for their areas of responsibility. These controls are set out in the risk register and described in procedure manuals, often accompanied by process flows to aid the accurate adoption of procedures by new resources. Formal procedures are in place covering a wide range of business activities, in particular in relation to underwriting and claims activities. For example, formal procedures govern the pricing of new business, performance of member risk reviews by the loss prevention department, issuance of certificates of insurance, approval and payment of claims, and performance of sanctions, anti-money laundering and anti-bribery and corruption due diligence on counterparties prior to transacting business.

The effectiveness of controls is assessed semi-annually by the risk owners identified in the risk register in conjunction with the risk department, and subject to periodic Internal Audit testing and review. Material controls are reviewed by Internal Audit on a three yearly rotating basis and those with a strong regulatory element are also subject to monitoring reviews by the compliance department. Any failure of a material control is recorded as an incident and reported through the executive management structure and to the board.

B.5 INTERNAL AUDIT FUNCTION

1. Implementation of the internal audit function

Audit Planning

Internal audit (“IA”) prepares, in consultation with risk management, compliance senior management and other key users, an annual audit plan (“the plan”), setting out the proposed timing and rationale for IA assignments. The plan is based on a risk assessment, identifying business objectives all significant activities and key risks to the achievement of those objectives. The plan is reviewed and approved by the Audit and Risk Committee (“ARC”) and communicated to the club boards, and the ARC ensures that the plan addresses all key business risks.

Any significant changes to the plan are discussed with the chairman of the ARC and are communicated to the ARC for approval.

a) Audit execution

IA is responsible for planning, conducting, reporting and follow up on audit assignments included in the plan.

Audit fieldwork is conducted in a professional and timely manner.

b) Reporting

IA is responsible for reporting to management and, ultimately, the ARC issues relating to the processes and activities identified in an audit assignment including potential improvements to those processes.

A draft audit report is prepared at the conclusion of each audit and facts are agreed with relevant management. Management responses to findings and action plans are agreed, including deadlines and identification of those responsible for implementation.

IA sends a summary of each completed audit to the ARC.

IA is responsible for verifying that audit issues have been completed, and the head of IA is responsible for monitoring the timely action of management to address these findings. Progress is reported to the ARC.

At each meeting, IA provides to the ARC information on the status and results of the annual audit plan. IA also provides regular reports on IA’s compliance with its key performance requirements. Every two years, the managers’ CEO reports on feedback obtained on IA’s performance and effectiveness.

c) Interaction with other control and assurance activities

IA liaises on an ongoing basis with the CT group compliance and risk officer and other parties as appropriate to ensure optimal audit coverage to the club and CT and avoid unnecessary duplication of effort.

IA maintains regular contact with all parts of the business at a senior level to ensure continued understanding of the business, cooperation between the business areas and IA and awareness of plans and strategy that may affect the audit universe and audit activity.

Access to IA programmes, working papers and reports are made available for review by the external auditors.

d) Resources

The head of IA maintains sufficient and appropriately skilled audit personnel to implement the audit programme, either internally within the audit team or externally through the use of specialist resources.

2. Independence and objectivity of the internal audit function

Objectivity and independence

IA is independent of the activities that it audits, and its auditors are objective in performing their work. IA, while consultative in approach, is free from interference in determining the scope of internal auditing, performing work and communicating results. In summary, IA is impartial, unbiased and avoids conflicts of interest.

To ensure independence, IA is directly accountable to the chairman of the ARC, with a day-to-day administrative reporting line to the Chief Executive Officer of Charles Taylor plc, and has free and unrestricted access to the chairman of the club boards.

B.6 ACTUARIAL FUNCTION

The actuarial director has responsibility for the actuarial function, which, in line with its terms of reference:

a) contributes to the effective implementation and embedding of the risk management system, in particular by designing, implementing, updating, testing, running and reporting on the internal model;
b) calculates and validates the technical provisions;
c) expresses an opinion on the overall underwriting policy;
d) expresses an opinion on the adequacy of current reinsurance arrangements;
e) reports to the senior management and the board on the reliability and adequacy of actuarial calculations; and
f) liaises with the external auditors to assist with their annual independent assessment of the technical provisions.

The actuarial team comprises two qualified actuaries and three trainee actuaries. The team sits within and works closely with the finance team, which aids access to, communication of and understanding of the data and outputs used by and produced by the actuarial team.

The actuarial director reports to the board four times a year on subjects that as a minimum include the actuarial function reporting cycle, which comprises the setting of GAAP technical provisions, the conversion of GAAP technical provisions to a Solvency II basis, an opinion on the underwriting policy, an opinion on the reinsurance arrangements, and a description of how the actuarial function has contributed to the risk management system during the year (including use of the club’s internal model).

B.7 OUTSOURCING

Outsourced management of the business

The day to day management of the Standard Club group is outsourced to Charles Taylor and Co (Bermuda), an arrangement which has existed since the establishment of the Standard Club in 1884. The use of an outsourced manager is an operating model adopted by several other P&I club competitors, having evolved over many years in response to the mutual ownership and specific marine liability management and insurance needs of the shipowners who control the Standard Club and for whose benefit it has been established. As a consequence, the Standard Club has no direct employees, with all staff being provided by the outsourced manager.

Charles Taylor and Co (Bermuda) performs the outsourced management of the Standard Club group from Bermuda. Reflecting the wide geographical scope of the Standard Club business, including the business of Standard Europe, it has delegated performance of many activities to other entities within the Charles Taylor Plc group, the most significant of which are:

- Charles Taylor Investment Management – providing investment management services for the Standard Club group and its subsidiaries including Standard Europe.
- Charles Taylor & Co Ltd – providing insurance management services in London, including management of a substantial part of the affairs of Standard Europe.
- Charles Taylor Mutual Management Services – providing insurance management services in Singapore, including management of a substantial part of the affairs of Standard Asia, and some claims management services on behalf of Standard Europe.

A number of other delegated arrangements are in place between Charles Taylor & Co (Bermuda) and other Charles Taylor entities (collectively referred to as the “managers”), for example to support claims management activities performed on behalf of the Standard Europe in its regional offices in New York and Piraeus or where specific ancillary services are performed such as acting as claims correspondent.

The performance of the managers is formally reviewed by the NGC at least annually against service level agreements detailed within the management agreement which governs the outsourced relationship. The Board also exercises oversight of the performance of the managers through the regular reporting provided by the various function heads at each meeting of the Board and its committees, through reports provided by the key functions (actuarial, risk, compliance and internal audit) and through regular discussion between key board members (for example, the Chair of Standard Europe and the chairs of the ARC and NGC) and executives.

Outsourcing policy

An Outsourcing Policy is in place which considers both:

- The primary outsourcing relationship with Charles Taylor & Co (Bermuda) and other Charles Taylor plc group entities which provide management services to members of the Standard Club group.
- The approach to be taken in the event that the managers themselves outsource activities that would otherwise be performed directly by them.

The outsourcing policy sets out a number of requirements with respect to outsourcing arrangements including:

- No activity or function reserved for the Board may be outsourced. In addition, if the function or activity is considered critical or important (for example, insurance product design and pricing, performance of key functions such as actuarial), the Board must authorise any further outsourcing arrangement proposed by the managers.
- Notification of material outsourcing arrangements to regulators where required.
- Criteria which must be considered in selecting a new outsourced provider or renewing an existing contract, including the ability of the provider to provide services in a manner that will not breach risk appetite, meet business continuity standards and regulatory requirements.
- Prescribed elements to be included in written contractual arrangements.
- Contingency plans in the event the service provider is unable to deliver an adequate level of service or seeks to terminate the outsourced arrangement.

B.8 ANY OTHER INFORMATION

Adequacy of the System of Governance

The club has assessed its corporate governance system and has concluded that it effectively provides for the sound and prudent management of the business, which is proportionate to the nature, scale and complexity of the operations of the club.

As part of this assessment the club undertook a detailed review of its governance arrangements during 2016, with reference to the PRA supervisory statement SS5/16 entitled ‘Corporate Governance: Board responsibilities’. The board considered that the club was compliant with this statement, and identified several areas which could be enhanced. The actions recommended to implement these enhancements have all been completed.

C. RISK PROFILE

C.1 UNDERWRITING RISK

1. Material underwriting risks

The underwriting risk of Standard Europe arises from two main categories of insurance product which it provides to its members:

i) *"Poolable" P&I cover* – being protection and indemnity insurance which covers members against third party liabilities arising from their shipping activities.

   "Poolable" P&I represents covers which qualify for inclusion within the International Group ("IG") pooling agreement. The IG is made up of 13 principal mutual P&I clubs which are owned and controlled by shipowners representing approximately 90% of the world's ocean going ship tonnage. Each club (including Standard Europe) pools losses in excess of a $10 million per claim retention, with losses in excess of this amount being shared between all clubs using a formula based on historic loss record of each club and the tonnage and type of ships entered into the pool. The IG has entered into a number of collective reinsurance arrangements with the commercial reinsurance market, which takes a progressively greater share of individual losses as claim size increases. Losses in excess $2.1 billion (termed "overspill claims") are re-pooled, however the IG reinsurance arrangement provides an additional $1 billion reinsurance for a single claim. In practice no claim has yet arisen which breaches the limits of the IG reinsurance programme, with the largest individual poolable claim to date being $1.4 billion of third party liability costs arising from the wreck of the Costa Concordia.

   Poolable P&I cover is a variable premium product, meaning that Standard Europe may make supplementary calls on members if required to meet unanticipated financial losses. All clubs which are members of the IG must be mutual associations capable of levying additional premiums on their members in the event that an overspill claim occurs. In practice, as set out in Standard Europe's risk appetite statement, the business seeks to minimise the possibility that such unbudgeted supplementary calls could occur.

   As a consequence of the pooling arrangement Standard Europe is subject to underwriting risk arising from both its own policyholders and through its share of other P&I club's poolable claims ("inwards pool" claims).

ii) *"Non-pool" business* – being either protection and indemnity insurance where the nature of the underlying activity does not qualify for inclusion in the IG pooling arrangement (primarily relating to offshore energy activities), liability cover for ship charterers, or ancillary covers such as legal expense costs relating to shipping disputes.

In addition to the benefit provided by the IG pooling agreement, Standard Europe benefits from:

- Specific per claim reinsurance for non-poolable risks provided by commercial reinsurers.
- A comprehensive 90% quota share of underwriting gains and losses including operating expenses provided by Standard Re, the captive reinsurer of the Standard Club group.

Categorisation of types of underwriting risk

At a high level underwriting risk is categorised between premium risk, being the risk that premiums will not be sufficient to meet all claims covered and associated expenses, and reserve risk, being the risk that case or actuarial reserves will be inadequate in covering known or unreported losses. These risks are further considered in terms of:

- Inappropriate insurance strategy, including reinsurance strategy;
- Ineffective implementation of underwriting strategy;
- Ineffective implementation of reinsurance strategy;
- Ineffective claims management, leading to inappropriate case reserve and settlements;
- Inadequate actuarial reserving.

2. Material risk concentrations and changes in risk profile over the reporting period

Gross underwriting risk has remained relatively stable over the reporting period, with a small increase arising from the growth in tonnage of ships entered into the club. This is consistent with the relatively high levels of policyholder loyalty, low levels of churn in the underwriting portfolio and targeting of a breakeven underwriting result including expenses. Underwriting risk net of reinsurance has moved in line with gross underwriting risk.

More than 85% of net underwriting risk arises from poolable P&I cover, driven largely by Standard Europe's exposure to inwards pool claims. While the club monitors other types of underwriting risk concentration, including ship type and membership, these represent less significant sources of concentration risk. P&I cover provides liability cover for ships which are trading on a global basis, therefore is not significantly exposed to geographical risk concentrations, for example, compared with insurance of static property or similar asset based covers. As a consequence the primary drivers of underwriting risk relate to:

- The number and severity of large poolable P&I claims including inward pool claims.
- The potential for significant adverse reserve development arising from existing claims or new types of previously unreported liability.

3. Risk mitigation techniques

A number of risk mitigation techniques are used to manage underwriting risk, including:

Premium risk

- Board and senior management review of underwriting results, drafting of strategy and business plans;
- Reinsurance strategy is reviewed and approved by the board in line with risk appetite;
- Comprehensive and high quality reinsurance programme;
- Underwriting and reinsurance authorities, approvals, processes, reporting and review;
- Use of exposure based pricing tools for new business;
- Activities of the loss prevention department, including ship surveys, member risk reviews, and application of coverage warranties, exclusions or non-renewal of members where ship operating standards are considered deficient;
- Monitoring for undue concentrations of risk and acceptability of results consistent with risk appetite.

Reserve risk

- Claims case management: authorities, approvals, processes, reporting and review;
- Systems workflow in place to assist management of claims cases;
- Claims peer review, feedback and management information;
- Actuarial reserving: modelling processes, reporting and review;
- Board: review and approval of key reserving output.

The comprehensive 90% quota share reinsurance of Standard Europe's net operating result with Standard Re substantially mitigates the economic impact of both premium and reserve risk.

4. Stress and scenario testing

The key stress tests identified with respect to underwriting risk relate to:

- Premium risk – a significantly higher than historic average number of large pool claims occurring in the current policy year.
- Reserve risk – reserve deterioration across all years of account due to a systemic reserving issue.

Standard Europe is assessed as being within its risk appetite in relation to the above scenarios.

C.2 MARKET RISK

1. Material market risks

Market risk relates to the risk of losses on assets held to pay future claims and operating expenses, and losses on surplus assets held for solvency purposes.

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 risk in the portfolio
- Within the risk tolerance, to maximise the overall returns as measured over rolling three-year periods.

Prudent person principle – management of assets

The club invests in a range of assets and instruments whose risks it can sufficiently identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency. All assets are invested so as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Sufficient assets are localised so as to ensure their availability. Assets are invested in the best interest of all members under the direction of the investment director.

As a consequence the asset allocation strategy in place reflects a relatively cautious investment risk appetite for Standard Europe, focussing on maintaining a portfolio which broadly reflects the liability profile in terms of currency and duration and consists of a diversified range of investments primarily made up of high quality bonds or similar fixed income instruments. More volatile investments including equities are held within Standard Europe, however the majority of the Standard Club's higher yield and more volatile assets are held within the Standard Re, which also holds the majority of surplus assets held across the group.

Categorisation of types of market risk

Market risk is considered in terms of three categories:

- Inappropriate investment strategy;
- Ineffective implementation of investment policy, strategy or investment rules;
- Ineffective management of investment counterparties.

2. Material risk concentrations and changes in risk profile over the reporting period

As a consequence of the asset allocation strategy and consequent portfolio diversification material asset risk concentrations are minimised. The most significant risk concentration within the portfolio relates to interest rate risk on bond investments. While equity investments are more volatile they typically make up a relatively small proportion of the portfolio.

The main changes in risk profile over the reporting period relate to the proportion of assets held in more volatile asset classes such as equities. Although forming a minority of the Standard Europe portfolio, the proportion of investment assets held in equities or similar higher volatility investments varies through the year due to portfolio management considerations – for example, increasing in the last three months of the 2016/17 financial year.

3. Risk mitigation techniques

A number of risk mitigation techniques are used to manage market risk, including:

- The board reviews and approves investment strategy;
- Clear investment guidelines and rules are implemented and monitored, including counterparty limits;
- Investment guidelines require investing widely and in different asset classes to diversify the portfolio;
- Asset–liability matching processes are in place;
- Foreign-exchange matching processes are in place;
- Interest rate risk exposure is measured and controlled through regular review of the appropriate duration;
- Levels of investment risk are monitored using "Value at Risk" techniques which must remain within risk appetite.

4. Stress and scenario testing

Investment loss stress tests and scenarios, including consideration of historic scenarios and an inflation shock scenario, are regularly monitored. Standard stress tests include:

- Bond price falls;
- Equity market falls;
- Currency fluctuations;
- Credit spread increases;
- Combined bond price and equity market fall.

Standard Europe is assessed as being within its risk appetite in relation to the above scenarios.

C.3 CREDIT RISK

1. Material credit risks

Credit risk relates to the risk that another party fails to perform its financial obligations, or perform them in a timely manner. Counterparty risk arises in relation to members, guarantors, other clubs, reinsurers, investments and deposits. Under the risk management system investment counterparty risk is considered within the market risk category. Therefore the most significant credit risks arise form reinsurers, banking counterparties used to hold cash and the premium balances due from members of Standard Europe.

A diverse range of high quality reinsurers are used on the reinsurance programme.

Significant amounts of money are held with the custodian bank as money flows in respect of premiums, claims and management fees. The flow is carefully monitored and managed so as to not to exceed tolerance levels.

There are a number of credit controls over members that fail, allowing for the club to offset potential losses. The club continues to closely monitor the credit worthiness of members and collect premiums in good time.

2. Material risk concentrations

Reinsurance is placed with a range of highly rated reinsurers, with the highest single concentration being due from underwriters at Lloyd’s. The potential overall concentration levels are considered when placing reinsurance.

Standard Europe has a small number of key banking relationships for handling cash receipts and payments, which may result in material amounts cash accumulating for short periods of time, for example when member premium payments are received on key due dates.

The club seeks to maintain a diversified member base, reducing the credit concentration risk to any one member. Given the significant risk mitigation in place, member credit risk is considered to be relatively low.

3. Risk mitigation techniques

A number of risk mitigation techniques are used to manage reinsurer and IG pool reinsurance credit risk, including:
- Reinsurance is placed with a number of different reinsurers, reducing the potential impact of individual reinsurer default;
- The reinsurance programme is reviewed and approved by the board on an annual basis;
- All reinsurers are required to be hold a credit rating of A- (Standard & Poor’s or equivalent) or better;
- The board receives regular reports on the amounts recoverable from reinsurers;
- Should a reinsurer default on its obligations the loss to Standard Europe would be mitigated by the comprehensive 90% quota share of underwriting gains and losses including operating expenses provided by Standard Re, which includes losses arising from reinsurer default within its coverage;
- The IG pooling agreement includes mechanisms to protect member clubs in the event of the default of one of its members, including securitisation of pool recoverables through “Hydra”, the IG captive insurer, and minimum solvency and rating requirements for P&I clubs to be included within the pooling agreement.

Risk mitigation techniques used with respect to Standard Europe’s banking relationships include:
- Maximum counterparty limits with any single banking entity, which may not exceed $50 million and may not exceed $35 million for more than 5 working days;
- Frequent monitoring of bank credit rating.

Risk mitigation techniques used with respect to Standard Europe’s exposure to outstanding member premium balances include:
- Under the terms of coverage, member claims may be offset against outstanding premiums.
- Overdue premium amounts are monitored and reported to the managers executive committee on a monthly basis.
- Member cover can be cancelled for non-payment of premium.
- Guarantor security is monitored by the managers’ finance committee.

4. Stress and scenario testing

A regular stress test is performed which considers the impact of the failure of a major reinsurer. Standard Europe is assessed as being within its risk appetite in relation to this scenario.

C.4 LIQUIDITY RISK

1. Material liquidity risk

Liquidity risk is the risk of failure to maintain sufficient funds to meet obligations as they fall due, for example due to the lack of marketability of investments, inability to make reinsurance recoveries in a timely manner, and incorporating the risk that additional funding may only be secured at excessive cost.

Given the high level of liquid investments held and mechanisms in place to enable quick access to reinsurance recoveries, the risk is considered to be very low.

2. Material risk concentrations and changes in risk profile over the reporting period

Investment assets are administered by a single asset custodian. While investments are required to be held in segregated accounts, there is a risk that in the event of the failure of the custodian there may be delays in accessing funds in a timely manner.

3. Risk mitigation techniques

A number of risk mitigation techniques are used to manage liquidity risk including:

- Asset-liability management controls are in place, which assist in Standard Europe's ability to manage liquidity;
- The investment rules require a significant proportion of the portfolio to be held in easily realisable assets such as highly liquid sovereign debt;
- The club regularly reviews the time period required to liquidate the investment portfolio;
- Principal reinsurance arrangements allow for short period recovery of all significant claims payments due;
- A monitoring process is in place to identify short term potential cash needs in the business;
- The likely cash outflows in relation to specific large claims are projected and kept under review.

4. Stress and scenario testing

A reverse stress test is performed which considers a liquidity issue arising from the failure of the asset custodian holding the club's assets, causing significant delays in receipt of funds owed.

The scenario is considered to very remote and within risk appetite.

C.5 OPERATIONAL RISK

1. Material operational risk

Operational risk is the risk of losses incurred as a result of inadequate or failed internal processes, people and systems, or from external events (including legal risk).

Operational risk is considered in terms of five categories:
- Ineffective management of regulatory or corporate governance requirements;
- Ineffective management of people and relationships;
- Poor data management or application;
- Ineffective management of systems;
- Inadequate planning or reaction to external events.

2. Material risk concentrations and changes in risk profile over the reporting period

Standard Europe has experienced an increase in direct and indirect cyber-attacks seeking to extract money through fraudulent means, and the ambition and sophistication of such attacks observed across the wider insurance industry has been increasing. The managers continue to invest in improving controls over this growing and changing threat.

The board has considered the impact, threats and opportunities to the club arising from the decision for the UK to exit from the European Union. Although the impact and potential transitional arrangements which may be put in place are uncertain, it is anticipated that following this change Standard Europe will no longer be able provide insurance on a freedom of services basis throughout the European Union. This will have a material impact on the ability of the club to provide its services to a significant proportion of its membership. Contingency plans to facilitate the continued provision of insurance services to members within the European Union following such an exit have been developed and are in the process of implementation.

3. Risk mitigation techniques

A number of risk mitigation techniques are in place including:
- Board oversight of service level agreement (“SLA”);
- Maintaining professionally-staffed management functions;
- Investment to support recruitment, retention and development of good quality resources;
- Monitoring systems issues, accounting for the need to achieve service objectives and protect data;
- Business continuity planning, including both physical business continuity planning and contingency plans in the event of failure of the outsourced manager;
- Requirement for the managers to maintain errors and omissions insurance;
- Regulatory compliance monitoring.

A system of incident reporting is in place in order to quickly identify operational failings in order that they may be reported upon and improvement actions put in place in order to reduce the risk of reoccurrence.

4. Stress and scenario testing

A range of operational risk stress and scenario tests are performed in order to understand the potential impact of operational issues. The most significant scenarios identified include:
- Rogue investment manager;
- Rogue chief financial officer;
- Regulator action;
- Cyber-attack.

Standard Europe is assessed as being within its risk appetite in relation to the above scenarios.

C.6 OTHER MATERIAL RISKS

1. Group risk

Standard Europe is subject to material group risk due to its interdependence with other parts of the Standard Club. For example, Standard Europe relies on the strength of the overall Standard Club balance sheet to support its credit rating which represents a key marketing tool, and reinsures 90% of its retained risk with Standard Re, the group captive reinsurer.

The risk for the club is limited as there are consistent policies and procedures across the group. A loss is more likely to manifest in all entities at once and hence arise from one of the other risks.

2. Material risk concentrations

The primary exposure of Standard Europe arises from the 90% quota share reinsurance arrangement with Standard Re.

3. Risk mitigation techniques

A number of risk mitigation techniques are in place including:

- Common directorships across Standard Europe and Standard Club;
- Cross-review of Standard Club issues in place at board and management level;
- Right to commute the quota share contract in place with Standard Re at any time, for any reason under the terms of the contract;
- Standard Re has undertaken to advise the club of any material change in their investment rules;
- Standard Europe monitors the performance of Standard Asia and the group as a whole;
- Standardised processes, procedures and risk control measures are in place across the group.

4. Stress and scenario testing

The Standard Club recovery and resolution plan considers the impact of different insolvency and run-off scenarios from the perspective of each major legal entity.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

1. Valuation and difference between UK GAAP and Solvency II

The club held the following assets as at 20 February 2017:

Assets as at 20 February 2017	UK GAAP value (US$ '000)	Solvency II value (US$ '000)
Investments	77,626	83,458
Reinsurance recoverables	821,405	772,159
Insurance and intermediaries receivables	66,694	875
Reinsurance receivables	4,637	4,637
Receivables (trade, not insurance)	69,266	69,266
Cash and cash equivalents	13,395	7,633
Any other assets	5,271	2,275
Total assets	1,058,294	940,303

The club's valuation of assets under Solvency II is consistent with the statutory financial statements prepared under UK GAAP. Some assets are reclassified and valued differently under Solvency II and are described below.

- Investments - valued at market price at period end provided by the Club's investment manager, Northern Trust. The Club uses Bloomberg to ascertain that investments are traded in active markets and hold no over the counter assets requiring modelling in the portfolio. Some deposits disclosed as cash under UK GAAP have been reclassified to investments under Solvency II determined by the deposits' Complementary Identification Code ("CIC"). Accrued interest have been reallocated to investments from any other assets as required under Solvency II.
- Reinsurance recoverables - reinsurers' share of technical provision valued on a cash flow basis under Solvency II. See section D.2 Technical Provision.
- Insurance and intermediaries receivables - valued at cost less any provision for impairment in value. Premium receivable from members recognised as insurance receivables under UK GAAP, forms part of the best estimates technical provision under Solvency II. See section D.2 Technical Provision.
- Reinsurance receivables - valued at cost less any provision for impairment in value.
- Receivables (trade, not insurance) - valued at cost less any provision for impairment in value.
- Cash and cash equivalents – valued at the amount held at period end. Foreign currencies are translated at the US dollar rate of exchange at the balance sheet date.
- Any other assets – valued at cost less any provision for impairment in value. Prepayments and accrued income are included on an accrual basis. Accrued premium income is reclassified to technical provision under Solvency II. See section D.2 Technical Provision.

During the reporting period, no changes were made to the recognition and valuation bases used or to estimations.

D.2 TECHNICAL PROVISIONS

1. Valuation

Standard Europe's technical provisions (measured on a Solvency II basis) for the period are summarised in the table below.

	Direct business and accepted proportional reinsurance		Total Non-Life obligation (US$'000)
	Marine, aviation and transport insurance (US$'000)	Legal expenses insurance (US$'000)	
Total best estimate - gross	744,102	2,669	746,771
Total best estimate - net	(23,482)	(1,906)	(25,388)
Risk margin	18,441	457	18,898
Technical provisions - net	(5,041)	(1,449)	(6,490)

The methodology for estimating the reserves required at year-end for claims yet to emerge and be paid is:

- Risks are combined into broad groupings that can be expected to develop in a similar fashion to each other but in a different way to other risks;
- The five groupings used for this purpose are Own P&I (including owned/mutual, non-pool and chartered), Inwards Pool, Defence, London and Asbestos. While asbestos claims are Own P&I claims, they are separated out due to their different development patterns;
- Development patterns are derived from the historical data and applied to the current reported and paid claims. Other loss estimates are calculated using historical data regarding frequency and severity of claims, combined with exposure information. Weighted averages of these estimates are calculated using the Bornhuetter –Ferguson formulae. Finally, estimates are selected from the preceding methods and adjusted for claims outcomes not reflected in the calculated estimates.

Information on booked and expected premiums is used to determine the allowance for future premiums.

Historical information on expenses is used to determine the charge for expenses in the claims and premiums provisions.

Analysis of the historical variability of claims notification and settlement suggests there is a 1-in-5 chance of the reserves deteriorating by approximately 12% over time. Conversely, there is also a 1-in-5 chance of the reserves improving by approximately 11% over time.

2. Valuation in Solvency II and the UK GAAP Financial Statements

The calculation of the technical provisions starts with the GAAP reserves and proceeds in a number of stages:

- *Any prudence in the GAAP reserves is removed to arrive at a 'best estimate'*. At the year-end, any potential case reserve redundancy not taken credit for in the GAAP reserves is removed.
- *Time value of money.* While the GAAP reserves take credit for the time value of money on the asbestos reserves, under Solvency II discounting is applied to all cashflows for all classes of business.
- *An explicit additional allowance is made for events not in data (ENIDs): large events that have not happened in the past (so are not in the basic reserves) but might happen in the future.* An ENID loading of 2% is used for past claims, broadly calculated as one event in 15 years of a size that causes a 30% deterioration of reserves – approximately the size of the deterioration experienced by the club due to asbestos claims from the reserves held in 1978-1980.

- *An allowance is made for the expenses, both external and internal, of settling the claims.* A claims handling expense (CHE) allowance is already included in the GAAP reserves, however the methodology for calculating this allowance differs under Solvency II, and so this difference is adjusted for at this stage.
- *An allowance is made for reinsurance bad debt.* The managers use the credit ratings of the club's reinsurers and default rates published by S&P to estimate the cost of reinsurer defaults over the future lifetime of the claims.
- *Risk margin.* A risk margin is included to allow for the cost of funding the solvency capital required to support the reserves until they fully run off, as follows:

  The Solvency Capital Requirement (SCR) for premium risk is calculated as at the valuation date and is assumed to decrease in future years in proportion to the premium still to be earned. The SCR for reserve risk is calculated as at the valuation date and is assumed to decrease in future years in proportion to the square root of reserves still outstanding. The SCR for counterparty default risk is calculated as at the valuation date and is assumed to decrease in future years in proportion to the reserves still outstanding. The SCR for operational risk is assumed to be 3% of the reserves outstanding at all dates. The risk margin is calculated as the cost of funding the SCR over the remaining lifetime of the liabilities assuming a cost of capital of 6% per annum.
- *'Premiums provisions' are added, on the same basis, for premiums, claims and expenses in respect of future exposures that the club has already agreed to underwrite.* An ENID loading of 2% is used for premium provisions, broadly equal to an increase in costs of 50% in crew claims that might be caused by legal or judicial changes in the most significant jurisdiction. Since the current policy year is broadly expected to break even, the premiums provision is close to zero.

3. Reinsurance recoverable

The main elements of the reinsurance recoverable balance are in respect of (a) recoveries on pooled business from the International Group (IG) pooling arrangement, which includes recoveries from pool members and from external excess-of-loss reinsurers; (b) recoveries on non-pooled business from external excess-of-loss reinsurers; and (c) recoveries on the net retained business from a 90% quota share reinsurance arrangement with Standard Re.

There are no material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period

4. Level of uncertainty

Uncertainty may give rise to a variance around the best estimates indicated within the technical provisions. Uncertainty arises from firstly, the potential of inaccuracy of the point estimate, and secondly the possibility of unexpected adverse experience. The ENID loading applied to both claims and premium provision aims to allow for some of these uncertainties. The likelihood & sizes of uncertainty are based on a combination of internal capital model output and expert judgement. Key areas of uncertainty around technical provisions are as follows:

- Claims Provision – uncertainties include large claims developing adversely; asbestos numbers and/or sizes greater than expected; Ogden discount rate change; additional size increase due for example to legislation changes or changes in jurisdictions where claims can be made; changes in development pattern not yet observed in experience; mix of claim sizes escapes recovery to an extent greater than expected; and default risk greater than foreseen.
- Premium Provision – uncertainties include claims numbers or sizes higher than expected, due to e.g. emerging risks, change in mix of business, legislation changes; inflations impacting claims costs greater than expected; and large losses greater in numbers than expected.
- Yield curve - applying to all elements of the Technical Provisions is the risk free yield curve, which may be subject to a shock change.
- Risk margin - uncertainty of the risk margin is driven largely by the SCR results, which in turn are driven by business volume, claims reserves, mix of reinsurers for credit default risk and mix of assets for market

risk. As the calculation is based on 6% of future SCRs, any one change would not have large impact on the risk margin.

5. Adjustments not made

The matching and volatility adjustments referred to in Article 77b of Directive 2009/138/EC , the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC and the transitional deduction referred to in Article 308d of Directive 2009/138/EC have not been applied.

There were no data deficiencies for which an adjustment was necessary.

6. Simplifications

There are no significant simplifications in the Technical Provisions.

D.3 OTHER LIABILITIES

1. Valuation and difference between UK GAAP and Solvency II

The club held the following other liabilities as at 20 February 2017:

Other liabilities as at 20 February 2017	**UK GAAP value (US$ '000)**	**Solvency II value (US$ '000)**
Insurance & intermediaries payables	28,755	28,755
Reinsurance payables	7,125	7,125
Payables (trade, not insurance)	39,764	39,764
Any other liabilities	867	867
Total other liabilities	76,511	76,511

The club's valuation of other liabilities under Solvency II is consistent with the statutory financial statements prepared under UK GAAP.

- Insurance & intermediaries payables - valued at cost less any provision for impairment in value.
- Reinsurance payables - valued at cost less any provision for impairment in value.
- Payables (trade, not insurance) - valued at cost less any provision for impairment in value.
- Any other liabilities - valued at cost less any provision for impairment in value. Accrued expenses are included on an accrual basis.

During the reporting period, no changes were made to the recognition and valuation bases used or to estimations.

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

The club's own funds comprise tier one net assets as calculated on a Solvency II balance sheet basis, and tier two ancillary own funds (being the ability to make unbudgeted supplementary calls, capped at 50% of the SCR).

Own funds as at 20 February 2017	Type of funds	Tier	Total (US$ '000)
Reconciliation reserve	Basic	1	98,122
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	Ancillary	2	32,714
			130,836

The differences between net assets as calculated under UK GAAP and those calculated under a Solvency II basis are set out below. Further detail is included in section D2.

Reconciliation of net assets - UK GAAP to Solvency II	Total (US$ '000)
UK GAAP net assets	112,050
Claims provision adjustment	3,045
Premium provision adjustment	1,924
Risk margin	(18,898)
Solvency II net assets	98,122

The club and board's tolerance for risk (at both Standard Europe and Standard group level) is limited by the desire to minimise the chance of making unbudgeted calls on the club's membership, and so the club seeks to maintain sufficient capital such that the chance of a supplementary call or other similar material mitigating action is less than 10% over a 12 month time horizon. Own funds (at both group and Europe level) are well in excess of regulatory capital requirements.

In addition one of the club's goals is to provide first class financial security to its membership, including maintaining a 'AAA' capital strength rating with Standard and Poor's, and so any decisions around premium returns or underwriting rate rises are made in the context of ensuring UK GAAP net assets remain above the capital level.

Another goal of the club (which supports maintaining capital strength) is to aim for breakeven underwriting, so ensuring the maintenance of the level of own funds.

Approval for the use of ancillary own funds was granted on 20th February 2017 and lasts from midday on that date until midday on 20th February 2020. Details of this approval are available on the PRA's website.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

1. SCR by risk module

Solvency Capital Requirement (SCR)	Feb-17 US$'000	*Feb-16 (unaudited) US$'000*
– Market risk	11,524	*6,502*
– Counter party default risk	29,281	*30,397*
– Non-life underwriting risk	23,481	*24,875*
Undiversified BSCR	**64,286**	***61,774***
Diversification credit	**13,956**	***11,566***
Basic SCR	**50,330**	***50,208***
– Operational risk	15,099	*15,062*
Final SCR	**65,428**	***65,270***
Minimal Capital Requirement (MCR)	**16,357**	***16,318***

The Solvency Capital Requirement (SCR) for the Club is $65.4m (2016 (unaudited): $65.3m) and was calculated using the Standard Formula. The Club has not adopted simplified calculations for any risk modules and sub-modules.

The club has not utilised simplified calculations nor has it used undertaking specific parameters to calculate the SCR pursuant to Article 104(7) of the Solvency II Directive. The SCR remains subject to formal supervisory assessment and includes no adjustments or capital add-on.

2. Inputs to MCR

The Minimum Capital Requirement (MCR) for the Club is $16.4m (2016: $16.3m). The input parameters to the MCR are the net best estimate technical provision and the net written premium. The net best estimate technical provision data input for the club is $nil, being the minimum amount accepted by the calculation, as the club has a negative net best estimate technical provision (due to the inclusion of premium receivable from members within the claims provision). The net written premiums are as reported in the Statutory Financial Statements of the club.

3. Change over the reporting period

The SCR remains similar to last year with a slight reduction of $0.2m. With the SCR being dominated by counter party default risk and non-life underwriting risk the increase seen in market risk (due to increases in equity and spread risk) fully diversifies against the small reductions seen in counterparty default and non-life underwriting risks.

The MCR which is calculated as 25% of the SCR remains the same as last year.

E.3 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

The club has not faced any form of non-compliance with the Minimum Capital Requirement or the Solvency Capital Requirement and has maintained capital sufficient to meet both requirements during the reporting period and at the date of this report.

ANNUAL QUANTITATIVE REPORTING TEMPLATES

S.02.01 BALANCE SHEET

S.02.01.02
Balance sheet (US$'000)

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	83,458
R0080	*Property (other than for own use)*	
R0090	*Holdings in related undertakings, including participations*	
R0100	*Equities*	2,185
R0110	*Equities - listed*	2,185
R0120	*Equities - unlisted*	
R0130	*Bonds*	24,580
R0140	*Government Bonds*	22,514
R0150	*Corporate Bonds*	1,429
R0160	*Structured notes*	
R0170	*Collateralised securities*	638
R0180	*Collective Investments Undertakings*	50,930
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	5,762
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	772,159
R0280	*Non-life and health similar to non-life*	772,159
R0290	*Non-life excluding health*	772,159
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	875
R0370	Reinsurance receivables	4,637
R0380	Receivables (trade, not insurance)	69,266
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	7,633
R0420	Any other assets, not elsewhere shown	2,275
R0500	**Total assets**	940,303

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	765,669
R0520	*Technical provisions - non-life (excluding health)*	765,669
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	746,771
R0550	*Risk margin*	18,898
R0560	*Technical provisions - health (similar to non-life)*	
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	
R0610	*Technical provisions - health (similar to life)*	
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	28,755
R0830	Reinsurance payables	7,125
R0840	Payables (trade, not insurance)	39,764
R0850	Subordinated liabilities	
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	
R0880	Any other liabilities, not elsewhere shown	867
R0900	**Total liabilities**	842,181
R1000	**Excess of assets over liabilities**	98,122

S.05.01 PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS

S.05.01.02

Premiums, claims and expenses by line of business (US$'000)

Non-life	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		Total
	Marine, aviation and transport insurance	Legal expenses insurance	
	C0060	C0100	C0200
Premiums written			
R0110 *Gross - Direct Business*	250,580	12,617	263,197
R0120 *Gross - Proportional reinsurance accepted*			
R0130 *Gross - Non-proportional reinsurance accepted*			
R0140 *Reinsurers' share*	213,239	10,977	224,216
R0200 *Net*	37,341	1,640	38,981
Premiums earned			
R0210 *Gross - Direct Business*	251,285	12,617	263,902
R0220 *Gross - Proportional reinsurance accepted*			
R0230 *Gross - Non-proportional reinsurance accepted*			
R0240 *Reinsurers' share*	213,789	10,977	224,766
R0300 *Net*	37,496	1,640	39,136
Claims incurred			
R0310 *Gross - Direct Business*	221,310	3,838	225,149
R0320 *Gross - Proportional reinsurance accepted*			
R0330 *Gross - Non-proportional reinsurance accepted*			
R0340 *Reinsurers' share*	228,417	4,103	232,520
R0400 *Net*	(7,106)	(265)	(7,371)
Changes in other technical provisions			
R0410 *Gross - Direct Business*			
R0420 *Gross - Proportional reinsurance accepted*			
R0430 *Gross - Non-proportional reinsurance accepted*			
R0440 *Reinsurers' share*			
R0500 *Net*			
R0550 **Expenses incurred**	44,622	1,173	45,795
R1200 **Other expenses**			
R1300 **Total expenses**			45,795

S.05.02 PREMIUMS, CLAIMS AND EXPENSES BY COUNTRY

S.05.02.01

Premiums, claims and expenses by country (US$'000)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Non-life	**Home Country**	**Top 5 countries (by amount of gross premiums written) - non-life obligations**					**Total Top 5 and home country**
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	*Gross - Direct Business*	263,197						263,197
R0120	*Gross - Proportional reinsurance accepted*							
R0130	*Gross - Non-proportional reinsurance acce*							
R0140	*Reinsurers' share*	224,216						224,216
R0200	*Net*	38,981						38,981
	Premiums earned							
R0210	*Gross - Direct Business*	263,902						263,902
R0220	*Gross - Proportional reinsurance accepted*							
R0230	*Gross - Non-proportional reinsurance acce*							
R0240	*Reinsurers' share*	224,766						224,766
R0300	*Net*	39,136						39,136
	Claims incurred							
R0310	*Gross - Direct Business*	225,149						225,149
R0320	*Gross - Proportional reinsurance accepted*							
R0330	*Gross - Non-proportional reinsurance acce*							
R0340	*Reinsurers' share*	232,520						232,520
R0400	*Net*	(7,371)						(7,371)
	Changes in other technical provisions							
R0410	*Gross - Direct Business*							
R0420	*Gross - Proportional reinsurance accepted*							
R0430	*Gross - Non-proportional reinsurance acce*							
R0440	*Reinsurers' share*							
R0500	*Net*							
R0550	**Expenses incurred**	45,795						45,795
R1200	**Other expenses**							
R1300	**Total expenses**							45,795

S.17.01 NON-LIFE TECHNICAL PROVISIONS

S.17.01.02
Non-Life Technical Provisions (US$'000)

		Direct business and accepted proportional reinsurance		
		Marine, aviation and transport insurance	Legal expenses insurance	Total Non-Life obligation
		C0070	C0110	C0180
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole			
	Technical provisions calculated as a sum of BE and RM			
	Best estimate			
	Premium provisions			
R0060	**Gross - Total**	37,690	(4,762)	32,928
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty	39,198	(4,286)	34,912
R0150	**Net Best Estimate of Premium Provisions**	(1,508)	(476)	(1,984)
	Claims provisions			
R0160	**Gross - Total**	706,412	7,431	713,843
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty	728,386	8,860	737,246
R0250	**Net Best Estimate of Claims Provisions**	(21,974)	(1,429)	(23,403)
R0260	**Total best estimate - gross**	744,102	2,669	746,771
R0270	**Total best estimate - net**	(23,482)	(1,906)	(25,388)
R0280	**Risk margin**	18,441	457	18,898
	Amount of the transitional on Technical Provisions			
R0290	TP as a whole			
R0300	Best estimate			
R0310	Risk margin			

S.19.01 NON-LIFE INSURANCE CLAIMS

S.19.01.21
Non-Life insurance claims (US$'000)
Total Non-life business

Z0010 **Accident year / underwriting year** Underwriting Year

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
		Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											11,699	11,699	11,699
R0160	N-9	22,935	27,842	22,120	14,912	12,027	7,689	2,785	1,320	(364)	652		652	111,919
R0170	N-8	18,120	64,206	23,480	17,657	8,325	3,787	1,598	1,939	636			636	139,747
R0180	N-7	43,721	32,565	20,117	19,576	39,529	7,012	4,805	1,676				1,676	168,999
R0190	N-6	21,440	131,156	31,595	28,654	16,324	4,668	4,848					4,848	238,684
R0200	N-5	26,540	209,902	311,726	203,219	52,532	22,493						22,493	826,411
R0210	N-4	26,637	46,142	26,333	18,727	11,601							11,601	129,440
R0220	N-3	32,399	107,139	65,355	45,141								45,141	250,035
R0230	N-2	40,011	93,959	29,497									29,497	163,467
R0240	N-1	34,956	84,418										84,418	119,374
R0250	N	27,551											27,551	27,551
R0260												Total	240,213	2,187,327

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
		Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											(7,928)	103
R0160	N-9										(677)		13
R0170	N-8									(1,875)			4
R0180	N-7								(3,097)				5
R0190	N-6							(8,501)					16
R0200	N-5						(15,392)						74
R0210	N-4					(8,370)							107
R0220	N-3				56,158								179
R0230	N-2			(52,961)									45
R0240	N-1		(121,499)										102
R0250	N	153,252											138
R0260												Total	786

S.23.01 OWN FUNDS

S.23.01.01
Own Funds (US$'000)

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)					
R0030	Share premium account related to ordinary share capital					
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
R0050	Subordinated mutual member accounts					
R0070	Surplus funds					
R0090	Preference shares					
R0110	Share premium account related to preference shares					
R0130	Reconciliation reserve	98,122	98,122			
R0140	Subordinated liabilities					
R0160	An amount equal to the value of net deferred tax assets					
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above					
	Own funds from the financial statements that should not be represented by the					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in financial and credit institutions					
R0290	**Total basic own funds after deductions**	98,122	98,122			
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	32,714			32,714	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**	32,714			32,714	
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	130,836	98,122		32,714	
R0510	Total available own funds to meet the MCR	98,122	98,122			
R0540	Total eligible own funds to meet the SCR	130,836	98,122		32,714	
R0550	Total eligible own funds to meet the MCR	98,122	98,122			
R0580	**SCR**	65,428				
R0600	**MCR**	16,357				
R0620	**Ratio of Eligible own funds to SCR**	200%				
R0640	**Ratio of Eligible own funds to MCR**	600%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	98,122
R0710	Own shares (held directly and indirectly)	
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	**Reconciliation reserve**	98,122
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	3,672
R0790	**Total Expected profits included in future premiums (EPIFP)**	3,672

S.25.01 SOLVENCY CAPITAL REQUIREMENT - ONLY SF

S.25.01.21
Solvency Capital Requirement - for undertakings on Standard Formula (US$'000)

		Net solvency capital requirement	Gross solvency capital requirement
		C0030	C0040
R0010	Market risk	11,524	11,524
R0020	Counterparty default risk	29,281	29,281
R0030	Life underwriting risk		
R0040	Health underwriting risk		
R0050	Non-life underwriting risk	23,481	23,481
R0060	Diversification	(13,956)	(13,956)
R0070	Intangible asset risk		
R0100	**Basic Solvency Capital Requirement**	50,330	50,330

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	15,099
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	65,428
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	65,428
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfol	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01 MINIMUM CAPITAL REQUIREMENT - NON-COMPOSITE

S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (US$'000)

	Linear formula component for non-life insurance and reinsurance obligation	C0010
R0010	MCR_{NL} Result	5,336

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		37,341
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		1,640
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance		
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	5,336
R0310	SCR	65,428
R0320	MCR cap	29,443
R0330	MCR floor	16,357
R0340	Combined MCR	16,357
R0350	Absolute floor of the MCR	2,737
R0400	**Minimum Capital Requirement**	16,357