The Standard Club Europe Ltd

Annual report and financial statements 2013

(Formerly The Standard Steamship Owners' Protection and Indemnity Association (Europe) Limited)

The Standard

Registered company number 17864

CONTENTS

THE DIRECTORS

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

R Menendez Ross
Chairman
Ultrapetrol SA

R M Jones
CSL Group Inc

M J Cox
Matson Navigation Co Inc

C Peraticos
Pleiades Shipping Agents SA

R Clarke
British Columbia Ferry Services
(Appointed 31 July 2012)

B J Hurst-Bannister
Independent Director
(Appointed 12 October 2012)

A J Groom
Manager

D G Marock
Manager

Registered no: 17864

REPORT OF THE DIRECTORS

BUSINESS REVIEW

The directors have pleasure in presenting the audited financial statements of the club for the year ended 20 February 2013.

Principal activities

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

Directors

Since the last report and up to the date of signing the financial statements, the directors of the club who were in office are shown on page 2 of this report. The directors who retire by rotation in accordance with the articles of association and who, being eligible, have also offered themselves for re-election, are R Menendez Ross and A Groom. R Clarke and B Hurst-Bannister offer themselves for re-election as directors appointed since the last AGM.

Meetings of the board

Since the date of the last report, the board met on four occasions during the year: on 7 September 2012 in London, 12 October 2012 in Seoul, 29 January 2013 in Paris and on 10 May 2013 in Vienna.

Summary financial results

As set out in the income and expenditure account, there is a surplus of income over expenditure of $4m (2012: $10m). Total reserves available for claims stand at $216m (2012: $197m). Total estimated claims liabilities, including the provision for claims incurred but not reported (‘IBNR’), net of reinsurance recoveries, amounted to $77m at the year end.

Income and expenditure account

Revenue from calls, premiums and releases amounted to $257m (2012: $126m). Paid claims, net of reinsurance recoveries were $56m (2012: $29m). Pool and reinsurance recoveries amounted to $293m (2012: $61m).

Balance sheet

The amount available to meet outstanding claims and IBNR was $216m at 20 February 2013 (2012: $197m).

Free reserves

These represent the surpluses built up out of open and closed policy years and represent the core capital of the club. The club’s free reserves increased to $140m at the year end (2012: $136m), reflecting the surplus on the income and expenditure account for the year of $4m.

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

- To ensure that the club has sufficient capital to reflect its business risks and to comply with regulatory requirements.
- To provide a sufficient buffer so as to make the probability of supplementary calls very low, and unnecessary in any phase of a normal underwriting cycle, and so that they are levied only in extreme stressed scenarios.

- To ensure that the club is perceived as being in the top division of clubs from a financial perspective, in order to give the club flexibility and the power to maintain pricing and quality discipline.
- To maintain an S&P or similar rating of A or above.

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

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

Key performance indicators

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

	2013	2012
Premium $m	**257.1**	126.1
Free reserves $m	**139.5**	135.6
Claims cover[1]	**2.82**	3.20
Combined ratio %[2]	**101**	99

1. Ratio of net assets to outstanding claims.
2. The ratio of total expenditure to total income, as set out in the technical account/general business section of the income and expenditure account. A ratio below 100% indicates an underwriting surplus.

Future outlook

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

Strategy and business plan

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

CORPORATE GOVERNANCE

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

Board responsibilities

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

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

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

Board membership

The great majority of directors are non-executive, and are not involved in day-to-day executive management of the club and are by virtue of the bye-laws, owners or senior executives of member companies. The chairman is responsible for the direction and effectiveness of the board and the oversight of the club's affairs and strategy. The chairman is elected for a term of three years but may be re-elected for four further terms. An independent insurance market professional was elected to the board during the year. The board also has the benefit of expert insurance and investment guidance from its managers and personnel within the managers' group, as well as access to independent insurance, regulatory, financial and investment expertise as required. One third of the directors must retire from office by rotation at each annual general meeting (AGM) and all directors appointed since the date of the last AGM must put themselves forward for re-election. Directors must retire from the board at the next AGM if they are no longer eligible to be elected to the board according to the bye-laws.

Nomination and Governance Committee

The Standard group's Nomination and Governance committee's main responsibilities are set out in written terms of reference which are available on the club's website and include identifying suitable candidates for board membership and membership of board committees, reviewing the overall composition of the board, leading reviews of the board's effectiveness and reviewing and making recommendations on the club's governance structure, policies and practices. During the year, the committee reviewed the make-up and balance of the skills on the board, as well as board attendance and potential candidates for board membership. The committee does not generally use the services of an external consultancy firm or open advertising for the appointment of non-executive directors as board candidates are generally sought from the members. The committee also reviews the board induction and training processes. The committee also leads the review of the managers' performance, and in this respect during the year reviewed their performance against the specific requirements of an updated service level agreement, as well as the managers' remuneration. The committee also discussed succession planning and conducted a comprehensive review of the club's governance policies during the year.

Board evaluation

The performance of the board, its committees, and the chairman are reviewed periodically and the Nomination and Governance Committee conducted an evaluation of the board's effectiveness last summer. Each member of the board was asked to complete a detailed questionnaire focusing on the balance of skills within the board, the attributes required and induction process for new appointments, board practices and procedures and decision-making processes to improve efficiency and effectiveness. The responses to the questionnaires and the findings of the review meetings were reviewed by the Nomination and Governance Committee who reported its recommendations to the board.

Member engagement

Ensuring that members are satisfied with the club's performance and that they are receiving fair treatment from the club are high priorities for the board. A formal member survey, one having been carried out in 2011, was not conducted during the past year, although informal regular monitoring of member satisfaction is carried out to gauge the members' views of the club and identify any areas for improvement. The results of this monitoring process are reviewed by the Nomination and Governance Committee. In addition to this process, the managers aim to visit as many members as practically possible every year to ensure that they are aware of the club's strategy and operations and to identify any areas for concern.

A formal member survey will again be conducted during 2013.

Audit and Risk Committee

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

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

Maintenance of a sound system of internal controls

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

Risk management

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

Compliance and regulation

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

Internal audit

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

Remuneration

The club does not have a formal remuneration committee. Directors receive fees agreed by the club membership in general meeting, (other than the fees of independent directors which are agreed by the board), and which are appropriate to their non-executive status. The fees paid to the directors are in line with those paid in other P&I clubs. Directors who are employed by the managers do not receive director's fees. However, the performance-related elements of their remuneration are reviewed by Charles Taylor Group's Remuneration Committee to ensure that they are stretching and designed to promote the long-term success of the business.

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

Insurance and indemnity

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

Conflicts of interest

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

Business and ethical values and treating customers fairly

The club is committed to conducting its business affairs in a fair, proper and ethical manner, and in compliance with all applicable laws, regulations and professional standards. The managers have adopted a set of corporate values to ensure that their work on behalf of the club is carried out with integrity and fairness, which have been communicated to all staff. The board and the managers are committed to treating customers and all stakeholders fairly, and keep under review the quality of service that the club provides. There is a complaints system, which is published on the website.

Prevention of financial crime and whistleblowing

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

Sanctions compliance

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

Health and safety

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

Business continuity

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

Environmental policy

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

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

Equality of opportunity and gender diversity policy

The Charles Taylor Group has formal policies to promote equality of opportunity, including gender. As far as board appointments are concerned, the board believes that an appointment should be based on merit and overall suitability for the role. The board is keen in the longer term to see gender diversity on the board, but recognises that this is difficult to achieve in the short term, given that in the shipping business in general and, in particular, in the club's membership, from which most directors necessarily come, there are limited current opportunities to improve gender diversity.

PRINCIPAL RISKS AND UNCERTAINTIES

How we manage risk

The board is responsible for identifying and managing the club's risk. The board's risk management responsibilities are led by the Audit and Risk Committee, which reviews at each of its meetings the risks facing the club, their potential impact, and management and mitigation of those risks. The board sets the club's risk appetite in relation to all key aspects of the club's operations, and the club's strategy reflects that appetite.

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

A risk register is maintained which records the risks, their values, impact, mitigation and controls. The club's internal model reflects the risk identified and is used to assess their potential impact and the capital required to cover them.

The compliance and internal audit functions, which report to the Audit and Risk Committee, play an important role in ensuring that the club's risk management systems are functioning correctly.

Underwriting risk

Premium risk

The risk that premiums charged will not be sufficient to meet all associated claims and expenses, e.g. inappropriate underwriting or inadequate pricing.

Premium risk is managed by:

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

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

Reinsurance strategy is set by the board in line with the board's risk appetite and is designed to mitigate the insurance risk through programmes tailored to the club's exposures.

Reserve risk

The risk that claims reserves will be inadequate to cover either known losses, and/or unknown or undeveloped losses, such as occupational diseases.

Reserve risk is managed by:

- prompt reserving of potential losses
- regular review of individual estimates and overall reserve adequacy, as well as regular, systematic claims audits and monitoring the performance of individual claims handlers, to ensure consistency of approach
- modelling of technical provisions by the club's actuarial function.

Financial risk

Credit risk

The risk of a loss occurring owing to the failure of a counterparty to meet its contractual debt obligations.

Counterparties include members, reinsurers, other International Group clubs, intermediaries, banks and investment counterparties.

The risk of default is mitigated by:

- using only well-rated reinsurers and monitoring their financial condition
- Pooling Agreement provisions, which provide security for inter-club obligations
- prompt follow-up of outstanding member premiums and suspension or cancellation of cover
- investment rules and counterparty limits.

Market risk

The risk of loss occurring from fluctuations in the value or income from investments, including the effects of fluctuations in interest and exchange rates.

The club's investment strategy has been developed with the following objectives:

- to preserve capital for the payment of the club's claims and other liabilities by limiting the risk in the portfolio as agreed from time to time by the board
- within the risk tolerance agreed by the board, to maximise the overall returns as measured over rolling three-year periods.

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

Liquidity risk

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

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

Operational risk

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

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

Detailed risk disclosures for credit, market and liquidity risk are set out in detail in note 10 to the financial statements, starting on page 21.

DIRECTORS' RESPONSIBILITIES

Statement of disclosure of information to auditors

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

- so far as each of them are aware, there is no information relevant to the audit of the club's financial statements for the year ended 20 February 2013 of which the auditors are unaware; and
- each director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the club's auditors are aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the club and of the income or expenditure of the club for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the club will continue in business.

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

The directors are responsible for the maintenance and integrity of the club's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board,
Charles Taylor & Co Limited
Company Secretary
10 May 2013

Registered no: 17864

FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT

for the year ended 20 February 2013

		Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	Notes	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Technical account – general business											
Earned premiums, net of reinsurance											
Gross premiums written including calls	3	**257.1**	126.1	**234.5**	117.8	**9.9**	6.5	**11.2**	1.5	**1.5**	0.3
Outward reinsurance premiums	4	**(167.3)**	(76.9)	**(157.3)**	(72.0)	**(6.5)**	(4.3)	**(2.2)**	(0.4)	**(1.3)**	(0.2)
Earned calls, net of reinsurance		**89.8**	49.2	**77.2**	45.8	**3.4**	2.2	**9.0**	1.1	**0.2**	0.1
Total income		**89.8**	49.2	**77.2**	45.8	**3.4**	2.2	**9.0**	1.1	**0.2**	0.1
Expenditure											
Claims paid	5	**349.0**	89.9	**330.8**	79.4	**12.4**	9.1	**5.8**	1.4	**-**	-
Reinsurers' share		**(293.1)**	(60.7)	**(283.3)**	(51.4)	**(9.6)**	(7.2)	**(0.2)**	(2.1)	**-**	-
Net claims paid		**55.9**	29.2	**47.5**	28.0	**2.8**	1.9	**5.6**	(0.7)	**-**	-
Change in provision for claims		**143.1**	237.2	**136.5**	236.1	**(0.2)**	2.9	**6.8**	(1.8)	**-**	-
Reinsurers' share		**(127.9)**	(232.6)	**(124.1)**	(232.6)	**0.8**	(1.9)	**(4.6)**	1.9	**-**	-
Change in net provision for claims		**15.2**	4.6	**12.4**	3.5	**0.6**	1.0	**2.2**	0.1	**-**	-
Claims incurred, net of reinsurance		**71.1**	33.8	**59.9**	31.5	**3.4**	2.9	**7.8**	(0.6)	**-**	-
Net operating expenses	6	**19.9**	13.9	**16.7**	12.9	**0.6**	0.6	**2.2**	0.3	**0.4**	0.1
Total expenditure		**91.0**	47.7	**76.6**	44.4	**4.0**	3.5	**10.0**	(0.3)	**0.4**	0.1
Balance on the technical account for general business		**(1.2)**	1.5	**0.6**	1.4	**(0.6)**	(1.3)	**(1.0)**	1.4	**(0.2)**	-
Non-technical account											
Balance on the technical account for general business		**(1.2)**	1.5	**0.6**	1.4	**(0.6)**	(1.3)	**(1.0)**	1.4	**(0.2)**	-
Investment income	7	**7.3**	5.4	**4.2**	4.9	**0.6**	0.1	**2.3**	0.2	**0.2**	0.2
Unrealised gains on investments	7	**4.4**	7.1	**2.8**	6.3	**-**	0.1	**1.4**	0.7	**0.2**	-
Investment expenses and charges	7	**(1.0)**	(1.0)	**(0.5)**	(0.8)	**-**	(0.2)	**(0.4)**	-	**(0.1)**	-
Unrealised losses on investments	7	**(4.6)**	(1.0)	**(3.2)**	(0.9)	**(0.7)**	-	**(0.6)**	-	**(0.1)**	(0.1)
Exchange gains/(losses)		**0.5**	-	**-**	0.3	**0.1**	0.4	**0.4**	(0.6)	**-**	(0.1)
Excess/(shortfall) of income over expenditure before taxation		**5.4**	12.0	**3.9**	11.2	**(0.6)**	(0.9)	**2.1**	1.7	**-**	-
Tax on excess/(shortfall) of income over expenditure	8	**(1.5)**	(2.2)	**(0.7)**	(2.0)	**(0.1)**	(0.1)	**(0.6)**	(0.1)	**(0.1)**	-
Excess/(shortfall) of income over expenditure for the financial year transferred to/(from) contingency reserve	14	**3.9**	9.8	**3.2**	9.2	**(0.7)**	(1.0)	**1.5**	1.6	**(0.1)**	-

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

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

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

The notes on pages 16 to 27 form part of the financial statements.

BALANCE SHEET
at 20 February 2013

		Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	Notes	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Assets											
Investments											
Other financial investments	9	**84.0**	89.0	**35.5**	47.9	**9.4**	4.4	**29.7**	29.7	**9.4**	7.0
Reinsurers' share of technical provisions											
Claims outstanding	11	**863.3**	740.0	**833.7**	709.5	**29.2**	29.9	**0.4**	0.6	**-**	-
Debtors											
Debtors arising out of direct insurance operations	12	**79.4**	58.5	**77.7**	56.7	**1.2**	1.4	**0.4**	0.2	**0.1**	0.2
Amounts owed by group undertakings		**67.0**	35.9	**63.3**	33.8	**3.1**	2.1	**0.1**	-	**0.5**	-
Other debtors		**9.7**	14.9	**8.2**	10.4	**1.0**	4.3	**0.5**	0.2	**-**	-
		156.1	109.3	**149.2**	100.9	**5.3**	7.8	**1.0**	0.4	**0.6**	0.2
Other assets											
Tangible assets	13	**2.7**	3.4	**2.5**	3.2	**-**	-	**0.2**	0.2	**-**	-
Cash at bank and in hand		**41.1**	46.5	**31.1**	21.2	**0.9**	9.1	**8.3**	7.9	**0.8**	8.3
		43.8	49.9	**33.6**	24.4	**0.9**	9.1	**8.5**	8.1	**0.8**	8.3
Prepayments and accrued income		**5.4**	7.2	**3.6**	5.9	**0.5**	0.7	**1.0**	0.5	**0.3**	0.1
Total assets		**1,152.6**	995.4	**1,055.6**	888.6	**45.3**	51.9	**40.6**	39.3	**11.1**	15.6
Liabilities											
Reserves											
Contingency reserve	14	**139.5**	135.6	**99.7**	96.5	**2.5**	3.2	**26.3**	24.8	**11.0**	11.1
Technical provisions											
Gross claims outstanding	11	**940.1**	801.6	**897.6**	761.0	**32.9**	33.0	**9.6**	7.6	**-**	-
Creditors											
Creditors arising out of direct insurance operations		**24.4**	28.5	**21.6**	22.3	**2.4**	5.6	**0.4**	0.6	**-**	-
Other creditors including taxation and social security	16	**11.1**	10.7	**8.4**	4.8	**-**	0.1	**2.7**	1.5	**-**	4.3
Amounts owed to group undertakings		**36.8**	18.2	**25.8**	5.8	**11.0**	12.4	**-**	-	**-**	-
Current account between classes		**-**	-	**2.2**	(1.9)	**(3.5)**	(2.4)	**1.3**	4.3		
		72.3	57.4	**58.0**	31.0	**9.9**	15.7	**4.4**	6.4	**-**	4.3
Accruals and deferred income		**0.7**	0.8	**0.3**	0.1	**-**	-	**0.3**	0.5	**0.1**	0.2
Total liabilities		**1,152.6**	995.4	**1,055.6**	888.6	**45.3**	51.9	**40.6**	39.3	**11.1**	15.6

The financial statements were approved by the board of directors on 10 May 2013 and were signed on its behalf by:

R Menendez Ross
Chairman

The notes on pages 16 to 27 form part of the financial statements.

Registered company number 17864

CASH FLOW STATEMENT
for the year ended 20 February 2013

		Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	Notes	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Net cash (outflow)/inflow from operating activities	18	**(15.1)**	25.8	**(6.1)**	10.3	**(2.9)**	1.1	**(1.2)**	9.2	**(4.9)**	5.2
Taxation paid		**(2.9)**	(1.5)	**(1.7)**	(1.2)	**-**	(0.1)	**(0.9)**	(0.2)	**(0.3)**	-
Net cash (outflow)/inflow		**(18.0)**	24.3	**(7.8)**	9.1	**(2.9)**	1.0	**(2.1)**	9.0	**(5.2)**	5.2
Cash flows were (applied)/invested as follows:											
Increase in cash holdings	17	**(5.4)**	41.6	**9.9**	17.5	**(8.2)**	7.9	**0.4**	7.9	**(7.5)**	8.3
Net portfolio investments											
Purchase of shares and other variable-yield securities		**7.2**	7.6	**0.1**	7.6	**-**	-	**7.1**	-	**-**	-
Purchase of debt securities and other fixed-income securities		**111.9**	112.7	**55.6**	89.6	**18.4**	16.3	**25.0**	2.9	**12.9**	3.9
Sale of shares and other variable-yield securities		**(13.7)**	(12.8)	**(3.6)**	(9.4)	**(0.8)**	-	**(8.7)**	(1.1)	**(0.6)**	(2.3)
Sale of debt securities and other fixed-income securities		**(118.0)**	(124.8)	**(69.8)**	(96.2)	**(12.3)**	(23.2)	**(25.9)**	(0.7)	**(10.0)**	(4.7)
Net cash flow from investing activities		**(12.6)**	(17.3)	**(17.7)**	(8.4)	**5.3**	(6.9)	**(2.5)**	1.1	**2.3**	(3.1)
Net (application)/investment of cash flows		**(18.0)**	24.3	**(7.8)**	9.1	**(2.9)**	1.0	**(2.1)**	9.0	**(5.2)**	5.2

The notes on pages 16 to 27 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution

The club is limited by guarantee. The members of the club are liable for their rateable proportion of any deficiency of claims and expenses in excess of contributions and the board of directors decides whether any surplus is retained in the contingency reserve for the purposes of the club or returned to members.

2. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (‘SI2008/410’) relating to insurance groups and in accordance with applicable accounting standards in the UK. The financial statements comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (‘the ABI SORP’) dated December 2005, as amended in December 2006, and have been prepared in accordance with The Companies Act 2006.

The financial statements are prepared under the historical cost convention, as modified for the revaluation of financial assets and liabilities (including derivative instruments) at fair value through income or expenditure.

Regulations require the use of the term ‘profit and loss account’ as a heading. This is replaced in these financial statements by ‘income and expenditure account’, consistent with the mutual status of the club.

The contingency reserve represents the free reserves of the club and is established in accordance with rule 20.6 of the rules of the club.

Once a year, the directors review and adopt the accounting policies that are most appropriate for the club.

The financial statements have been prepared on a going concern basis, in accordance with Section 395 of, and Schedule 1 (‘SI2008/410’) to, the Companies Act 2006 and in accordance with applicable accounting standards in the United Kingdom. The principal accounting policies are set out below.

(b) Annual basis of accounting

The transfer to or from the contingency reserve is determined using an annual basis of accounting.

For the purpose of reporting to mutual members all transactions are allocated to individual policy years. The result of the policy year is determined and reported when it is closed after three years of development in accordance with rule 21, which requires policy years to be held open for three years. At the end of each financial year any anticipated surplus or deficit arising on open years is transferred to or from the contingency reserve.

(c) Calls and premiums

Calls and premiums are credited to the income and expenditure account as and when charged to members. Contributions for periods after the balance sheet date are treated as prepaid and are not included in the income and expenditure account.

(d) Claims incurred

Claims incurred comprise all claims passed by the board, advances made on account of claims and related expenses paid in the year, and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses.

(e) Reinsurance recoveries

The liabilities of the club are reinsured above certain levels with similar associations under the International Group’s Pooling Agreement and with market underwriters. The figures in the income and expenditure account relates to recoveries on claims incurred during the year.

Outstanding claims in the balance sheet are shown gross and the reinsurance recoveries are shown as an asset.

(f) Claims provisions and related reinsurance recoveries

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the club. The club takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Liability and marine liability claims are long tail so a large element of the claims provision relates to IBNR. Claims estimates for the club are derived from a combination of loss ratio based estimates and a variety of estimation techniques. These are generally based upon statistical analyses of historical experience, which assume that the development pattern of the current claims will be consistent with past experience. However, allowance is made for changes or uncertainties that may create distortions in the underlying statistics or that might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- changes in club processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks

The variety of estimation techniques assists in giving greater understanding of the trends inherent in the data being projected and in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each policy year.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Pollution and asbestosis claims can have a long delay between the occurrence and notification. In estimating the cost of these claims, the club considers the type of risks written historically that may give rise to exposure to these liabilities, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean-up techniques and industry benchmarks of the typical cost of such claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, and are adjusted to reflect changes in the nature and extent of the club's reinsurance programme over time.

An assessment is also made of the recoverability of reinsurance with regard to market data on the financial strength of each of the reinsurance companies.

(g) Reinsurance premiums

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

(h) Investment return

Investment return comprises all investment income, realised investment gains and losses, and movements in unrealised gains and losses, net of investment expenses, charges and interest. Dividends are recorded on the date on which the shares are quoted ex-dividend and include the imputed tax credits. Interest and expenses are accounted for on an accruals basis. Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. The investment return is reported in the non-technical account.

(i) Investments

– Financial assets at fair value through income

The club classifies its investments as financial assets at fair value through income. As a result, gains and losses are taken to the income and expenditure account, which reflects the management of the portfolio on a fair value basis. Fair values of investments traded in active markets are measured at bid price. Where there is no active market fair value is measured by reference to other factors.

– Derivative financial investments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. The club does not engage in hedge accounting and changes in the fair value of all derivative investments are recognised immediately in the income and expenditure account.

– Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable settlement values. Amounts due from members and reinsurers are included in this category and are measured at cost less any provision for impairment in value.

(j) Foreign currencies

Monetary assets and liabilities in foreign currencies are translated at the US dollar rate of exchange at the balance sheet date with the resulting difference treated as an exchange gain or loss within the non-technical account.

Revenue transactions in foreign currencies are translated into US dollars at the rate applicable for the week in which the transaction takes place. Exchange differences are reported in the non-technical account.

Foreign currency contracts are entered into in order to hedge the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies which are matched by holding of those currencies. The open contracts have been revalued at year-end rates of exchange and the potential profit or loss included in the non-technical account.

(k) General administration expenses

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

(l) Taxation

Taxation provided is that which became chargeable during the year.

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the income and expenditure account. Deferred tax is calculated at the rates at which it is expected that the tax will arise.

Deferred tax is recognised in the income and expenditure account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total gains and losses. Deferred tax balances are not discounted.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is regarded as more likely than not that there will be suitable net taxable income from which the future reversal of the underlying timing differences can be deducted.

(m) Tangible assets

Tangible assets are stated at historic purchase cost less accumulated depreciation. The cost of the club's business systems has been capitalised as computer software. The original cost and any enhancements are written off over a 10 year period following installation on a straight line basis.

3. Gross premiums written including calls

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Estimated total premium, other premiums and releases 2012/13 (2011/12)	**259.5**	127.8	**230.7**	119.0	**10.0**	6.4	**17.3**	2.1	**1.5**	0.3
Adjustment for previous policy years	**(2.4)**	(1.7)	**(2.3)**	(1.8)	**(0.1)**	0.1	**-**	-	**-**	-
Interclass reinsurance	**-**	-	**6.1**	0.6	**-**	-	**(6.1)**	(0.6)	**-**	-
Total calls and premiums	**257.1**	126.1	**234.5**	117.8	**9.9**	6.5	**11.2**	1.5	**1.5**	0.3

4. Outward reinsurance premiums

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Quota-share reinsurance premium payable to Standard Reinsurance (Bermuda) Limited	**112.9**	46.5	**106.8**	43.0	**6.1**	3.5	**-**	-	**-**	-
Other reinsurance premiums	**54.4**	30.4	**50.5**	29.0	**0.4**	0.8	**2.2**	0.4	**1.3**	0.2
Reinsurance premiums paid	**167.3**	76.9	**157.3**	72.0	**6.5**	4.3	**2.2**	0.4	**1.3**	0.2

5. Claims paid

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Members' claims	**349.0**	89.9	**326.1**	78.4	**12.4**	9.1	**10.5**	2.4	**-**	-
Interclass reinsurance	**-**	-	**4.7**	1.0	**-**	-	**(4.7)**	(1.0)	**-**	-
Gross claims paid	**349.0**	89.9	**330.8**	79.4	**12.4**	9.1	**5.8**	1.4	**-**	-

6. Net operating expenses

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Acquisition costs										
Management fee	**7.6**	6.0	**6.4**	5.6	**0.3**	0.3	**0.9**	0.1	**-**	-
General expenses	**1.4**	0.3	**1.3**	0.3	**-**	-	**0.1**	-	**-**	-
Administrative expenses										
Management fee	**7.6**	5.8	**6.0**	5.3	**0.3**	0.3	**0.9**	0.1	**0.4**	0.1
General expenses	**1.6**	0.7	**1.5**	0.6	**-**	-	**0.1**	0.1	**-**	-
Depreciation	**0.7**	0.7	**0.7**	0.7	**-**	-	**-**	-	**-**	-
Safety and loss control	**0.7**	0.3	**0.6**	0.3	**-**	-	**0.1**	-	**-**	-
Directors' fees	**0.1**	-	**-**	-	**-**	-	**0.1**	-	**-**	-
Auditors' remuneration for audit services	**0.1**	0.1	**0.1**	0.1	**-**	-	**-**	-	**-**	-
Auditors' remuneration for other services	**0.1**	-	**0.1**	-	**-**	-	**-**	-	**-**	-
Net operating expenses	**19.9**	13.9	**16.7**	12.9	**0.6**	0.6	**2.2**	0.3	**0.4**	0.1

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

7. Investment return

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Investment income										
Shares and other variable-yield securities and units in unit trusts	**0.3**	-	**0.1**	-	**-**	-	**0.2**	-	**-**	-
Debt securities and other fixed-income securities	**1.7**	1.9	**0.8**	1.7	**0.2**	0.1	**0.5**	0.1	**0.2**	-
Deposit interest	**0.5**	0.3	**0.5**	0.3	**-**	-	**-**	-	**-**	-
Gains arising on realisation of investments	**4.8**	3.2	**2.8**	2.9	**0.4**	-	**1.6**	0.1	**-**	0.2
	7.3	5.4	**4.2**	4.9	**0.6**	0.1	**2.3**	0.2	**0.2**	0.2
Investment expenses and charges										
Investment management expenses	**(0.3)**	(0.3)	**(0.2)**	(0.3)	**-**	-	**-**	-	**(0.1)**	-
Losses on realisation of investments	**(0.7)**	(0.7)	**(0.3)**	(0.5)	**-**	(0.2)	**(0.4)**	-	**-**	-
	(1.0)	(1.0)	**(0.5)**	(0.8)	**-**	(0.2)	**(0.4)**	-	**(0.1)**	-
Unrealised gains on investments	**4.4**	7.1	**2.8**	6.3	**-**	0.1	**1.4**	0.7	**0.2**	-
Unrealised losses on investments	**(4.6)**	(1.0)	**(3.2)**	(0.9)	**(0.7)**	-	**(0.6)**	-	**(0.1)**	(0.1)
	(0.2)	6.1	**(0.4)**	5.4	**(0.7)**	0.1	**0.8**	0.7	**0.1**	(0.1)
Total investment return	**6.1**	10.5	**3.3**	9.5	**(0.1)**	-	**2.7**	0.9	**0.2**	0.1

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

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
UK corporation tax at 24.0% (2012: 26.0%)										
Current tax on income for the period	**1.5**	2.2	**0.7**	2.0	**0.1**	0.1	**0.6**	0.1	**0.1**	-
Adjustments in respect of prior periods	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total current tax	**1.5**	2.2	**0.7**	2.0	**0.1**	0.1	**0.6**	0.1	**0.1**	-
Tax on investment income	**1.5**	2.2	**0.7**	2.0	**0.1**	0.1	**0.6**	0.1	**0.1**	-

Factors affecting tax on investment income for the period

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (24.0%). The differences are explained below:

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Excess/(shortfall) of income over expenditure before taxation	**5.4**	12.0	**3.9**	11.2	**(0.6)**	(0.9)	**2.1**	1.7	**-**	-
Multiplied by the standard rate of corporate tax in the UK of 24.0% (2012: 26.0%)	**1.3**	3.1	**0.9**	2.9	**(0.1)**	(0.2)	**0.5**	0.4	**-**	-
Expenses/(income) not assessable for tax purposes	**0.2**	(0.9)	**(0.2)**	(0.9)	**0.2**	0.3	**0.1**	(0.3)	**0.1**	-
Current tax on investment income for the period	**1.5**	2.2	**0.7**	2.0	**0.1**	0.1	**0.6**	0.1	**0.1**	-

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

9. Other financial investments

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
At market value										
Shares and other variable-yield securities and units in unit trusts	**5.3**	11.4	**-**	3.1	**0.1**	0.8	**5.2**	6.9	**-**	0.6
Debt securities and other fixed-income securities	**78.7**	77.6	**35.5**	44.8	**9.3**	3.6	**24.5**	22.8	**9.4**	6.4
Open forward currency contracts	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total investments at market value	**84.0**	89.0	**35.5**	47.9	**9.4**	4.4	**29.7**	29.7	**9.4**	7.0
At cost										
Shares and other variable-yield securities and units in unit trusts	**4.6**	8.8	**-**	1.2	**0.2**	0.7	**4.4**	6.3	**-**	0.6
Debt securities and other fixed-income securities	**75.0**	75.5	**31.8**	42.6	**9.8**	3.5	**24.0**	22.9	**9.4**	6.5
Open forward currency contracts	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total investments at cost	**79.6**	84.3	**31.8**	43.8	**10.0**	4.2	**28.4**	29.2	**9.4**	7.1
Included in the carrying values above are amounts in respect of listed investments as follows:										
- Shares and other variable-yield securities and units in unit trusts	**1.1**	4.6	**-**	3.1	**-**	0.8	**1.1**	0.6	**-**	0.1
- Debt securities and other fixed-income securities	**25.3**	34.4	**10.4**	17.7	**0.2**	0.3	**13.7**	14.5	**1.0**	1.9
Total listed investments	**26.4**	39.0	**10.4**	20.8	**0.2**	1.1	**14.8**	15.1	**1.0**	2.0

10. Management of financial risk

The club is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowing), reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the club primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

In addition to the risk management policies set out in the report of the directors, the club adopts the following approaches to financial risk:

Market risk

Interest rate risk

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

At the end of the financial year, 94% of the club's assets were invested in fixed interest assets (2012: 83%). The average duration of the fixed income assets is 6.4 years, (2012: 9.5). The club has no debt liability with interest payments that vary with changes in the interest rate.
Sensitivity analysis for interest rate risk illustrates how changes in the fair value of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 100 basis points in interest yields would result in a deficit for the club of $4.6m.

Equity and hedge fund price risk

The club is exposed to equity price risk as a result of its holdings in equity investments and hedge funds. The club has defined investment guidelines that limit exposure in such holdings. Sensitivity analysis for equity price risk illustrates the effect of changes in equity market indices on the value of the investment portfolio. A 10% increase in equity values would be estimated to have increased the surplus before tax and reserves at the year end by $0.5m (2012: $1.1m).

Currency risk

The club is exposed to currency risk in respect of liabilities under insurance policies denominated in currencies other than US dollars. The most significant currencies to which the club is exposed are sterling and the euro. The club seeks to manage this risk by constraining the deviation of the currencies of the assets from the estimated currencies of the liabilities. The club also uses forward currency contracts to protect currency exposures and maintain investment policy benchmarks.

At 20 February 2013, had sterling strengthened by 10% against the US dollar with all other variables held constant, the surplus for the year would have been $2.1m lower. Had the euro strengthened by 10% against the US dollar the surplus for the year would have been $2.6m lower.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the club is exposed to credit risk are:

– reinsurers' share of insurance liabilities
– amounts due from reinsurers in respect of claims already paid
– amounts due from members
– counterparty risk with respect to cash and investments

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

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Derivative financial instruments	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Debt securities	**78.7**	77.6	**35.5**	44.8	**9.3**	3.6	**24.5**	22.8	**9.4**	6.4
Loans and receivables	**136.1**	106.1	**129.2**	98.2	**5.3**	7.3	**1.0**	0.4	**0.6**	0.2
Assets arising from reinsurance contracts held	**20.0**	3.2	**20.0**	2.7	**-**	0.5	**-**	-	**-**	-
Cash at bank and in hand	**41.1**	46.5	**31.1**	21.2	**0.9**	9.1	**8.3**	7.9	**0.8**	8.3
Total assets bearing credit risk	**275.9**	233.4	**215.8**	166.9	**15.5**	20.5	**33.8**	31.1	**10.8**	14.9
AAA	**10.1**	58.9	**1.5**	42.3	**0.5**	3.3	**2.7**	13.3	**5.4**	-
AA	**42.4**	0.8	**23.6**	0.8	**9.2**	-	**5.4**	-	**4.2**	-
A	**32.6**	42.6	**25.1**	20.3	**0.5**	9.1	**6.4**	4.9	**0.6**	8.3
BBB	**9.1**	0.7	**7.8**	-	**-**	-	**1.3**	0.7	**-**	-
Not rated	**181.7**	130.4	**157.8**	103.5	**5.3**	8.1	**18.0**	12.2	**0.6**	6.6
Total assets bearing credit risk	**275.9**	233.4	**215.8**	166.9	**15.5**	20.5	**33.8**	31.1	**10.8**	14.9

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the club is the obligation to pay claims to policyholders as they fall due. The club maintains holdings in short term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand.

The following table provides a maturity analysis of the club's financial assets (classes 1 to 4 combined) representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost:

	Short term assets US$m	Within 1 year US$m	1–2 years US$m	2–5 years US$m	Over 5 years US$m	Total US$m
As at 20 February 2013						
Shares and other variable-yield securities and units in unit trusts	5.1	0.1	-	-	0.1	**5.3**
Debt securities and other fixed-income securities	78.7	-	-	-	-	**78.7**
Forward currency contracts	-	-	-	-	-	**-**
Cash balances	41.1	-	-	-	-	**41.1**
Debtors	97.3	58.8	-	-	-	**156.1**
Reinsurers' share of claims outstanding	-	259.2	172.7	302.1	129.3	**863.3**
	222.2	**318.1**	**172.7**	**302.1**	**129.4**	**1,144.5**
As at 20 February 2012						
Shares and other variable-yield securities and units in unit trusts	11.3	-	-	-	0.1	11.4
Debt securities and other fixed-income securities	77.6	-	-	-	-	77.6
Forward currency contracts	-	-	-	-	-	-
Cash balances	46.5	-	-	-	-	46.5
Debtors	57.1	52.2	-	-	-	109.3
Reinsurers' share of claims outstanding	-	222.0	148.0	259.0	111.0	740.0
	192.5	274.2	148.0	259.0	111.1	984.8

The following is an analysis of the estimated timings of net cash flows by financial liability (classes 1 to 4 combined). The timing of cash flows are based on current estimates and historic trends and the actual timings of cash flows may be materially different from those disclosed below:

	Within 1 year US$m	1–2 years US$m	2–5 years US$m	Over 5 years US$m	Total US$m
As at 20 February 2013					
Gross outstanding claims	286.1	188.5	326.5	139.0	940.1
Financial liabilities under investment contracts	-	-	-	-	-
Creditors	72.3	-	-	-	72.3
	358.4	188.5	326.5	139.0	1,012.4
As at 20 February 2012					
Gross outstanding claims	241.8	160.5	279.8	119.5	801.6
Financial liabilities under investment contracts	-	-	-	-	-
Creditors	57.4	-	-	-	57.4
	299.2	160.5	279.8	119.5	859.0

Fair value estimations

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

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

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

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

The following table presents the assets and liabilities measured at fair value at 20 February 2013 and at 20 February 2012.

Financial assets at fair value through income or expenditure:

	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
As at 20 February 2013				
Shares and other variable-yield securities and units in unit trusts	5.1	0.1	0.1	5.3
Debt securities and other fixed-income securities	78.0	0.7	-	78.7
Forward currency contracts	-	-	-	-
	83.1	**0.8**	**0.1**	**84.0**
As at 20 February 2012				
Shares and other variable-yield securities and units in unit trusts	11.1	0.2	0.1	11.4
Debt securities and other fixed-income securities	76.1	1.5	-	77.6
Forward currency contracts	-	-	-	-
	87.2	1.7	0.1	89.0

Capital management

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

The club's objectives in managing its capital are:

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

The club's regulator is the Prudential Regulation Authority (PRA) and the club is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. The club manages capital in accordance with these rules and has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations. Throughout the period the club complied with the PRA's capital requirements and the requirements in the other countries in which it operates.

11. Claims outstanding

The board closed the 2010/11 policy year at its meeting on 10 May 2013. The table below provides the position after closure.

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Open years										
Claims	**612.8**	506.4	**584.7**	477.9	**15.6**	17.9	**12.5**	10.6	**-**	-
Interclass reinsurance	**-**	-	**6.3**	5.1	**-**	-	**(6.3)**	(5.1)	**-**	-
Reinsurance recoveries	**(570.0)**	(473.2)	**(556.5)**	(456.8)	**(13.5)**	(16.1)	**-**	(0.3)	**-**	-
Net claims provision for open years	**42.8**	33.2	**34.5**	26.2	**2.1**	1.8	**6.2**	5.2	**-**	-
Closed years										
Claims	**327.3**	295.2	**297.1**	272.3	**17.3**	15.1	**12.9**	7.8	**-**	-
Interclass reinsurance	**-**	-	**9.5**	5.7	**-**	-	**(9.5)**	(5.7)	**-**	-
Reinsurance recoveries	**(293.3)**	(266.8)	**(277.2)**	(252.7)	**(15.7)**	(13.8)	**(0.4)**	(0.3)	**-**	
Net claims provision for closed years	**34.0**	28.4	**29.4**	25.3	**1.6**	1.3	**3.0**	1.8	**-**	-
Total										
Claims	**940.1**	801.6	**881.8**	750.2	**32.9**	33.0	**25.4**	18.4	**-**	-
Interclass reinsurance	**-**	-	**15.8**	10.8	**-**	-	**(15.8)**	(10.8)	**-**	-
Reinsurance recoveries	**(863.3)**	(740.0)	**(833.7)**	(709.5)	**(29.2)**	(29.9)	**(0.4)**	(0.6)	**-**	-
Net claims provision	**76.8**	61.6	**63.9**	51.5	**3.7**	3.1	**9.2**	7.0	**-**	-

12. Debtors arising out of direct insurance operations

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Members	**58.8**	52.3	**57.2**	51.0	**1.2**	0.9	**0.3**	0.2	**0.1**	0.2
Intermediaries	**0.6**	3.0	**0.5**	3.0	**-**	-	**0.1**	-	**-**	-
Reinsurers	**20.0**	3.2	**20.0**	2.7	**-**	0.5	**-**	-	**-**	-
Debtors arising out of direct insurance operations	**79.4**	58.5	**77.7**	56.7	**1.2**	1.4	**0.4**	0.2	**0.1**	0.2

13. Tangible assets

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
Computer software	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Book cost										
As at 21 February 2012	**4.1**	-	**3.9**	-	**-**	-	**0.2**	-	**-**	-
Additions	**-**	4.1	**-**	3.9	**-**	-	**-**	0.2	**-**	-
As at 20 February 2013	**4.1**	4.1	**3.9**	3.9	**-**	-	**0.2**	0.2	**-**	-
Accumulated depreciation										
As at 21 February 2012	**0.7**	-	**0.7**	-	**-**	-	**-**	-	**-**	-
Charge for the year	**0.7**	0.7	**0.7**	0.7	**-**	-	**-**	-	**-**	-
As at 20 February 2013	**1.4**	0.7	**1.4**	0.7	**-**	-	**-**	-	**-**	-
Net book value	**2.7**	3.4	**2.5**	3.2	**-**	-	**0.2**	0.2	**-**	-

14. Contingency reserve

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Balance at 21 February 2012	**135.6**	65.3	**96.5**	63.5	**3.2**	1.8	**24.8**	-	**11.1**	-
Part VII transfer	**-**	60.5	**-**	23.8	**-**	2.4	**-**	23.2	**-**	11.1
Excess/(shortfall) of income over expenditure for the year	**3.9**	9.8	**3.2**	9.2	**(0.7)**	(1.0)	**1.5**	1.6	**(0.1)**	-
Balance on contingency reserve at 20 February 2013	**139.5**	135.6	**99.7**	96.5	**2.5**	3.2	**26.3**	24.8	**11.0**	11.1

15. Movement in prior years' provision for claims outstanding

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Improvement/(deterioration) in respect of prior years	**1.6**	(2.2)	**1.2**	(1.4)	**0.1**	(0.9)	**0.3**	0.1	**-**	-

16. Other creditors including taxation and social security

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Corporation tax	**0.8**	2.4	**0.4**	1.4	**-**	0.1	**0.4**	0.6	**-**	0.3
Trade creditors	**-**	-	-	-	**-**	-	-	-	**-**	-
Other creditors	**10.3**	8.3	**8.0**	3.4	**-**	-	**2.3**	0.9	**-**	4.0
Other creditors including taxation and social security	**11.1**	10.7	**8.4**	4.8	**-**	0.1	**2.7**	1.5	**-**	4.3

17. Movements in cash, portfolio investments and financing

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
At 21 February 2012										
Cash at bank and in hand	**46.5**	4.9	**21.2**	3.7	**9.1**	1.2	**7.9**	-	**8.3**	-
Shares and other variable-yield securities and units in unit trusts	**11.4**	0.8	**3.1**	-	**0.8**	0.8	**6.9**	-	**0.6**	-
Debt securities and other fixed-income securities	**77.6**	47.4	**44.8**	45.7	**3.6**	1.7	**22.8**	-	**6.4**	-
Total balance at 21 February 2012	**135.5**	53.1	**69.1**	49.4	**13.5**	3.7	**37.6**	-	**15.3**	-
Part VII transfer										
Cash at bank and in hand	**-**	12.7	**-**	5.5	**-**	2.1	**-**	3.6	**-**	1.5
Shares and other variable-yield securities and units in unit trusts	**-**	13.0	**-**	2.8	**-**	-	**-**	7.3	**-**	2.9
Debt securities and other fixed-income securities	**-**	36.7	**-**	-	**-**	9.0	**-**	20.6	**-**	7.1
Balance transferred	**-**	62.4	**-**	8.3	**-**	11.1	**-**	31.5	**-**	11.5
Cash flow										
Cash at bank and in hand	**(5.4)**	28.9	**9.9**	12.0	**(8.2)**	5.8	**0.4**	4.3	**(7.5)**	6.8
Shares and other variable-yield securities and units in unit trusts	**(6.5)**	(5.2)	**(3.5)**	(1.8)	**(0.8)**	-	**(1.6)**	(1.1)	**(0.6)**	(2.3)
Debt securities and other fixed-income securities	**(6.1)**	(12.1)	**(14.2)**	(6.6)	**6.1**	(6.9)	**(0.9)**	2.2	**2.9**	(0.8)
Cash flow for the year	**(18.0)**	11.6	**(7.8)**	3.6	**(2.9)**	(1.1)	**(2.1)**	5.4	**(5.2)**	3.7
Changes in market values and currencies										
Cash at bank and in hand	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Shares and other variable-yield securities and units in unit trusts	**0.4**	2.8	**0.4**	2.1	**0.1**	-	**(0.1)**	0.7	**-**	-
Debt securities and other fixed-income securities	**7.2**	5.6	**4.9**	5.7	**(0.4)**	(0.2)	**2.6**	-	**0.1**	0.1
Changes in market values and currencies for the year	**7.6**	8.4	**5.3**	7.8	**(0.3)**	(0.2)	**2.5**	0.7	**0.1**	0.1
At 20 February 2013										
Cash at bank and in hand	**41.1**	46.5	**31.1**	21.2	**0.9**	9.1	**8.3**	7.9	**0.8**	8.3
Shares and other variable-yield securities and units in unit trusts	**5.3**	11.4	**-**	3.1	**0.1**	0.8	**5.2**	6.9	**-**	0.6
Debt securities and other fixed-income securities	**78.7**	77.6	**35.5**	44.8	**9.3**	3.6	**24.5**	22.8	**9.4**	6.4
Total balance at 20 February 2013	**125.1**	135.5	**66.6**	69.1	**10.3**	13.5	**38.0**	37.6	**10.2**	15.3

18. Reconciliation of income over expenditure before tax to net cash flow from operating activities

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Excess/(shortfall) of income over expenditure before tax	**5.4**	12.0	**3.9**	11.2	**(0.6)**	(0.9)	**2.1**	1.7	**-**	-
Gains arising on realisation of investments	**(4.8)**	(3.2)	**(2.8)**	(2.9)	**(0.4)**	-	**(1.6)**	(0.1)	**-**	(0.2)
Losses arising on realisation of investments	**0.7**	0.7	**0.3**	0.5	**-**	0.2	**0.4**	-	**-**	-
Unrealised (gains)/losses on revaluation of investments	**0.2**	(6.1)	**0.4**	(5.4)	**0.7**	(0.1)	**(0.8)**	(0.7)	**(0.1)**	0.1
(Increase)/decrease in debtors	**(45.1)**	(82.6)	**(46.0)**	(75.1)	**2.7**	(6.3)	**(1.1)**	(0.9)	**(0.7)**	(0.3)
Increase in net claims provision	**15.2**	4.6	**12.4**	3.5	**0.6**	1.0	**2.2**	0.1	**-**	-
Increase/(decrease) in creditors	**13.3**	100.4	**25.7**	78.5	**(5.9)**	7.2	**(2.4)**	9.1	**(4.1)**	5.6
Net cash flow from operating activities	**(15.1)**	25.8	**(6.1)**	10.3	**(2.9)**	1.1	**(1.2)**	9.2	**(4.9)**	5.2

19. Movement in opening and closing portfolio investments

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Net cash inflow for the year	**(5.4)**	28.9	**9.9**	12.0	**(8.2)**	5.8	**0.4**	4.3	**(7.5)**	6.8
Portfolio investments	**(12.6)**	(17.3)	**(17.7)**	(8.4)	**5.3**	(6.9)	**(2.5)**	1.1	**2.3**	(3.1)
Movement arising from cash flows	**(18.0)**	11.6	**(7.8)**	3.6	**(2.9)**	(1.1)	**(2.1)**	5.4	**(5.2)**	3.7
Part VII transfer	**-**	62.4	**-**	8.3	**-**	11.1	**-**	31.5	**-**	11.5
Change in market value	**7.6**	8.4	**5.3**	7.8	**(0.3)**	(0.2)	**2.5**	0.7	**0.1**	0.1
Total movement in portfolio investments	**(10.4)**	82.4	**(2.5)**	19.7	**(3.2)**	9.8	**0.4**	37.6	**(5.1)**	15.3
Portfolio investments at 21 February 2012	**135.5**	53.1	**69.1**	49.4	**13.5**	3.7	**37.6**	-	**15.3**	-
Portfolio investments at 20 February 2013	**125.1**	135.5	**66.6**	69.1	**10.3**	13.5	**38.0**	37.6	**10.2**	15.3

20. Rates of exchange

	2013	2012
The following rates of exchange were applicable to US$1 at 20 February 2013 (2012)		
Australian dollars	**0.97**	0.93
Bermudan dollars	**1.00**	1.00
Canadian dollars	**1.01**	1.00
Euro	**0.75**	0.76
Japanese yen	**93.81**	79.36
Singapore dollars	**1.24**	1.26
Swiss francs	**0.92**	0.92
UK sterling	**0.64**	0.63

21. Ultimate parent undertaking

The directors regard The Standard Club Ltd, a company registered in Bermuda, as the immediate and ultimate parent undertaking and ultimate controlling party. Copies of the consolidated financial statements of The Standard Club Ltd can be obtained from the registered office: Burnaby Building, 16 Burnaby Street, PO Box HM1743, Hamilton HMGX, Bermuda.

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

22. Related parties

Advantage has been taken of the exemption in FRS8 (Related Party disclosures) not to disclose transactions with the ultimate parent undertaking.

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

Five of the directors are representatives or agents of member companies, one is an independent non-executive director, and the remaining two directors are directors and shareholders of Charles Taylor plc, the ultimate holding company of the club's managers, Charles Taylor & Co (Bermuda). Other than the insurance and membership interest of the directors' companies, the directors have no financial interests in the club.

INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of The Standard Club Europe Ltd (the 'club') for the year ended 20 February 2013 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 12 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the club's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the club's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the club's affairs as at 20 February 2013 and of its excess of income over expenditure and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Claire Stockhausen (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 May 2013

OTHER INFORMATION

NOTICE OF ANNUAL GENERAL MEETING

THE STANDARD CLUB EUROPE LTD Registered no: 17864

Notice is hereby given that the 129th Annual General Meeting of the company will be held on Friday 18 October 2013 at 1 pm ('the meeting') at The Hay Adams Hotel, 800 Sixteenth Street, N.W., Washington DC, D.C. 20006, USA for the purpose of considering and, if thought fit, passing the following as ordinary resolutions.

Reports and financial statements

1. THAT the reports of the directors and auditors and the audited financial statements of the company for the year ended 20 February 2013 be received and adopted.

Re-election of directors appointed since the last AGM

2. THAT Barnabas Hurst-Bannister be re-elected as a director of the company.
3. THAT Rob Clarke be re-elected as a director of the company.

Annual re-election of directors

4. THAT Ricardo Menendez Ross be re-elected as a director of the company.
5. THAT Alistair Groom be re-elected as a director of the company.

Appointment of auditors

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

Date: 10 May 2013
By order of the Board

Charles Taylor & Co Limited
Secretary

Registered Office:
Standard House
12-13 Essex Street
London
WC2R 3AA

Notes:

1. A member of the company entitled to attend, speak and vote at the above meeting is entitled to appoint one or more proxies to attend, speak and vote on his/her behalf. The proxy need not be a member of the company. A proxy will have the same number of votes on a show of hands as if the member who appointed the proxy was at the meeting.
2. The appointment of a proxy will not prevent a member from subsequently attending, speaking and voting at the meeting in person. Details of how to appoint the chairman of the meeting or another person as your proxy are set out in the notes to the Form of Proxy. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the chairman) and give your instructions directly to them.
3. For the instrument appointing a proxy to be effective, you must complete the enclosed Form of Proxy and ensure that the Form of Proxy, together with any power of attorney or other authority under which it is executed (or a notarially certified copy of the same), is deposited with the Secretary of the company, Charles Taylor & Co Limited, Standard House, 12-13 Essex Street, London WC2R 3AA, or scanned and emailed to p&i.london@ctplc.com not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
4. A corporate shareholder can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same vote.

FORM OF PROXY

THE STANDARD CLUB EUROPE LTD ('the company')

Registered no: 17864

129th ANNUAL GENERAL MEETING
18 October 2013 at 1pm ('the meeting')

I (Block Capitals)………………………………………………………, a member of the above-named company, hereby appoint the chairman of the meeting, or …………………………… as my proxy to vote for me on my behalf at the Annual General Meeting of the company to be held at The Hay Adams Hotel, 800 Sixteenth Street, N.W., Washington DC, D.C. 20006, USA, on Friday 18 October 2013 at 1pm, and at any adjournment thereof.

Signature………………………………………

Dated…………………………………….2013

Please indicate with an X in the spaces below how you wish your votes to be cast.

ORDINARY RESOLUTIONS	FOR	AGAINST
1. THAT the reports of the directors and auditors and the audited financial statements of the company for the year ended 20 February 2013 be received and adopted.		
2. THAT Barnabas Hurst-Bannister be re-elected as a director of the company.		
3. THAT Rob Clarke be re-elected as a director of the company.		
4. THAT Ricardo Menendez Ross be re-elected as a director of the company.		
5. THAT Alistair Groom be re-elected as a director of the company.		
6. THAT PricewaterhouseCoopers LLP be re-appointed as auditors, and that the directors be authorised to fix their remuneration.		

Notes

1. A member may appoint a proxy of his own choice. If such an appointment is made, delete the words 'the chairman of the meeting' and insert the name of the person appointed proxy in the space provided.
2. If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
3. If this form is returned without any indication as to how the person appointed proxy shall vote, he will exercise his discretion as to how he votes or whether he abstains from voting.
4. To be valid at the Annual General Meeting referred to, this form must be completed, signed and dated. It should then be deposited with the Secretary of the company, Charles Taylor & Co Limited, Standard House, 12-13 Essex Street, London WC2R 3AA, or scanned and emailed to p&i.london@ctplc.com not less than 48 hours before the time fixed for holding the meeting or adjourned meeting
5. Completion and return of this form will not prevent you from attending and voting in person if you wish. Copies of the form can be downloaded from www.standard-club.com.

MANAGERS AND OFFICERS

Managers
Charles Taylor & Co (Bermuda)

Company Secretary
Charles Taylor & Co Limited

Registered office of the club
Standard House
12-13 Essex Street
London WC2R 3AA

Telephone +44 20 3320 8888

Facsimile +44 20 3320 8800

Email p&i.london@ctplc.com

www.standard-club.com

www.ctplc.com