Standard Club

Annual report and financial statements

2018

Contents

1 Chairman's statement

2 The directors

3 Report of the directors

4

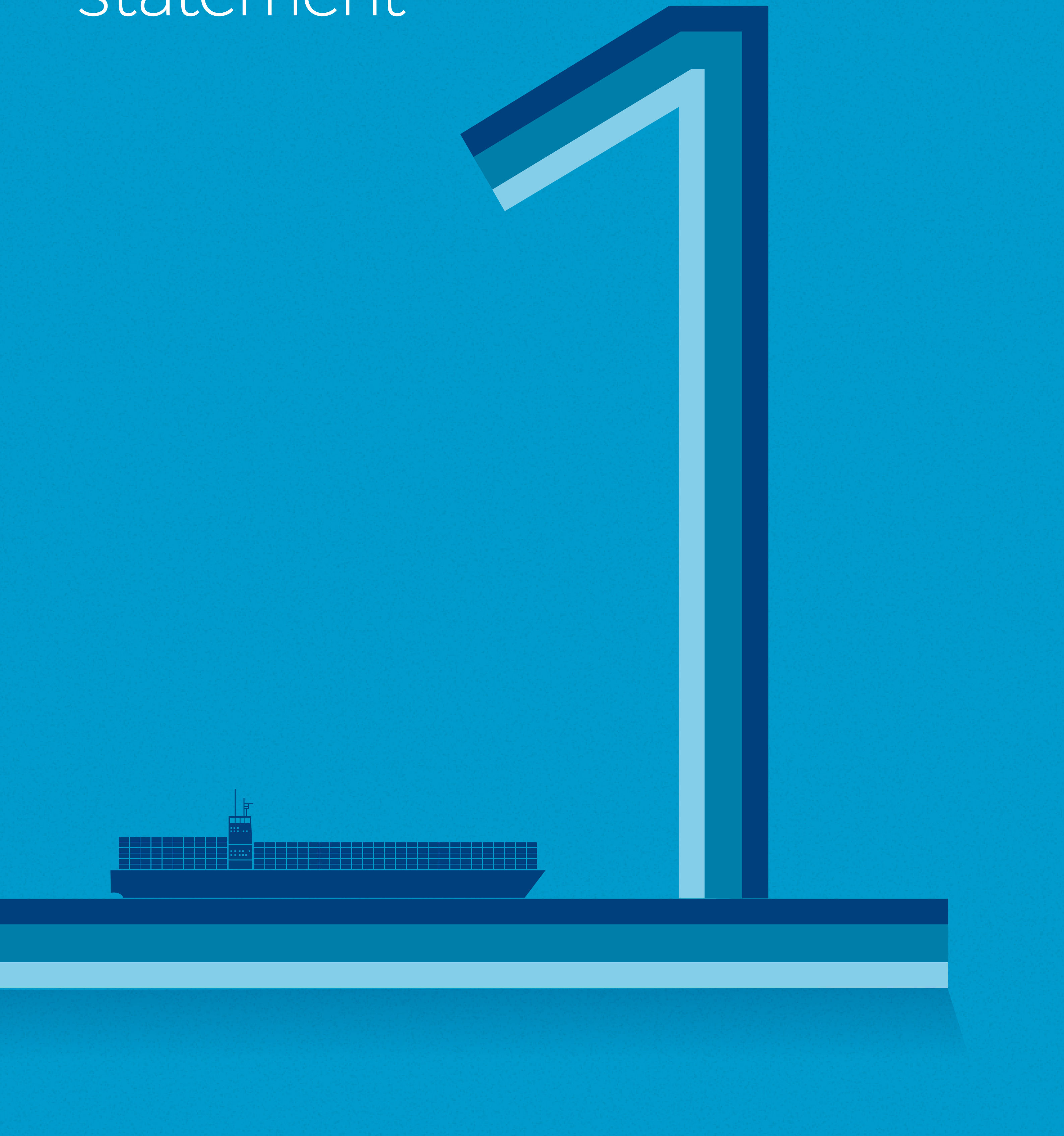
Independent auditors' report

5

Financial statements and other information

* Appendices I, II and III are unaudited.

Chairman's statement



Chairman's statement

CESARE D'AMICO
CHAIRMAN

I am honoured to have been appointed chairman of The Standard Club during this year and grateful to my predecessor, Rod Jones, who stood down in October, for passing me the chair at a time when the club is in such robust shape. We have been building reserves, growing the business and returning premiums to members, all while continuing to provide members with exceptional standards of service and maintaining the club's strong financial rating.

I am proud to lead a global institution of excellence which puts support for members at its centre. During my chairmanship, I wish to promote the theme of respect and fairness in the context of how the club treats all our members. While we come from different cultures, operate in different sectors and have different needs, we have a shared goal to help each other find the best solution in the event of an accident.

The club continues to be in very good financial shape. For the third year running, we achieved a better-than-breakeven result, with an underlying combined ratio of 98% for the 2017/18 policy year. Free reserves were up 7% to $461m, supported by a 6.4% return on investments and, for the second consecutive year, we were able to return 5% of premiums to members. In 2017, we again retained our Standard & Poor's strong 'A' (stable) financial strength rating.

Certainly, like most members of the International Group of P&I Clubs, your club has benefitted from a relatively benign claims environment in recent years, which has contributed to the current healthy performance. However, we should not expect this low claims environment to continue. While the club continues to focus on insuring only the very best of the world's shipowners, it is likely that with the increased focus on environmental impact, the ever-expanding world fleet and a somewhat more encouraging macro-economic outlook, claims may well start to escalate.

There is no room for complacency given the constantly changing regulatory, economic, political and technological environments in which we operate, and your board is focused on maintaining the strength of the club to meet these challenges.

During the year, in response to the UK's decision to exit the European Union, we announced our intention to make an application to the Central Bank of Ireland for approval of a new subsidiary. While there are plans for a Brexit transition arrangement, we are continuing to prepare for the possibility that UK-based insurers will not have authorisation to underwrite in the EU after March 2019. In view of this, around 40% of the club's business will need to be insured in this new subsidiary with effect from 20 February 2019. This project is on track, and we are confident of having all the necessary regulatory approvals in place, whatever the negotiations between the EU and the UK ultimately lead to.

Chairman's statement continued

The club's syndicate at Lloyd's is a key part of the board's preparations for the challenges ahead. Your board is focused on growing the business, because by becoming bigger and having a wider range of income streams, we can keep working to drive down the cost of mutual insurance. We also believe that through diversification we provide for a more stable underwriting result. The first three years of the syndicate project have been more challenging than we would have liked, and we have faced some very difficult trading conditions, including three hurricanes in 2017. The board of the club is regularly apprised of The Standard Syndicate's performance and we have taken steps that give us confidence that the syndicate is well placed to make a positive contribution in the future.

Looking forward, we aim to continue realising our strategic objectives of delivering excellent value, market-leading service and financial security for our members as well as achieving selective growth. As noted in this report, owned tonnage grew by 5% during the 2017/18 policy year and by a further 2% at renewal to reach 159mgt, an annual increase of more than 10mgt.

Much credit for our recent successes must go to my predecessor, Rod Jones, who was chairman from 2014 and a board member for 12 years before that. I would like to thank Rod for his dedication and service to the club over the past 15 years and look forward to building on his legacy. The club has flourished during Rod's tenure and we wish him well in his retirement.

Our shipowner directors also play a vital role in the club's success. It therefore gives me great pleasure to welcome to the board Ronald Forest of Matson Navigation, Lars Henneberg of A.P. Moller-Maersk, Allister Paterson of CSL Group, Ken Soerensen of Algoma Central and Chen-Huei Yeh of Kuang Ming Shipping.

I am also very grateful for the unstinting support provided over the years by Andrew Broomhead, Matt Cox, Andreas Martinos, Stefano Rosina, Marianne Sørensen and Helen Deeble, all of whom have stepped down from the board during this year. My thanks go to them for their contribution. I would also like to recognise the dedication and professionalism of our managers in helping the club achieve its strong set of results. My thanks go to them as well.

Finally, I wish to acknowledge all our members for their commitment to The Standard Club. It is thanks to their support that we can continue to deliver high-quality insurance cover backed by exceptional standards of service across all areas of the club's work.

The club at a glance

Free reserves

$461m

2018	**461**
2017	430
2016	390
2015	380
2014	369

Calls and premiums

$334m

2018	**334**
2017	339
2016	354
2015	354
2014	336

Tonnage

$159mgt

2018	**159**
2017	149
2016	138
2015	135
2014	131

Combined ratio[1]

104%

2018	**104**
2017	92
2016	95
2015	100
2014	101

Investment return

6.4%

2018	**6.4**
2017	3.0
2016	-0.9
2015	1.8
2014	0.6

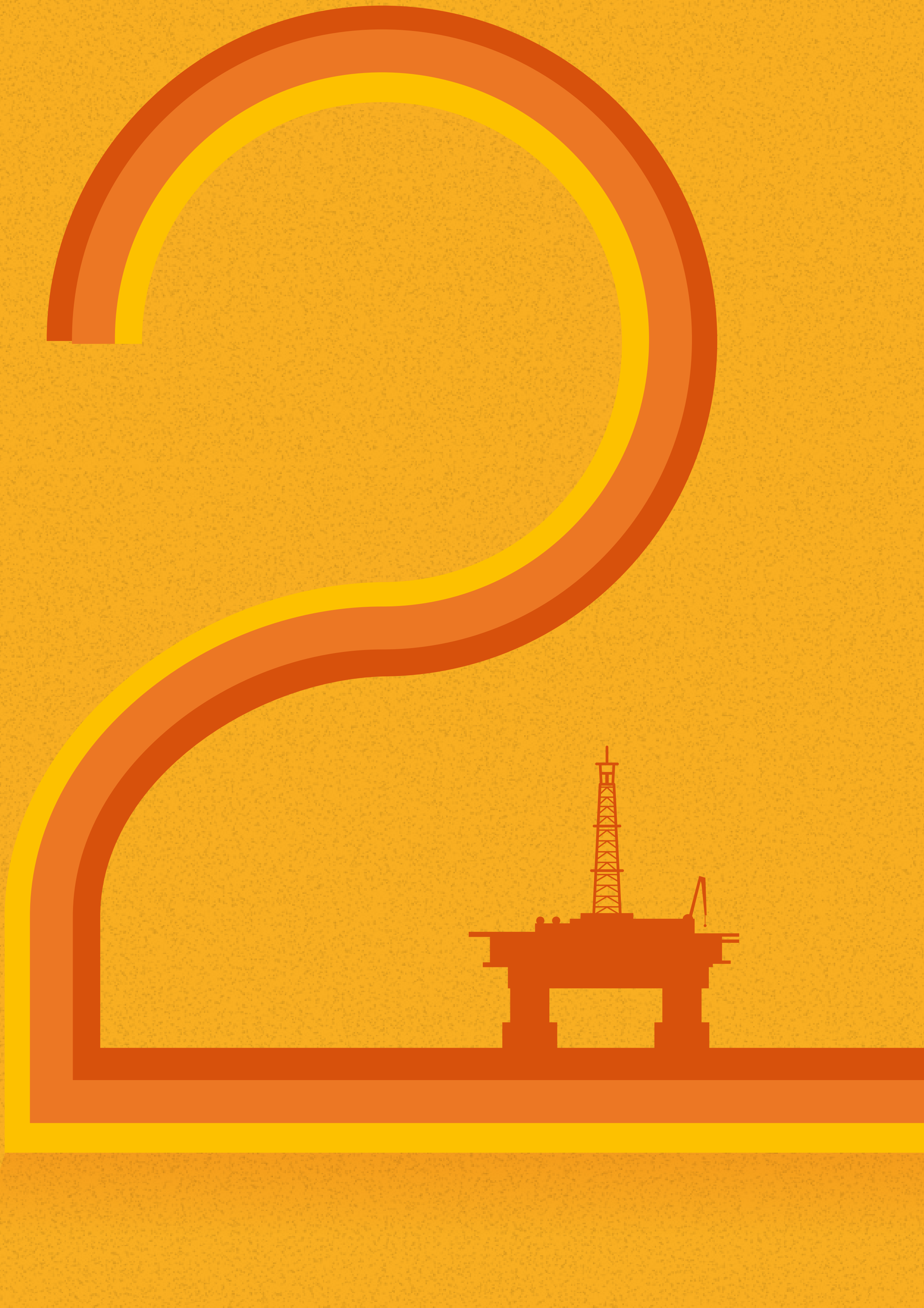
Claims cover ratio of net assets to outstanding claims

1.76

2018	**1.76**
2017	1.75
2016	1.67
2015	1.66
2014	1.63

1 Including the club's share of The Standard Syndicate but before return of call on the 2016 and 2017 policy years.

The directors



The directors

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

C d'Amico[1,2,3,4,5,6]
Chairman
d'Amico Società di Navigazione SpA

N Hadjioannou[2,4,6]
Deputy Chairman
Alassia Holdings Inc.

E Johnsen[1,2,3,4,6]
Deputy Chairman
Seaocean Carriers Ltd Pte

N Aksoy
Akmar Shipping Group and Turkish Cargo Lines

L D'Amato
Fratelli D'Amato SpA

A Bensler[2,3]
Teekay Corporation

A Broomhead[1,5]
Pacific Basin Shipping Ltd
(Resigned 20 October 2017)

P Clausius[3,5]
Transport Capital Pte Ltd

P Clerici
Coeclerici SpA

C Cosimi[1]
Saipem Spa

A Cossar[1,4]
Bermudian resident director

M Cox[1,3,4]
Matson Navigation Co Inc.
(Resigned 20 October 2017)

H Deeble CBE[3]
P&O Ferries Division Holdings Limited
(Resigned 8 March 2018)

R Forest
Matson Navigation Co Inc.
(Appointed 30 January 2018)

A Groom[1,2,3,4,6]
Non-executive director

J Grose[4]

B Harinsuit[2,5]
The Harinsuit Transport Co Ltd

L Henneberg
A.P. Moller-Maersk
(Appointed 11 May 2018)

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

G Jaegers[3]
Reederei Jaegers GmbH

R Jones[1,2,3,4,5,6]
CSL Group Inc
(Resigned 20 October 2017)

H Joshi[5]
The Shipping Corporation of India Ltd

D Koo[2,5]
Valles Steamship Co Ltd

T Kuroyanagi[5]
Kumiai Navigation (Pte) Ltd

E Lauro
Scorpio Group

D Marock[4]

A Martinos
Minerva Marine Inc.
(Resigned 20 October 2017)

R Menendez Ross[1,2,3,4,5,6]
Interocean Transportation Inc.

A Paterson
CSL Group Inc
(Appointed 30 January 2018)

C Peraticos[2,3]
Pleiades Shipping Agents SA

S Rosina[3]
Premuda SpA
(Resigned 20 June 2017)

K Soerensen
Algoma Central Corporation
(Appointed 30 January 2018)

M Sørensen[1,4,6]
Maersk Drilling A/S
(Resigned 30 January 2018)

O Tangen
SBM Offshore

C W Teo[5]
Pacific International Lines (Pte) Ltd

J Woodrow[3,5]
The China Navigation Co Pte Ltd

C-H Yeh[5]
Kuang Ming Shipping Corp
(Appointed 30 January 2018)

1 Member of the Audit and Risk Committee.
2 Member of the Nomination and Governance Committee.
3 Member of the Strategy Committee.
4 Director of Standard Europe.
5 Director of Standard Asia.
6 Member of the Chairman's Group.

Report of the directors

Report of the directors

The club's four strategic objectives – to offer a broad range of P&I insurance and other marine and energy covers that represent excellent and sustainable value; to be recognised as providing excellent service by solving members' problems; to maintain first-class financial security; and to achieve selective growth, consistent with the other objectives – remain unchanged. In this year, developments have been made in all areas to meet these objectives. These are covered in more detail in the operational review.

Business review

Principal activities
The principal activity of The Standard Club Ltd is to act as a holding company for subsidiaries that provide insurance and reinsurance of third-party liabilities and related risks, war risks and defence risks on behalf of its members. At 20 February 2018, there was approximately 159mgt of shipping entered in the club.

The club also has a share (40% for the 2015 and 2016 years of account, 47% for 2017 and 86% for 2018) of a Lloyd's syndicate (The Standard Syndicate), which writes marine and energy business in large part (but not exclusively) for the club's members.

Directors
The directors of the club who were in office from the last report and up to the date of signing the financial statements are shown on page 7 of this report.

During the year, the board was pleased to welcome Ron Forest, Lars Henneberg, Allister Paterson, Ken Soerensen and Chen-Huei Yeh as new directors. Having been appointed during the year, they offer themselves for re-election at the AGM. The directors who retire by rotation in accordance with the bye-laws and offer themselves for re-election are Art Bensler, Barnabas Hurst-Bannister, Gunther Jaegers, David Koo, Emanuele Lauro and David Marock. The directors fulfilling the corporate governance requirement to seek annual re-election after serving a period of nine years on the board and who, being eligible, have also offered themselves for re-election are: Necdet Aksoy, Luigi D'Amato, Cesare d'Amico, Paolo Clerici, Alistair Groom, Bhumindr Harinsuit, Erik Johnsen, Ricardo Menendez Ross and Constantine Peraticos. Details of those directors seeking annual re-election are included in the notice of the AGM, set out on pages 69 and 70.

Since the last report, Andrew Broomhead, Matthew Cox, Roger Jones, Andreas Martinos, Stefano Rosina, Helen Deeble and Marianne Sørensen have retired from the board. The directors of the club would once again like to take the opportunity to thank each of them for their valued contribution.

Meetings of the board
Since the date of the last report, the board has met on three occasions: on 20 October 2017 in Hong Kong, on 30 January 2018 in Paris and on 11 May 2018 in Bermuda. At each meeting, the board reviewed the club's strategy and business plan, risks, financial and underwriting performance of both the club and The Standard Syndicate, significant claims, new members admitted to the club, new ships attaching, reinsurance arrangements, legal, regulatory and tax matters, industry developments, control and governance matters, and investment strategy and results. The principal issues discussed by the board, and the decisions reached, are set out in this report.

Business review continued

The Audit and Risk Committee, Nomination and Governance Committee and Strategy Committee have each met on three occasions since the date of the last report. The Chairman's Group has also held regular discussions with the managers during the year to monitor the club's performance between board meetings.

Financial results

Standard & Poor's

S&P reaffirmed the club's 'A' (strong) rating in June 2017. The stable outlook reflects S&P's expectations that the club will 'maintain capital and earnings commensurate with the 'AAA' capital rating' (a key component of the overall credit rating), and 'maintain operating performance at a combined ratio of less than 105% (in the absence of any abnormal large loss events)'.

Summary of financial results and consolidated balance sheet

As set out in the consolidated statement of comprehensive income, there is a surplus for the year of $31m (2017: $40m). Total reserves available for claims stand at $1,039m (2017: $984m). The amount set aside to meet outstanding claims and IBNR was $578m at 20 February 2018 (2017: $554m).

Statement of comprehensive income

Revenue from calls, premiums and releases amounted to $334m (2017: $339m), after an $11m return of premium on the 2017/18 policy year. Paid claims, net of reinsurance recoveries, were $212m (2017: $229m). Pool and reinsurance recoveries amounted to $46m (2017: $71m).

Average expense ratio

The average expense ratio for the club's P&I class for the five years ended 20 February 2018 was 12.5% (2017: 12.4%). The ratio was calculated in accordance with the Schedule and Guidelines issued by the International Group pursuant to the International Group Agreement and is consistent with the relevant financial statements. The ratio expresses the club's expenses as a percentage of its total income. Although members' brokerage is not an expense of the club, for the sake of consistency, the ratio includes members' brokerage fees paid by members to their brokers through the agency of the club.

Open and closed policy year balances – P&I class

The appendices to the report set out details of the open policy years together with the closed policy year balances. The board closed the 2015/16 policy year at its meeting on 11 May 2018 on the basis of the financial position at 20 February 2018. The total open policy year balance at 20 February 2018 amounted to $219m after closure of the 2015/16 policy year. Included in this balance are estimated reinsurance recoveries of $38m. The estimate of net outstanding claims liabilities for the closed years amounted to $291m (including liabilities for the 2015/16 policy year).

Free reserves

The free reserves represent the surpluses built up out of open and closed policy years (which includes investment returns), and constitute the core capital of the club.

The club's free reserves increased to $461m at the year end (2017: $430m). The increase in the club's reserves over recent years has enabled the club to return premiums to members in the last two financial years, supported growth in the business insured in the club, and increased the club's capital strength.

The board has reviewed the strategic purpose of the club's capital and agreed that the appropriate level of free reserves would:

1. ensure that the club has sufficient capital to reflect its business risks and to comply with regulatory requirements
2. provide a sufficient buffer so as to make the probability of supplementary calls very low and unnecessary in any phase of a normal underwriting cycle, levied only in extreme stress scenarios
3. ensure that the club is perceived as being in the top division of clubs from a financial perspective, in order to give the club flexibility and the power to maintain discipline on pricing and quality
4. maintain an S&P or similar rating of 'A' or above.

The current level of free reserves is within the target strategic range set by the board. The board will ensure that the free reserves continue to be aligned with the volume of risks in the club's business. Further details on the club's approach to capital management were set out in a bulletin to members published in November 2017.

Capital management methodology

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

The claims environment

The generally benign claims environment continued through the 2017/18 policy year, with fewer significant casualties compared with previous policy years. Recent years compare favourably with prior years, although claims are at an early stage of development and the club sees movements in line with expectations. Older years have largely performed well, although there has been some deterioration on 2013/14. Defence Class claims have generally mirrored the benign state of P&I, apart from a small number of large disputes with shipyards that arose in the 2015/16 and 2016/17 policy years.

Claims activity is heavily influenced by global economic conditions and consequent levels of shipping activity, but clear underlying trends and emerging risks are more difficult to identify. The number of attritional P&I claims impacting the club has continued to decline, attributable to higher operational standards (resulting from closer regulation of shipping) and higher deductibles, which also apply to fees. The recent increase in global trade is expected to continue and most likely result in an uptick in claims activity, although recent increases in earnings in the dry bulk sector have not been mirrored in all other shipping sectors. Concerns over standards of ship maintenance and crew quality and competence remain, and these issues could contribute to an increase in claims as an increase in global trade places tension on operations.

Approximately 60% of claims costs are attributable to a relatively small number of large claims and casualties, but these occur on a largely random basis in terms of types of claim, trades and geographical location.

The club's financial exposure to large claims is increasing as a result of intervention by authorities, advances in salvage capabilities and greater weight being placed on environmental considerations. These factors are particularly relevant in the context of wreck removal and pollution claims. The club is also experiencing general claims inflation of approximately 4% a year, increasing the impact of attritional claims.

Pool claims

The 2017/18 policy year has been a mixed one for the Pool. Thirteen claims have been notified by clubs to date and, although the number of claims compares favourably with previous years, two of these are very large claims and so the overall cost of the Pool on this policy year is expected to be higher than average.

Key performance indicators

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

	2014	2015	2016	2017	**2018**
Tonnage mgt	131	135	138	149	**159**
Gross premium and calls $m	336	354	354	339	**334**
Free reserves $m	369	380	390	430	**461**
Claims cover[1]	1.63	1.66	1.67	1.75	**1.76**
Financial year combined ratio[2] %	101	100	95	92	**104**
Investment return[3] %	0.6	1.8	(0.9)	3.0	**6.4**

1 Ratio of net assets to outstanding claims.
2 The ratio of total expenditure to total income, as set out in the technical account section of the consolidated statement of comprehensive income. A ratio below 100% indicates an underwriting surplus. Income calculated before return of call on the 2016 and 2017 policy years.
3 Return for 12 months to 20 February. Includes revaluation of Standard House.

Operational review

Underwriting

The club takes pride in its flexible and responsive approach to underwriting, creating tailor-made solutions for members by combining poolable and non-poolable P&I, along with other covers as required. The managers' experienced underwriters have an in-depth knowledge of all trades, risk types and regions, and consistently look to innovate to meet the members' needs.

In common with the 2016/17 policy year, 2017/18 was a good year, with a benign claims pattern for retained losses, although with two large claims already notified to the International Group Pool, the club's share of other clubs' Pool claims is likely to be higher than average. The current projected combined ratio for P&I only for the 2017/18 policy year is 98%.

For the second year running, the club announced no general increase for renewal (in common with the mutual P&I market) and a return of call of 5% on 2017/18. As with last year, the return of call is as of right, with any member that contributed to the mutual premium in that year entitled to the return.

After a very good investment return of approximately 6.4%, the club's free reserves now stand at $461m.

The club remains keen to retain and attract members that value what The Standard Club offers. Tonnage at 20 February 2017 was 149m and has grown to 159m at 20 February 2018. This near 7% increase is ahead of global fleet growth. The club has enjoyed the support of existing members adding more tonnage and has also welcomed new members. At 20 February 2018 alone, 18 members added ships to their existing entry and 11 new members joined the club. The Standard Club believes that it stands apart from most other clubs in offering a flexible and member-friendly service, and in how it strives to solve members' problems. In the club's view, it is industry leading in the above, especially in counterparty security, and strives to provide all of this whilst still offering excellent value.

The club also remains focused on selecting members with a good approach to quality operation. The club seeks to maintain standards by being prepared to cancel members whose risk profile fails to meet the standards set by the club or that are not prepared to make reasonable contributions to the claims they might bring. In this way, the club remains attractive to the majority of its members which, in return, enjoy a high level of security, service and value.

Release calls

An actuarial assessment is undertaken to establish the level of release calls for each policy year, as the various risks to which the club is exposed could lead to a wide variety of profit and loss outcomes.

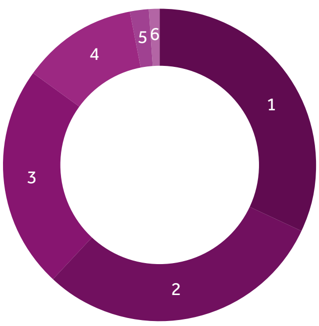
The club has considered each of a large number of possible results to assess the probability of the free reserves falling to a level at which a supplementary call might be made. The size of such a supplementary call, weighted by the probability of requiring a call of that size, represents the liability foregone by a member that leaves the club.

A benchmark release call rate is calculated as this amount plus a risk transfer premium, adjusted to take into account any commercial or market considerations.

Ship types entered

Owned tonnage as at 20 April 2018

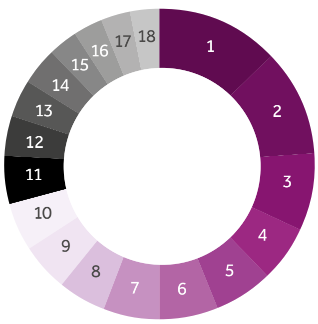
1	Tankers	32%
2	Container and general cargo	30%
3	Dry bulk	23%
4	Offshore	12%
5	Passenger and ferry	2%
6	Other	1%



Country of management

Owned tonnage as at 20 April 2018

1	Greece	13%
2	Nordic region	11%
3	Japan	8%
4	Canada	6%
5	Italy	6%
6	USA	6%
7	Rest of Asia	6%
8	Germany	5%
9	Singapore	5%
10	Switzerland	5%
11	Rest of World	5%
12	Monaco	4%
13	Republic of Korea	4%
14	Turkey	4%
15	Hong Kong	3%
16	Netherlands	3%
17	United Kingdom	3%
18	Rest of Europe	3%



Release calls for P&I and Defence Classes

Policy year	20 May 2018	20 May 2017	20 May 2016	20 May 2015	20 May 2014	20 May 2013	20 May 2012
2018/19	**6**						
2017/18	**0**	6					
2016/17	**0**	0	7				
2015/16		0	3	7			
2014/15			2	3	8		
2013/14				2	4	14	
2012/13					3	4.5	15

The reduction in release calls reflects several initiatives launched by the club in recent years to enable it to better anticipate claims developments and achieve early accurate estimating, thus avoiding any late deterioration in the incurred amounts for each policy year.

On this basis, the club has agreed to set release calls at 0% for 2016/17, 0% for 2017/18 and 6% for 2018/19, maintaining the rates set last year, which are amongst the lowest in the International Group.

The London Class release calls were set at 0% for 2016/17, 0% for 2017/18 and 0% for the 2018/19 policy year.

Claims

The club aims to lead the market in responsive, proactive and supportive claims handling through the managers' global network of offices. Members and brokers consistently rate the club's claims service very highly in annual surveys and place a great deal of importance on these key elements of it.

The club's approach is to adopt an expansive interpretation of cover, finding ways to support members wherever possible. This approach reflects the fact that members are at the heart of the club's business. The club aims to foster personal relationships between members and dedicated claims handlers employed by the managers. This ensures that members know who to contact in the event of claims, including a major incident that could have a significant impact on their business. Claims handlers have high levels of authority and are empowered to go the extra mile in taking personal responsibility for servicing members' needs. This means that members receive a consistent level of service regardless of where they are in the world, even when issues arise outside normal office hours.

The club encourages a culture of high professional standards in claims handling. This is achieved by the managers through recruiting high-calibre marine professionals (most of whom are legally qualified) and by providing ongoing training and support. The club encourages claims handlers to study for the P&I Qualification and has one of the highest take-up rates across the International Group. Claims handlers are supported by a team of senior subject matter experts who engage with the wider maritime industry through International Group subcommittees and other industry bodies. Some of the key topics are covered below in the industry information section of this report. Claims handlers also work closely with the club's in-house team of loss prevention experts to ensure a proper understanding of the complex technical issues that can arise in the marine claims environment.

The club continues to lead the field in driving down the cost of claims handling by external service providers, including lawyers, correspondents and technical experts. The club has detailed service level agreements with all major service providers and has negotiated discounted billing rates and volume discounts that deliver significant savings in larger claims. The club also actively manages the quality of service provided through regular reviews. These initiatives ensure that members receive the highest quality service at the lowest cost.

Discretionary claims

As underlined in the chairman's statement, the club prides itself on the approach it takes to paying claims, which can include those that fall outside the core cover provided by the club. These claims can be covered if the club's board exercises its discretion in a member's favour. Each claim is reviewed in detail to understand its specific circumstances and to assess whether the costs incurred by the member should be brought within the scope of the club's cover.

In this respect, the cover offered to members is broad and inclusive, and the board strives to take a pragmatic view in relation to discretionary claims, always aiming to be fair and consistent.

Operational review continued

Loss prevention

The club's loss prevention efforts remain central to the club's strategic objectives and an important aspect of the service provided to members.

The team welcomes direct discussion with members and would encourage any member with technical or risk-related queries to get in touch via their usual club contact.

Survey programme

The managers continue to focus on the operating quality of the club's membership, primarily driven by the loss prevention team. The objectives of the loss prevention team are to:

- ensure the club underwrites ships and members of appropriate quality
- minimise losses to members and to the club
- provide expert technical and loss prevention advice to members and to the managers' underwriting and claims teams.

During the 2017/18 policy year, the managers carried out a total of 31 member risk reviews. The managers also carried out 424 ship surveys, including 294 routine surveys, 98 entry surveys and 28 follow-up surveys. The remaining four surveys were related to PSC detentions and dedicated ultrasonic hatch cover tests. The survey results were in line with expectations, with 42% of the surveys considered a pass, 51% resulting in recommendations that the members could rectify without any cover implications and 7% (31 surveys) resulting in a request for repairs to be carried out as a condition of continued cover.

At the last renewal, two members were not offered renewal terms as a result of concerns about operational quality.

Since the 2016/17 policy year, the managers have been implementing a smart survey selection programme combined with a focus on cost and efficiency in carrying out the surveys, whilst maintaining high survey and surveyor standards. Over the last two policy years, the overall number of ships being surveyed has been reduced by about 100 to the current 424, whilst the percentage of surveys giving rise to recommendations remains the same, thus focusing on ships where the loss prevention team expects to find more deficiencies. At the same time, the managers have reduced the average survey cost by 10%, whilst maintaining the same level of quality control over the entered tonnage.

PEME scheme

The club's pre-employment medical examination (PEME) programme has successfully completed its second year and the number of PEME tests conducted on a monthly basis continues to grow. The 15 clinics now conduct around 430 examinations per month. Hypertension and diabetes continue to be the most common reasons for seafarers (particularly in the 46 years and older age category) to fail the enhanced PEMEs. As a result, publications are produced by the loss prevention team to educate crew on the risks of these illnesses. We continue to recommend that members carry out enhanced PEME tests for their crews in order to safeguard the crews' lives and reduce the potential for personal illness claims.

SLAC

The Safety and Loss Advisory Committees (SLAC) are a key differentiator for The Standard Club. The Europe committee was set up in 1992 and was the first of its kind. The Asia committee was set up in 2010 and the London Class committee was recently updated and relaunched. The committees gather twice yearly to discuss claim trends and major claims, with a view to developing and guiding the club's loss prevention strategy. Over the years, the SLAC have come up with numerous projects which have been successfully implemented by the managers. One particularly successful example is the Member Risk Reviews carried out on all new-joining members for monitoring the quality of the members' ship management operations and to share the loss prevention team's knowledge with the member. The most recent SLAC meetings discussed topics such as seafarer wellbeing, stowaways, pilot ladder incidents and anchoring claims.

Misdeclared container cargo incidents

A lot of advice has been given on the well-publicised issue of misdeclared container cargoes, but this year the loss prevention team has looked at the problem from a different perspective. Following analysis of numerous misdeclared container cargo incidents, the managers have published a Standard Safety focusing on container booking procedures.

Standard Safety, Better box booking

The publication sets out steps for how container booking offices can strengthen their 'know-your-customer' processes and enhance booking staff training, in order to reduce the number of misdeclared cargo incidents.

Being human in safety-critical organisations

Building on the success of the Human Element book, the managers have worked with Teekay Shipping, BP Shipping and the UK Maritime & Coastguard Agency on the production of a second book, which focuses on why human beings make mistakes.

Being Human in safety-critical organisations

Amongst other things, the book explains in detail how to investigate and understand the frame of mind of the seafarer at the moment he or she made the decision that eventually led to an incident.

Cyber risk awareness

The managers worked with Fidra Films on an award-winning global maritime cyber security awareness campaign 'Be Cyber Aware At Sea', which launched a new free video that aims to highlight the vital and increasing importance of cyber security across the maritime industry. The film uses real-life case studies to highlight how easy it is for cyber criminals to target individual employees, who are often the weakest link in the security chain. The film has been viewed over 30,000 times on YouTube and Facebook, with an additional viewing of over 100,000 offline copies. It was awarded a SMART4SEA award in the 2017 cyber security category.

Selected key business areas

Standard Asia

Standard Asia was established in 1997 and is the only incorporated P&I club insurance subsidiary in Singapore. As such, it operates largely autonomously and is fully empowered to make decisions locally, making it more agile and responsive than its competitors. Regulated by the Monetary Authority Singapore, this makes Standard Asia highly attractive to ship operators in the Asia-Pacific region that value prompt and effective service from an experienced team in their local time zone. There are 30 staff in Singapore who provide a complete range of member services, including claims, underwriting, loss prevention and finance. A further three claims staff and a finance manager are based in Hong Kong and report to Singapore.

Standard Asia has seen healthy growth in excess of 7% over the year, with mutual owned tonnage increasing from 18.9mgt at 20 February 2017 to 20.5mgt at 20 February 2018. Growth has been particularly strong in Korea, Singapore and Indonesia.

Three new members joined the club during the 2017/18 policy year. At the February 2018 renewal, the club renewed all existing members and welcomed four new members. Premium income on expiring business was slightly down at renewal, reflecting the continuing soft insurance market conditions. Following the 5% return of mutual premium on the 2017/18 policy year, a small underwriting deficit is expected on the 2017/18 financial year, with a combined ratio of 103%.

Korean P&I Club (KPI)

In October 2017, Standard Asia established a new mutual collaboration facility with the Korea P&I Association (KPIA). This provides cover for P&I risks on a mutual basis excess of an underlying deductible of $500,000. The facility builds upon the excess cover fixed premium facility established with KPIA in August 2016, which targets Korean coastal and regionally trading small craft up to 10,000gt. This new agreement has six members, which brings the KPI co-operation with Standard Asia to 675,000gt entered by 11 members. Both KPI and The Standard Club expect that this arrangement will continue to flourish and grow over time.

Singapore War Risks Mutual (SWRM)

SWRM, a class within Standard Asia with its own committee, completed its third year of underwriting on 20 February 2018. The year ended with 573 ships (representing 13.4mgt) entered by 30 owners. The premium income generated and the number of ships entered remain in excess of business plan targets, despite extremely strong competitive pressures. SWRM remains 100% reinsured, with the reinsurance now largely placed in and led from Singapore. SWRM was established with the support of the Singapore Shipping Association and is a key component of the country's strategic aim to grow its position as one of the world's leading maritime centres. With a 2017/18 policy year combined ratio of 66% and no claims to date, the class continues to make a positive contribution to Standard Asia's overall result.

Standard Offshore

In 2017, Standard Offshore saw some strong growth, and wrote some significant new members and tonnage. Three notable examples are the world's first operational FLNG unit for Petronas, the world's largest semi-submersible production platform and associated FPSO for Inpex, and the world's largest X-bow construction support vessel for Allseas. Despite the difficulties presented by current market conditions, we have seen some examples of our members being able to take advantage as opportunities do arise, through acquisition.

Operational review continued

The ongoing uncertainties of the current market, however, are often reflected in the contractual terms that can be achieved by our members. As part of our service to members, the club provides individual contract reviews, which clarify how the member's P&I cover responds to liabilities under the contract or highlight where terms are particularly onerous and, consequently, special terms need to be applied in order to provide cover. They also identify where there are exposures that fall outside of cover. Over the past year, we have reviewed close to 800 bespoke contracts for our members with a view to providing them with the maximum certainty of cover. In support of this, we also published a contracting bulletin to assist our members, across all sectors, with their contract negotiations.

Offshore Contracting Guide

The Standard Club Offshore Advisory Committee (SCOAC) was established in 2017. It is drawn from the club's offshore membership, with the aim of providing a forum for discussion on insurance issues, claims trends, contracting, loss prevention and emerging risks. Senior personnel from Subsea 7, Saipem, SBM, Allseas, Nortrans, Energy Drilling and Floatel International sit on the committee, which meets biannually. SCOAC is the first initiative of its kind within IG P&I clubs and helps to consolidate the club's reputation as a market leader in offshore P&I as we look to develop new initiatives, insurance solutions and disseminate key industry information across the membership.

The club's offshore division has had a long history of supporting BIMCO by being involved in the drafting and revision of its contracts. A member of the claims team has recently been involved in the revision of the BIMCO SUPPLYTIME 2005, which is one of the most frequently used contracts in the offshore supply vessel sector. The revised contract has now been published as BIMCO SUPPLYTIME 2017. Another member of the claims team is presently involved in the development of a new BIMCO contract, which is aimed at operators involved in dismantling oil/gas production infrastructure – an area in which Standard Offshore has long been at the forefront of supporting and finding cover solutions.

London Class

The specialist inland and shortsea class of the club continues to expand in very challenging conditions, both in the sector itself and the continuing commercial market competition. The club has seen a 12% growth in tonnage and now insures 5mgt. The class committee agreed for the first time in the club's history to return premium – a 5% return on the 2016/17 policy year.

TS21

The club's joint venture with Tokio Marine & Nichido Fire (TMNF) continues to prosper and there has been some significant growth, particularly in time charter business this year. Japan remains the third-largest region for the club.

The Standard Syndicate (Syndicate 1884)

The Standard Syndicate was established by the club in April 2015 with the long-term aim of improving the financial strength of the club and expanding the range of marine and energy covers available to members, many of whom have taken advantage of this offering. The club currently provides 86% of the syndicate's capacity in 2018.

Given the club's deep knowledge of the shipping industry, proprietary data on fleets and maritime knowledge, the syndicate initially focused on underwriting marine and energy risks. As the syndicate has evolved, during 2017 it started to move to the next phase of its strategy of seeking to diversify into non-marine classes, while still capitalising on its strong relationships with the club, its members and their brokers, which is expected to help deliver lower volatility, greater scale and more sustainable earnings over time.

In common with many new syndicates, the club did not anticipate the syndicate making a profit in its early years of operation. That said, the first three years for the syndicate have been more challenging than it would have liked, for a number of reasons. Whilst the syndicate's performance in the first three years of operation has been behind plan, affirmative actions have been taken to significantly improve the syndicate's performance, including recruitment to strengthen both underwriting and operational capabilities, and further diversification of the portfolio as outlined above. These are starting to deliver measurable results, with the syndicate's business plan for 2018 targeting profitable underwriting.

Members are encouraged to continue to consider the syndicate for their insurance requirements so as to support the club's investment in this exciting initiative.

Standard Hydor

The club's joint venture in Norway, Standard Hydor, completed its first full year of underwriting for The Standard Syndicate. The strong support that Standard Hydor has received from the local market has meant that the premium projections were fully met.

Reinsurance

Club retention and the Pool

The individual club retention increased to $10m with effect from 20 February 2016 and remains unchanged for the 2018/19 policy year. The attachment point on the Group GXL reinsurance programme, which increased to $100m at February 2017, remains unchanged.

The pooling mechanism maintains fairness between IG clubs and ensures that the exposures generated are manageable.

The IG reinsurance programme

This year's GXL renewal resulted in a small premium decrease for members, depending upon ship type. The structure of the programme this year remains the same, with three private placements covering 15% of the first and second layers. Hydra, the IG's captive, has an aggregate retention under its own reinsurance contract of $123m.

Non-pool reinsurance programme

A large proportion of the club's members benefit from the club's non-poolable covers. The biggest users of the non-pool programme are charterers and those involved in the offshore energy and specialist sectors, whose risks are largely excluded from the Pool. The club continues to offer the same maximum limit of $1bn.

This programme also includes the club's fixed premium business.

Retention reinsurance

The club's stop loss protection for its retention risks is now in its third year. The club appreciates the support given by its reinsurers and values highly its relationship with them.

Investments

In the year to 20 February 2018, the club's total investment assets returned 6.4%. The investment portfolio, which excludes certain sterling assets including the Standard House property and CT plc shares, returned 5.2%.

As at 20 February 2018, the investment portfolio was allocated as follows:

- corporate bonds 35%
- sovereign bonds including bills 38%
- equities 13%
- alternatives 8%
- cash/FX forwards 6%.

The currency allocation was:

- US and Canadian dollars 87%
- European currencies (excluding sterling) 7%
- sterling 3%
- other currencies 2%.

The main changes in asset allocation over the year were a decrease in the allocation to corporate bonds, which was offset by an increase in government bonds and cash, whilst there was also a decrease in the allocation to equities. In addition, the allocation to non-dollar currencies was reduced. The overall investment risk level remained cautious.

On 27 April 2018 the Standard House property was sold for £21.7m (see note 25 to the financial statements). The proceeds of this sale have been reinvested in the club's investment portfolio.

Solvency and capital management

The Standard group of clubs is regulated by the Bermuda Monetary Authority (BMA) under a regulatory regime deemed 'equivalent' to Solvency II, the EU-wide European regulatory regime which applies to the club's subsidiary, The Standard Club Europe Ltd (Standard Europe).

As part of the BMA's regulatory framework, insurance companies are required to publish a 'Financial Condition Report' setting out the business and performance of the company, its governance structure, risk profile, solvency valuation and capital management. This is published on The Standard Club's website.

A key requirement of the regulatory regimes under which the Standard group of clubs operates is to have a well-developed Own Risk and Solvency Assessment (ORSA) programme in place (also referred to as the Commercial Insurer's Solvency Self-Assessment (CISSA) programme in Bermuda). The club has been developing this programme over recent years, and its ORSA/CISSA is updated and reviewed annually by the board.

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

The ability of the club to make supplementary calls remains an important part of the resources available to meet its capital requirements. Both the BMA's regulatory framework and the Solvency II Framework Directive allow mutual insurers, such as the club, to have the right to make supplementary calls included as additional capital.

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

The board's strategic approach to capital has been referred to above in the free reserves section of the report of the directors and is set out in the club's capital management methodology bulletin published in November 2017 and available on the club's website.

Operational review continued

Brexit

On 29 March 2017, the UK Prime Minister, Theresa May, triggered Article 50, the legal mechanism by which a country formally exits the EU, marking the start of two years to negotiate its terms of exit with the remaining 27 EU member states. The UK will leave the EU on 30 March 2019 and it appears increasingly likely that UK companies will lose 'passporting rights', which means that UK insurance companies will lose the automatic right to offer insurance to EU insureds. This has a substantial impact on Standard Europe, as approximately 50% of insured business will be affected.

The managers have recommended that the club move from a two-club to a three-club strategy, which means the formation of a third subsidiary of Standard Bermuda which is within the EU. The managers sought advice from two professional service firms and built a preliminary shortlist of ten EU member states. This was then reduced to four member states and the managers entered into discussions with the regulator in each of these four member states. Following these discussions, the shortlist was then reduced to two member states, Ireland and Luxembourg. The Standard Club board of directors met in October 2017 and made the final decision to proceed with establishing an authorised insurer in Ireland. The board considered three broad criteria: operational impact including corporate governance, the attitude of the regulator and taxation issues.

The new subsidiary in Ireland will predominantly underwrite EU risks from 20 February 2019 and the UK subsidiary, Standard Europe, will be rebranded during 2018 and continue to insure its existing non-EU business. Standard Asia will be unaffected by these changes.

The managers have engaged with the Irish regulator and have submitted the application for the new subsidiary. The managers are currently building the application for a new Charles Taylor entity to manage it. It is envisaged that while some functions are held in Ireland, a number of critical functions will be outsourced back to the UK. Members and their brokers should be assured that all steps are being taken to mitigate and minimise any business disruption and that their existing relationships with the managers will be maintained. Further details on the club's Brexit arrangements and the implications for members will be provided during the second half of 2018.

Diversity and inclusion

The club is committed to providing an environment for the managers' staff in which their individual talents can flourish and there are fair and equal employment opportunities for all persons. The managers are an equal opportunities employer and base all decisions on individual ability without regard to gender, race, religion, beliefs, political opinions, creed, colour, ethnic origin, citizenship, nationality, marital/parental status, identity expression, sexual orientation, age or disability. Appropriate training and career development are available at all levels and the managers are committed to helping all employees to realise their potential by gaining relevant skills and experience.

The General Data Protection Regulation (GDPR)

The GDPR came into force in the EU/EEA on 25 May 2018 and companies/organisations caught by the regulation are in most cases having to commit significant resources in order to ensure compliance. The club has issued a circular and published a bulletin on the subject for members.

GDPR bulletin

This new regulation significantly overhauls the data protection rules across Europe, changing how personal data is collected, stored, processed, accessed, used and transferred. The GDPR will be incorporated into the law of the United Kingdom under the Data Protection Act 2018, which is expected to enter into force at the same time. The UK's compliance with the GDPR will not be affected by Brexit.

The GDPR is designed to strengthen procedures relating to 'personal data', defined as data that can identify, or be used to identify, a living individual, and affects all organisations that process such data within the EU or relating to EU citizens. As well as putting new obligations on companies and organisations that are collecting personal data, the GDPR also gives individuals a lot more power to access the information that is held on them and to get their data erased in some circumstances. Failure to comply with the new regulations in respect of certain provisions could result in significant fines.

The managers consider that the club will in most cases be a data controller for the purposes of the GDPR. The club wholly outsources management to Charles Taylor & Co (Bermuda), which in turn delegates day-to-day administration to Charles Taylor & Co. Limited in London and other companies within the Charles Taylor group, which will in most circumstances act as a controller in common. This will permit the club to operate under the GDPR framework being built by the managers and therefore be compliant.

Industry issues

US sanctions

Iran

On 8 May 2018, President Trump announced that the US would terminate its participation in the Joint Comprehensive Plan of Action (JCPOA), otherwise known as the 'Iran nuclear deal', between Iran and the permanent members of the UN Security Council (China, France, Russia, the UK, the US, Germany and the European Union). The US Administration immediately began to take steps to reimpose US nuclear-related secondary sanctions lifted under the JCPOA, which apply to non-US persons and entities. US primary sanctions which apply to US persons and entities were not lifted under the JCPOA and therefore continue to apply.

The reimposed sanctions, following a 90-day and 180-day winding down period, will target key sectors of Iran's economy, such as its energy, petrochemical and financial sectors, which is likely to have significant ramifications for maritime trade with Iran. Sanctions relating to the provision of insurance and reinsurance will be reimposed on 5 November 2018, following a period to allow the winding down of existing arrangements. It will only be possible to assess the real impact of this decision by the US following clarification of the position of the remaining JCPOA partners, who have reaffirmed their support for the JCPOA.

North Korea

The sanctions imposed under CAATSA against North Korea include the power to impose sanctions on persons determined to have knowingly acquired certain metals, ores and minerals from North Korea or insured a vessel owned or controlled by the Government of North Korea.

In September 2017, President Trump issued Executive Order 13810, which imposes further sanctions against persons who operate in the North Korean construction, energy, financial services, manufacturing, mining or transportation industries, or who have engaged in a significant importation from or exportation to North Korea. It also prohibits vessels that have called at a port in North Korea in the previous 180 days, including vessels that engaged in ship-to-ship transfer with such a vessel, from entering the US.

Russia

The CAATSA contains sanctions against Russia, which include freezing all assets in the US of any person or entity determined to be operating in certain sectors of the Russian economy, such as energy, mining, engineering, defence and financial services.

It also expands the scope of Directive 4 of the US sectoral sanctions against Russia, so that it is prohibited for a US person to provide goods, services or technology in support of deepwater, Arctic offshore or shale projects that have the potential to produce oil anywhere in the world and not just Russia. It extends the application of the Directive so that it applies to persons who have a controlling interest in the project (defined as not less than 33%).

It also provides the power to impose sanctions on US and non-US persons if it is determined that they have knowingly made a significant investment in a Russian crude oil project or in the construction of Russian energy export pipelines (where the investment or support are valued at at least $1m or $5m over 12 months).

Sudan

On 12 October 2017, US OFAC revoked its economic sanctions against Sudan. However, it is still prohibited for US persons to transact any business with persons or entities named as SDNs (Specially Designated Nationals) on the US sanctions list.

Technology and innovation

The shipping industry is set to change drastically over the next decade, with fully unmanned ships predicted to set sail by 2030. Certainly, autonomous ships in some capacity will become a reality sooner, with the *Yara Birkeland* (a fully electric small container ship trading inland Norway) expected to be delivered in 2019.

In response to the fast pace of change, the managers have set up a Technology Working Group comprised of employees from different areas of the business. The group was initially tasked with monitoring the development of autonomous ships but has since evolved to cover additional areas, including:

- how we can use data to better understand risk and improve underwriting
- what the increased use of blockchain might mean for the shipping and insurance industries
- the importance of cyber security.

The working group will continue to monitor developments in the industry, and internally, to see how technology can help the club improve operations. It will provide updates to the membership on its findings.

MLC

Since 18 January 2017, all ships which are subject to MLC are required to carry and display on board two certificates confirming that financial security is in place for the cost and expense of crew repatriation, as well as for up to four months' contractually entitled arrears of wages and entitlements following abandonments (MLC Standard A2.5.2, para 9), as well as a further certificate for liabilities for contractual claims arising from seafarer personal injury, disability or death (MLC Regulation A4.2 para 1(b)).

Industry issues continued

Whilst some of the liabilities arising under the certificates are covered by standard P&I cover, ie compensation for death or long-term disability, the liabilities for outstanding wages and repatriation of seafarers, together with incidental costs and expenses, fall outside of cover. In agreeing to provide the necessary certification, all the IG clubs have agreed that, if clubs are required to meet liabilities falling outside of cover in the first instance under the certificate, members will be obliged to reimburse the club. In the event that a member fails to meet these obligations, the club will look to the joint entrants on the policy to make good the debt, on the basis that they are jointly and severally liable to reimburse the club for any MLC liabilities falling outside standard P&I cover. This is reflected within the rules and also within the terms of the MLC Extension Clause.

On 24 April 2018, the International Labour Organisation hosted a meeting of the Maritime Labour Convention Special Tripartite Committee on the MLC. The International Transport Workers' Federation (ITF) delegation representing seafarer interests had tabled a proposal to introduce further amendments to the MLC which would require ships subject to the MLC to maintain and evidence insurance for the protection of seafarers' wages during periods of captivity following hostage taking by pirates or armed robbers at sea. These proposals called for ships to carry a separate MLC financial certificate on board covering such liabilities. It was likely that ship owners would look to the clubs to provide this necessary certification.

Whilst being sympathetic to the proposal that seafarers held captive as a result of an act of piracy or armed robbery should continue to receive their wages and entitlements during the period of captivity, the International Chamber of Shipping (ICS) delegation submitted a counter proposal dismissing the call for amendments to the MLC on the basis that they were too extensive, possibly resulting in significant amendments to existing legislation. They also expressed concerns that the recent MLC 2006 amendments have only very recently entered into force and would require more time to be fully implemented before any new financial security requirements were introduced relating to wages during periods of captivity.

Some governmental delegations proposed a compromise amendment that would have had the effect of amending the existing Standard 2.5.2 paragraph 9. This would have meant a simplified amendment and reduced the legislative burden on national parliaments. Nevertheless, this proposal was deemed to be inappropriate on the grounds that it was completely new.

The final decision taken was that the MLC will be amended to impose an obligation on shipowners to ensure that if seafarers are held captive, their wages and entitlements will continue to be paid, but without any obligation for evidencing and maintaining financial security in respect of such wages and entitlement.

Ballast water management

Convention update

The International Convention for the Control and Management of Ships' Ballast Water and Sediments (BWM Convention) was adopted by the International Maritime Organization (IMO) in 2004 in response to concerns about ecological and environmental damage caused by the introduction of potentially invasive alien species through ships' ballast water. The BWM Convention entered into force on 8 September 2017 and currently has 68 signatories representing 75% of the world's tonnage.

The purpose of the BWM Convention is to halt the spread of potentially invasive alien species through the adoption of clear and robust standards and guidelines for the management of ships' ballast water. The BWM Convention requires internationally trading ships to manage their ballast water in accordance with a ship-specific plan, maintain a ballast water record book and carry an international ballast water management certificate.

The management of ballast water is effected through the use of an approved ballast water treatment system, judged according to guidelines issued by the IMO. Approved systems must have been fitted by a date determined according to when a ship was built and when any international oil pollution prevention certificate was granted, as prescribed by regulations issued pursuant to the BWM Convention.

US ballast water issues

The United States is not a party to the BWM Convention and regulates ballast water unilaterally under national legislation. Both the US Coastguard and the Environmental Protection Agency enforce compliance in relation to ballast water. The US Coastguard does so with regulations which require the installation of an approved ballast water management system on most ships operating in US waters by either the ship's first scheduled dry-docking after 1 January 2016 or on delivery for newbuilds. In addition, a number of states (including California) have issued their own ballast water requirements which are usually stricter than those set at national level.

Lloyd's Open Form – side agreements

The Lloyd's Open Form (LOF) salvage contract has been in use for over 100 years and is often the best contract in an emergency situation. The Special Compensation P&I Club (SCOPIC) clause has been used in conjunction with LOF for nearly 20 years and, like LOF, is in principle supported by The Standard Club.

However, there has been a recent trend for shipowners and their hull & machinery underwriters to enter into side agreements with salvors which modify the operation of the LOF/SCOPIC regime, including by varying the way salvors are remunerated. This practice undermines one of the key advantages of LOF – that the contract can be signed unamended in an emergency when delay could lead to the situation getting worse.

Members should be aware that the use of side agreements could also prejudice P&I cover to the extent that they affect the operation of the SCOPIC clause. There is also a risk that side agreements may not be binding and could be subject to challenge based on provisions of the 1989 Salvage Convention and LOF itself (which relate to unfair contracts and a prohibition on inducements respectively).

Principal risks and uncertainties

How the club manages risk

The board is responsible for identifying and managing the club's risks. The board's risk management responsibilities are led by the Audit and Risk Committee, which reviews the risks facing the club, their potential impact, management and mitigation at each of its meetings. 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.

Key risks are evaluated to assess their likelihood and potential impact.

The club's management establishes controls which are designed to ensure that the tolerances contained in the board's risk appetite are not exceeded and, where possible, puts in place arrangements or processes to mitigate the club's risks. Acting through its Risk Committee, the club's management regularly monitors the effectiveness of the risk management system, including the impact of changes in the club's risk profile and emerging risks. A risk register is maintained which records the risks and their potential likelihood, impact, mitigation and controls. The club's internal model reflects the risks identified and is used to assess the potential aggregate impact, and hence the levels of capital required to cover them.

The club's risk and internal audit functions report to the Audit and Risk Committee, providing assurance that the club's risk management systems are functioning correctly.

Type of risk	Risk description	Management action
Underwriting risk		
Premium risk	The risk that premiums charged will not be sufficient to meet all associated claims and expenses, including: • internal risks arising from underwriting inappropriate or incorrectly priced business • external risks arising from adverse insurance or reinsurance market movements, or adverse trading conditions for the club's members.	• Premium risk is managed by: – clear underwriting controls, pricing models, and underwriting review and authority levels – monitoring for undue concentrations of risk, acceptability of member loss records and consistency of pricing with risk appetite – a dedicated loss prevention function, aimed at ensuring the club only underwrites those shipowners that operate to an acceptable standard as well as encouraging good risk management by members. • Premium risk is mitigated by appropriate reinsurance programmes, including the IG pooling and reinsurance programme, and the club's own non-pool and retention reinsurance. • Reinsurance strategy is set by the board in line with the board's risk appetite and is designed to mitigate the club's insurance risk through programmes tailored to the club's exposures. The efficacy of the club's reinsurance arrangements in mitigating club risks is tested by the actuarial function.
Reserve risk	The risk that claims reserves will be inadequate to cover 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 – 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 – actuarial reserving process and controls, with a quarterly reserving committee incorporating review of underlying assumptions and methodologies.

Type of risk	Risk description	Management action
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 IG 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, ability to net overdue premium amounts against unpaid claims, 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: a. 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. b. Within the risk tolerance agreed by the board, to maximise the overall returns as measured over rolling three-year periods. c. To ensure there are ready funds to meet liabilities as they fall due. • There are clear and regularly reviewed investment rules, and the club manages its investment risk through investing widely and in different asset classes to diversify the overall portfolio and produce reasonable returns with acceptable volatility. The club is exposed to equity price fluctuation risk, but the investment rules limit equity exposure. • The currency of investment is matched to the profile of the liabilities to which the club is exposed. The club makes use of forward currency contracts to hedge its exposure to fluctuations in the value of non-core currencies and to maintain the matching of the investment profile to the liability profile. • Interest rate risk exposure is measured and controlled through regular consideration of the appropriate duration of the fixed interest component of the portfolio. • The investment asset and currency benchmarks are modified from time to time to reflect the board's reassessment of market risk appetite, as informed by its assessment of the investment markets as well as by risk appetite and regulatory or rating agency considerations.
Liquidity risk	The risk arising from insufficient financial resources being available to meet liabilities as they fall due.	• The club continually monitors its cash and investments to ensure that the club meets its liquidity requirements. • Adequate cash holdings are maintained at all times and the club's asset allocation strategy is designed in part to enable the ready availability of funds to meet insurance liabilities as they fall due. • The club regularly reviews the time period required to liquidate the investment portfolio. • The likely cash outflows in relation to specific large claims are projected and monitored. • Significant claim settlements through the IG Pool and associated reinsurance arrangements are subject to special settlement provisions that provide the club with access to funding for those 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, an appropriate governance structure and control framework are also in place to monitor the club's outsourcing of its operations.

Corporate governance

Overview

The club comprises members from the international shipping community and seeks to follow good governance principles that would generally be recognised throughout world markets.

The club is principally regulated in Bermuda, with regulated operating insurance subsidiaries in the UK and Singapore, and the club has had particular regard for the requirements of these countries in arriving at its current practices.

Board responsibilities

The board's governance of the club is described 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 are to:

- govern and direct the club's affairs
- ensure that the club's objectives are being fulfilled
- set the 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
- 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 risks, controls, underwriting, claims, investment and general policy issues. The directors are provided with board meeting papers in sufficient time before each board meeting to enable them to understand the relevant issues and to focus upon decisions that need to be made.

The board has delegated to the managers the implementation of the board's strategy and policies, and the management of the day-to-day operations of the club.

A formal management agreement between the club and the managers sets out their respective obligations and responsibilities. In addition, there is a service level agreement against which the board reviews the performance of the managers.

Board membership

The great majority of directors are non-executive and are not involved in the day-to-day executive management of the club. By virtue of the bye-laws, directors are, in the most part, the owners or senior executives of member companies.

The chairman is responsible for the direction and effectiveness of the board and the oversight of the club's affairs and strategy. There are two deputy chairmen whose roles are to assist the chairman in carrying out his role. The chairman and deputy chairmen are elected for a term of three years but may be re-elected for four further three-year terms.

The board also has the benefit of an insurance expert director, and expert insurance and investment guidance from its managers and personnel within the managers' group, as well as access to additional independent insurance and regulatory, financial and investment expertise as required.

A Bermudian resident director with insurance and regulatory experience, appointed to the board in January 2016, continued to serve on the board during the year.

One-third of the directors must retire from office by rotation at each annual general meeting (AGM) and all directors appointed since the date of the last AGM must put themselves forward for re-election.

Directors who have held office for a period of nine years must offer themselves for annual re-election to the board. Directors must retire from the board at the next AGM if they are no longer eligible to be elected to the board according to the bye-laws.

Remuneration

Directors receive fees agreed by the club membership at the AGM (other than the fees of non-member directors, which are agreed by the board and which are appropriate to their non-executive status).

Directors who are employed by the managers do not receive directors' 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 Nomination and Governance Committee considers the remuneration policy of the managers to ensure that incentives are aligned with the interests of the club and with prudent risk-taking.

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

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

Committees of the board

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

Nomination and Governance Committee
The committee's main responsibilities include identifying suitable candidates for board membership and membership of board committees, reviewing the overall composition of the board, leading reviews of the board's effectiveness, and reviewing and making recommendations on the club's governance structure, policies and practices. During the year, the committee reviewed the make-up and balance of the skills on the board, succession planning for key board appointments, 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. In addition, the committee considered assessments of the club's compliance with the UK Corporate Governance Code 2016 and the FRC Guidance on Audit Committees 2016, as a result of which a few minor enhancements were made to the club's Audit and Risk Committee's terms of reference in October 2017.

The committee also reviews the induction and training programmes for board and committee members.

The committee leads the review of the managers' performance and, in this respect, during the year, reviewed their performance against the specific requirements of a service level agreement, as well as their remuneration. The committee considered succession planning for key executive management roles.

The performance of the board, its committees and the chairman are reviewed annually. The Nomination and Governance Committee conducted an evaluation of the board's and committees' effectiveness in 2017 and considered the board and committees to be operating effectively.

In accordance with the requirements of the Insurance Code of Conduct 2015, the committee considers, at each meeting, the group governance map.

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 and broker survey was conducted in the summer of 2017 and the results were very positive, with 97% of members expressing a likelihood to recommend the club to another shipowner. Additionally, informal regular monitoring of member satisfaction is carried out to gauge the members' views of the club and to 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.

Audit and Risk Committee
The Audit and Risk Committee's role includes the review of the financial statements of the club, its financial regulatory returns, relations with and reports from the external and internal auditors, and oversight of the club's risk management and internal controls. During the year, the committee reviewed the annual report and gave consideration to the scope and nature of the year-end audit. It considered compliance with accounting standards, the independence (taking into consideration the Ethical Standard 2016) and effectiveness of the external auditors, and the scope and extent of the non-audit services provided by them. A policy on the provision of non-audit services by the external auditors will be developed taking into account the Ethical Standard 2016 and legal requirements.

The committee received a direct report from the external auditors' engagement leader and challenged him on the audit report.

The committee will be retendering the external audit work in 2018.

The committee also received a report following an external quality assessment of the internal audit function, conducted by Deloitte, which contained a number of recommendations to enhance the function.

Corporate governance continued

The committee reviewed the integrity and effectiveness of the club's financial controls, the operation and resources of the risk management, compliance and internal audit functions, and the risk management, compliance and internal audit reports. The club's principal risks and uncertainties, and the effectiveness of the company's risk management and internal controls systems, including whistleblowing arrangements, were reviewed by the committee and the board.

Marianne Sørensen stepped down as the chairman of the Audit and Risk Committee at the end of its meeting held on 29 January 2018. Erik Johnsen was appointed as chairman with effect from 29 January 2018, subject to regulatory approval.

The committee receives a report on whistleblowing incidents and complaints, if any, at each meeting.

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

Strategy Committee

The committee's role includes considering and making recommendations to the board concerning the strategy to be adopted by the club, reviewing the performance of the club in meeting its strategic objectives, reviewing the club's business environment, and considering new strategic initiatives, alliances and potential mergers.

During the year, the committee discussed new products and services, and the effective marketing of them. The committee also considered progress of business development initiatives and the impact, threats and opportunities arising from the decision by the UK in July 2016 to leave the EU. This included contingency plans to facilitate the continued provision of insurance services to members within the EU following such exit. After due consideration, the committee recommended to the club board to set up an insurance entity in Ireland to enable it to continue services in the EU and this will be progressed during 2018 in preparation for the UK leaving the EU in March 2019.

The committee reviewed the performance of The Standard Syndicate and Charles Taylor Managing Agency, and the underwriting and renewal strategy for the 2018/19 policy year.

The Chairman's Group

The Chairman's Group reviews the affairs of the club with the managers between board meetings and has met 12 times since the last report.

Risk management

Approach

The board, and its Audit and Risk Committee, set and review on a regular basis the club's risk appetite, the major business risks facing the club, their potential impact, and the systems and controls in place to manage and mitigate those risks.

During the year, the board reviewed the club's risk appetite statement which is used to provide guidance to management. At the highest level, risk appetite is considered in terms of the likelihood that the club may be required to make an unbudgeted supplementary call on members, whether directly as a result of its mutual underwriting activities or through other activities such as investing in risk-bearing assets. The club uses its internal capital model in the assessment of aggregate levels of risk against risk appetite.

In addition, detailed measures of the club's appetite for each of the club's key risks have been established, with key risk indicators reported at each board meeting.

The club operates a 'three lines of defence' system of internal control, supplementing the management of risk by its business units through regular reviews of controls by the risk management function and tests of controls to ensure their adequacy through internal audit assurance. The risk management system and processes are linked to the club's internal model, whose outputs assist in the management of the business as well as in the assessment of the economic capital required to reflect the financial impact of business risks.

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

Maintenance of a sound system of internal controls

The board has satisfied itself, through review by the Audit and Risk Committee, that there are suitable and appropriate systems of control within the club's management, including a process for identifying, evaluating and managing the risks that the club faces, and that the controls operate effectively, including monitoring that the club operates within its risk appetite and complies with its regulatory responsibilities.

Compliance and regulation

Approach

The club's compliance and regulatory affairs 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 the results of compliance monitoring work carried out and any issues arising. The managers also report any incidents where controls have either failed or nearly failed, or where risks have crystallised or have come close to doing so.

Internal audit

The club's internal audit function is led by a senior Charles Taylor manager. The internal audit department is an independent unit within Charles Taylor and is not involved with the day-to-day management of the club.

The head of internal audit, who attends all Audit and Risk Committee and board meetings in person, is directly accountable to the chairman of the committee and has free and unrestricted access to the chairman of the club board. The head of internal audit has a private 'in camera' session with the committee at the end of each meeting. The internal audit reports submitted to each committee meeting summarise the audits undertaken and identify progress against the agreed audit timetable. The audits themselves are rated red, amber or green, and individual audit issues are categorised as high, medium or low. Once a year, an assurance map is tabled for discussion, which sets out the main operational areas of the business and indicates the status of, and outlook for, the control environment.

The internal audit terms of reference are reviewed on an annual basis.

The annual audit plan is risk based. It reflects, among other things, the operational, financial, administrative and regulatory aspects of the club's business, taking as its starting point the internal audit's assessment of the risk environment. Some audits are carried out by external consultants. The plan is flexible so that it can deal with any reprioritisation that may occur during the course of the year.

Key policies

The board maintains policies across a range of areas, including conflicts of interest, financial crime and whistleblowing, sanctions, and business and ethical values and treating customers fairly.

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, between the club's members, and between members and other clients of the managers' group are identified and managed.

Prevention of financial crime and whistleblowing

The managers have procedures to prevent the club being involved unwittingly in money laundering or inappropriate payments. They also have whistleblowing procedures in place to ensure that members of staff can raise matters of concern confidentially so that they may be appropriately investigated. The board has a whistleblowing policy which is kept under review by the Audit and Risk Committee.

Sanctions compliance

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

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 adopted an updated set of corporate values in January 2018 which are communicated to all staff regularly to ensure that their work on behalf of the club is carried out with integrity and fairness.

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.

Corporate governance continued

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. Continuity testing was carried out in April 2018, which confirmed that the business (including all key processes) would be able to continue functioning in the event of an incident, and further tests will be carried out in the forthcoming year.

The environment

The day-to-day business of the club is carried out by its managers, who are committed to minimising the impact on the environment of the club's business operations and to achieving best practice in areas in which these have an environmental impact. The managers have taken steps to reduce the club's carbon footprint and strive to minimise its energy consumption through its energy management policy and by encouraging staff to use energy thoughtfully. Where possible, the managers use energy-efficient business appliances, thereby giving rise to energy savings and a reduction in emissions. Standard House, which up until April 2018 accommodated the managers' London operations, incorporated a number of design and other initiatives to reduce that office's environmental impact and carbon footprint, and it is compliant with the Energy Savings Opportunity Scheme in the UK. The managers' future headquarters, The Minster Building, which will be occupied from the beginning of July 2018, will adopt the same or a similar approach, in order to ensure compliance.

The club requires its members to comply with all relevant environmental regulations, standards and laws, and supports them in developing and maintaining best practice in their operating procedures and practices in order to minimise the impact of their businesses on the environment.

The club translates its environmental policy into practical guidelines to assist the implementation of good practice amongst its membership.

It regularly audits members' ships and management to monitor compliance with environmental regulations, and to evaluate and encourage the implementation of good operating procedures. The club encourages its 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 that consistently fail to comply with acceptable standards of responsible operation.

Equality of opportunity and gender diversity

The managers have formal policies which aim to attract and retain a diverse and flexible workforce, and to promote equality of opportunity. As far as board appointments are concerned, the board believes that appointments should be based on merit and overall suitability for the role. When considering succession planning, the Nomination and Governance Committee bears in mind the balance of skills, knowledge, experience and diversity existing on the board.

Modern Slavery Act

Given the nature of its business, the club considers that there is minimal risk that the club, its managers or the supply chains which support the club's business activities are involved in, or complicit in, slavery and human trafficking. The managers are committed to making sure that the club's business and those of its suppliers are free from modern slavery and human trafficking, and have therefore taken, and will take, the steps set out in The Standard Club Modern Slavery Act Statement (http://standard-club.com/who-we-are/modern-slavery-statement.aspx).

Directors' responsibilities

Statement of disclosure of information to auditors
Each person who is a director at the date of this report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the club's financial statements for the year ended 20 February 2018 of which the auditors are unaware
- each director has taken all steps that they ought to have taken in their duty as a director to make themselves aware of any relevant audit information and to establish that the club's auditors are aware of that information.

Directors' responsibilities
The following statement, which should be read in conjunction with the auditors' report, as set out on pages 31 to 33, is made with the view to distinguishing for members the respective responsibilities of the directors and auditors in relation to the financial statements.

The directors are responsible for preparing the report of the directors and the financial statements in accordance with applicable laws and regulations in Bermuda. The directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102: 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103: 'Insurance Contracts' (FRS 103), both issued by the Financial Reporting Council and in compliance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) relating to insurance companies. The financial statements are required to give a true and fair view of the state of affairs of the group and parent company, and of the income or expenditure of the group and parent company for that year. In preparing those financial statements, the directors are required to:

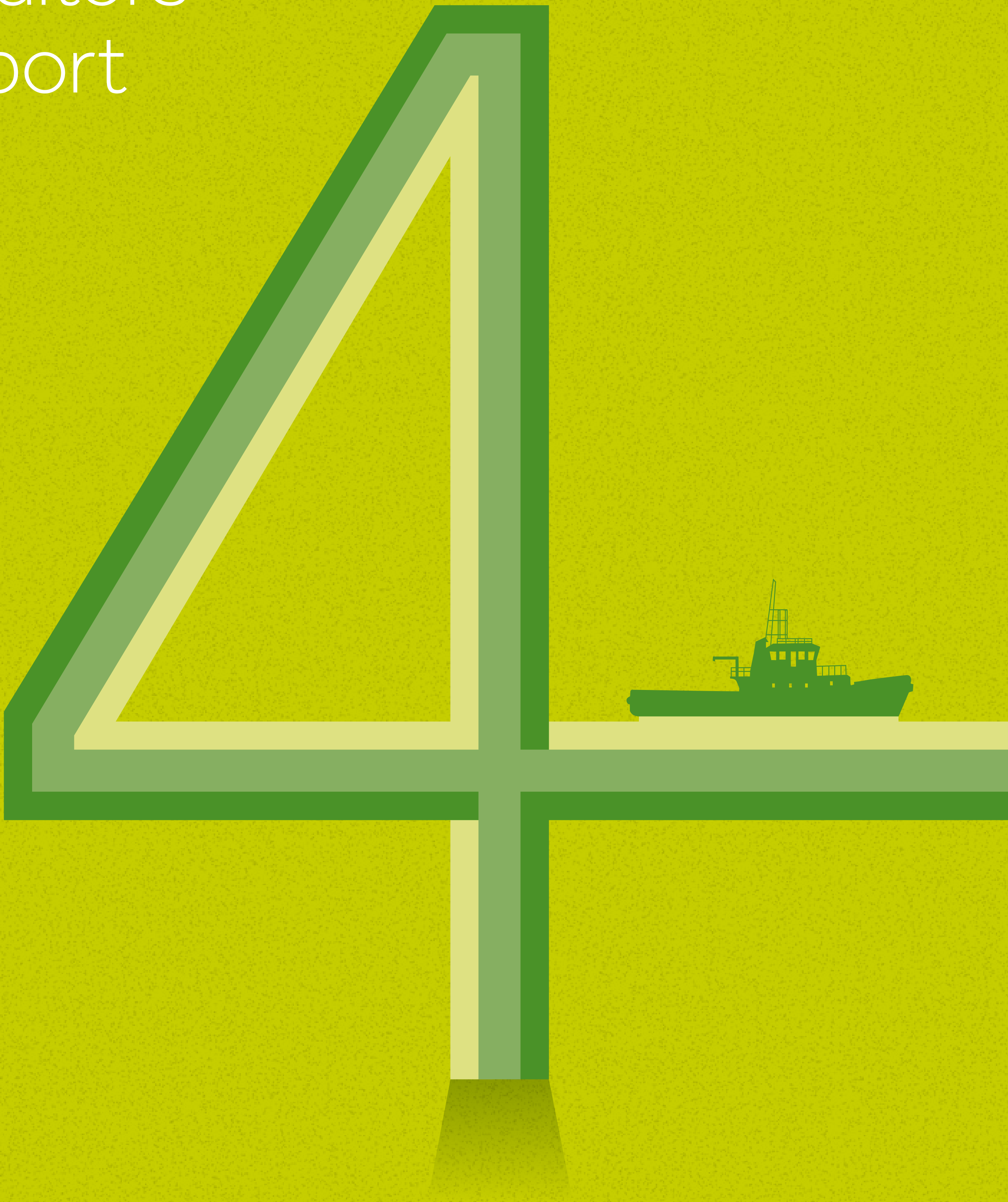
- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business, in which case, there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the group and parent company, and enable them to ensure that the financial statements comply with applicable law and United Kingdom Accounting Standards. They are also responsible for safeguarding the assets of the parent company and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities. The maintenance and integrity of The Standard Club Ltd website is the responsibility of the managers. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in Bermuda and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board.

Charles Taylor & Co (Bermuda)
Company Secretary
11 May 2018

Independent auditors' report



Independent auditors' report to the members of The Standard Club Ltd

Report on the group financial statements

Our opinion

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

- give a true and fair view of the state of the group's affairs as at 20 February 2018 and of its result and cash flows for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

We have audited the financial statements, included within the annual report and financial statements 2018 (the annual report), which comprise: the consolidated balance sheet and the club balance sheet as at 20 February 2018; the consolidated statement of comprehensive income; the statement of changes in reserves; the consolidated cash flow statement for the year then ended; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the company in the period from 20 February 2017 to 20 February 2018.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independent auditors' report to the members of The Standard Club Ltd continued

Reporting on other information

The other information comprises all of the information in the annual report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities set out on page 29, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for, and only for, the company's members as a body in accordance with Section 90 of the Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving 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.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 May 2018

(a) The maintenance and integrity of The Standard Club Ltd website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
(b) Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements and other information

Financial highlights 2018

	2018 US$m	2017 US$m
Results for the financial year ended 20 February 2018		
Calls and premiums net of reinsurance	**254**	262
Total claims net of reinsurance and operating expenses	**(278)**	(244)
Balance of technical account for general business	**(24)**	18
Net investment and other comprehensive income	**55**	22
Total comprehensive income for the year	**31**	40
Outstanding claims liabilities		
Estimated known outstanding claims net of all recoveries	**421**	396
Incurred but not reported claims (IBNR)	**157**	158
Total estimated claims liabilities	**578**	554
Funds available for claims		
Open policy years	**275**	255
Closed policy years	**303**	299
Free reserves	**461**	430
Total balance sheet funds	**1,040**	984

Consolidated statement of comprehensive income

for the year ended 20 February 2018

	Note	Total 2018 US$m	Total 2017 US$m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums earned, including calls	4	**334.3**	338.8
Outward reinsurance premiums	5	**(80.8)**	(77.0)
Earned premiums, net of reinsurance		**253.5**	261.8
Total income		**253.5**	261.8
Expenditure			
Claims paid	7	**258.0**	300.4
Reinsurers' share	8	**(46.3)**	(71.3)
Net claims paid		**211.7**	229.1
Change in provision for claims		**(8.5)**	(8.0)
Reinsurers' share		**29.1**	(20.3)
Change in net provision for claims		**20.6**	(28.3)
Claims incurred, net of reinsurance		**232.3**	200.8
Net operating expenses	9	**45.7**	43.5
Total expenditure		**278.0**	244.3
Balance on the technical account for general business		**(24.5)**	17.5
Non-technical account			
Balance on the technical account for general business		**(24.5)**	17.5
Investment return net of expenses and charges	6	**52.1**	30.1
Exchange gains/(losses)		**1.1**	(7.2)
Other (charges)/income including value adjustments		**(1.4)**	0.1
Share of operating loss of associate undertaking		**0.4**	(0.3)
Excess of income over expenditure before taxation		**27.7**	40.2
Tax on excess of income over expenditure	10	**4.9**	1.0
Excess of income over expenditure after tax		**32.6**	41.2
Excess of income over expenditure for the financial year		**32.6**	41.2
Other comprehensive income:			
Currency translation movement		**(1.6)**	(0.9)
Other comprehensive expenses net of tax		**(1.6)**	(0.9)
Total comprehensive income for the year transferred to contingency reserve		**31.0**	40.3

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

Income of the club for the year is $15.2m (2017: $2.6m).

The notes on pages 41 to 65 are an integral part of these financial statements.

Consolidated balance sheet

at 20 February 2018

	Note	2018 US$m	2017 US$m
Assets			
Investments			
Investment property	12	**30.9**	27.4
Investment in participating undertakings		**1.2**	0.8
Other financial investments	14	**829.0**	785.3
Reinsurers' share of technical provisions			
Claims outstanding	13	**389.9**	416.9
Provision for unearned premiums		**5.1**	1.6
		395.0	418.5
Debtors			
Debtors arising out of direct insurance operations	19	**106.1**	105.1
Deferred tax asset	11	**8.3**	2.5
Other debtors		**22.8**	10.9
		137.2	118.5
Other assets			
Intangible assets	17	**–**	–
Tangible assets	16	**2.4**	2.5
Cash at bank and in hand		**125.3**	108.1
		127.7	110.6
Prepayments and accrued income		**17.4**	16.0
Total assets		**1,538.4**	1,477.1
Liabilities			
Reserves			
Statutory reserve		**0.2**	0.2
Contingency reserve		**461.3**	430.3
		461.5	430.5
Technical provisions			
Gross claims outstanding	13	**967.9**	971.1
Provision for unearned premiums		**33.0**	23.3
		1,000.9	994.4
Provisions for other risks and charges			
Deferred tax provisions	11	**0.4**	0.4
Creditors			
Creditors arising out of direct insurance operations		**50.1**	42.7
Other creditors including taxation and social security	20	**22.2**	6.9
		72.3	49.6
Accruals and deferred income		**3.3**	2.2
Total liabilities		**1,538.4**	1,477.1

The financial statements were approved by the board of directors on 11 May 2018 and were signed on its behalf by:

C d'Amico
Chairman

The notes on pages 41 to 65 are an integral part of these financial statements.

Club balance sheet

at 20 February 2018

	2018 US$m	2017 US$m
Assets		
Investments		
Investments in group undertakings and participating interests	**12.1**	12.1
	12.1	12.1
Debtors		
Amounts owed by group undertakings	**21.5**	21.0
Other debtors	**8.3**	7.3
	29.8	28.3
Other assets		
Cash at bank and in hand	**0.3**	0.4
Prepayments and accrued income	**0.1**	0.1
Total assets	**42.3**	40.9
Liabilities		
Reserves		
Statutory reserve	**0.2**	0.2
Contingency reserve	**33.1**	17.9
	33.3	18.1
Creditors		
Amounts owed to group undertakings	**8.8**	22.7
Accruals and deferred income	**0.2**	0.1
Total liabilities	**42.3**	40.9

The financial statements were approved by the board of directors on 11 May 2018 and were signed on its behalf by:

C d'Amico
Chairman

The notes on pages 41 to 65 are an integral part of these financial statements.

Statement of changes in reserves

CONSOLIDATED	Statutory reserves US$m	Contingency reserves US$m	Total reserves US$m
Balance as at 20 February 2016	0.2	389.9	390.1
Excess of income over expenditure for the financial year	–	41.2	41.2
Other comprehensive income	–	(0.9)	(0.9)
Total comprehensive income for the year transferred to the contingency reserve	–	40.3	40.3
Members' agents' fees	–	0.1	0.1
Balance as at 20 February 2017	0.2	430.3	430.5
Balance as at 20 February 2017	**0.2**	**430.3**	**430.5**
Excess of income over expenditure for the financial year	**–**	**32.6**	**32.6**
Other comprehensive (expenses)/income net of tax	**–**	**(1.6)**	**(1.6)**
Total comprehensive income for the year transferred to the contingency reserve	**–**	**31.0**	**31.0**
Members' agents' fees	**–**	**–**	**–**
Balance as at 20 February 2018	**0.2**	**461.3**	**461.5**

CLUB	Statutory reserves US$m	Contingency reserves US$m	Total reserves US$m
Balance as at 20 February 2016	0.2	20.5	20.7
Shortfall of income over expenditure for the financial year	–	(2.6)	(2.6)
Other comprehensive income	–	–	–
Total comprehensive expense for the year	–	(2.6)	(2.6)
Balance as at 20 February 2017	0.2	17.9	18.1
Balance as at 20 February 2017	**0.2**	**17.9**	**18.1**
Excess of income over expenditure for the financial year	**–**	**15.2**	**15.2**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**15.2**	**15.2**
Balance as at 20 February 2018	**0.2**	**33.1**	**33.3**

Income and expenditure for the club comprise dividends from subsidiaries offset by operating expenses.

The notes on pages 41 to 65 are an integral part of these financial statements.

Consolidated cash flow statement

for the year ended 20 February 2018

	Note	2018 US$m	2017 US$m
Net cash from operating activities	21	**17.9**	15.4
Interest received		**0.9**	–
Taxation paid		**0.1**	–
Net cash generated from operating activities		**18.9**	15.4
Cash flow from investing activities			
Disposal of subsidiary		**–**	0.1
Purchase of investments		**(948.3)**	(878.0)
Sale of investments		**946.2**	855.7
Net cash used in investing activities		**(2.1)**	(22.2)
Net increase/(decrease) in cash and cash equivalents		**16.8**	(6.8)
Effect of exchange rate fluctuations on cash and cash equivalents		**3.4**	2.1
Cash and cash equivalents at the beginning of the year		**110.3**	115.0
Cash and cash equivalents at the end of the year		**130.5**	110.3
Cash and cash equivalents consist of:			
Cash at bank and in hand		**125.3**	108.1
Short-term deposits presented in other financial investments		**5.2**	2.2
Cash and cash equivalents at the end of the year		**130.5**	110.3

The notes on pages 41 to 65 are an integral part of these financial statements.

Notes to the financial statements

1. Constitution

The club is incorporated in Bermuda as a company limited by guarantee and has a statutory reserve but no share capital. The members of the club are liable for their rateable proportion of any deficiency of claims and expenses in excess of contributions and the board of directors decides whether any surplus is retained in the contingency reserve for the purposes of the club or returned to members. The address of its registered office is Swan Building, 2nd Floor, 26 Victoria Street, Hamilton HM12, Bermuda.

2. Accounting policies

(a) Basis of preparation

These group financial statements, which consolidate the financial statements of the club and its subsidiary undertakings, have been prepared under the Bermuda Companies Act 1981, and also under the provisions of Schedule 3 to the UK Companies Act 2006. The club and its subsidiary undertakings have applied uniform accounting policies and, on consolidation, all intra group transactions, income and expenditure have been eliminated. The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103).

The financial statements have been prepared under the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups.

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

The club has utilised the exemption in Section 408 of the Companies Act 2006 and, as a result, does not present its individual statement of comprehensive income and the related notes that would have formed part of the financial statements.

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

The financial statements are prepared on a going concern basis. The directors consider it appropriate to adopt the going concern basis of accounting in the preparation of these financial statements and are not aware of any material uncertainties to the company's ability to continue to do so for at least 12 months from the date of these financial statements.

(b) Judgements and key sources of estimation uncertainty

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

Insurance contract technical provisions

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

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

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

Notes to the financial statements continued

2. Accounting policies continued

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on actuarial techniques and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

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

Estimates of future premiums

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

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

Fair value of financial assets and derivatives determined using valuation techniques

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

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

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

(c) Basis of consolidation

The consolidated financial statements include the financial information of the club and its subsidiary undertakings and are consolidated on an acquisition basis.

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

An undertaking is regarded as a subsidiary undertaking if the club has control over its operating and financial policies, generally determined by the ownership of more than 50% of the voting stock of the investee.

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

Uniform accounting policies are applied to all subsidiary undertakings.

The Standard Club Corporate Name Ltd, a subsidiary company, operates as a corporate member of The Standard Syndicate at Lloyd's and therefore follows the syndicate's financial year-end date of 31 December.

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

For the purpose of reporting to mutual members, all transactions are allocated to individual policy years. The result of the policy year is determined and reported when it is closed after three years of development in accordance with rule 21, which requires policy years to be held open for three years.

At the end of each financial year, any anticipated surplus or deficit arising on open years is transferred to or from the contingency reserve.

(e) Calls and premiums
Calls and premiums are credited to the statement of comprehensive income as and when charged to members and are net of any return of premium made in the year. Contributions for periods after the balance sheet date are treated as prepaid and are not included in the income and expenditure account.

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

(g) Claims incurred
Claims incurred comprise all claims and related expenses paid in the year, and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses.

(h) Reinsurance recoveries
The liabilities of the club are reinsured above certain levels with similar associations under the International Group's Pooling Agreement and with market underwriters. The figures in the consolidated income and expenditure account relate to recoveries on claims incurred during the year.

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

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

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

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

Notes to the financial statements continued

2. Accounting policies continued

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

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

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

Claims reserves are estimated on an undiscounted basis, apart from asbestos-related claims. Due to the very long delay between the occurrence and the final settlement of a claim which has arisen due to an exposure to asbestos, such asbestos-related claims provisions and IBNR thereon are discounted to take account of the expected investment income receivable between the balance sheet date and settlement on the assets held to cover these provisions.

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

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

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

(j) Reinsurance premiums

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

(k) Investment return

Investment return comprises all investment income, realised investment gains and losses, and movements in unrealised gains and losses, net of investment expenses, charges and interest. Dividends are recorded on the date on which the shares are quoted ex-dividend and include the imputed tax credits. Interest and expenses are accounted for on an accruals basis. Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the 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.

(l) Financial instruments

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

Financial assets at fair value through income

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

Derivative financial investments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The club does not engage in hedge accounting and changes in the fair value of all derivative investments are recognised immediately in the consolidated statement of comprehensive income.

Loans and receivables

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

Investments in subsidiaries

In the balance sheet of the club, investments in group undertakings and participating interests are stated at cost, unless their value has been impaired, in which case they are valued at the fair value less cost to sell, as appropriate.

Investments in joint ventures and associates

Investments in joint ventures and associates are held at cost less accumulated impairment losses.

(m) Investment properties

Investment properties are included in the balance sheet at their open market value at the balance sheet date. Full valuations are made by independent, professionally qualified valuers in the year of acquisition, and thereafter once every five years. In the intervening years, these valuations are updated by the directors with the assistance of independent professional advice as required. In accordance with FRS 102, no depreciation or amortisation is provided in respect of investment properties.

Rental income from operating leases and initial direct costs are recognised on a straight-line basis over the term of the relevant lease.

(n) Intangible assets

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

The cost of the club's business systems has been capitalised as computer software. The original cost and any enhancements are written off over a ten-year period following installation on a straight-line basis.

(o) Tangible assets

Tangible assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Furniture, fixtures and fittings are written off over a 15-year period following purchase on a straight-line basis.

Assets in the course of construction are included in the balance sheet at their cost at the balance sheet date. Once completed, they are recategorised as investment property and included at their open market value at the balance sheet date.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'other (charges)/income including value adjustments'.

(p) Foreign currencies

The group and club financial statements are presented in US dollars and rounded to millions.

The functional currency of the group and club is the US dollar, with the exception of the following companies whose functional currency is British pounds:

- The Standard Club Corporate Name Limited
- Standard House Limited

Notes to the financial statements continued

2. Accounting policies continued

The results and financial position of companies whose functional currency is pound sterling are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the balance sheet date
- income and expenses are translated at the average rate of exchange during the year
- all resulting exchange differences are recognised in other comprehensive income.

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

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

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

(q) General administration expenses

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

(r) 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 consolidated statement of comprehensive income.

Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the statement of comprehensive income for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of changes in reserves. Deferred tax balances are not discounted.

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

3. Segmental analysis by class

The segmental results of the four classes of the club, plus the club's share of The Standard Syndicate, are set out as follows:

3.1 Statement of comprehensive income

		Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War		Syndicate	
	Note	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m
Technical account – general business													
Earned premiums, net of reinsurance													
Gross premiums earned, including calls	4	**334.3**	338.8	**259.7**	275.5	**9.5**	14.0	**17.0**	15.4	**1.0**	3.5	**47.1**	30.4
Outward reinsurance premiums	5	**(80.8)**	(77.0)	**(66.7)**	(66.8)	**–**	–	**(3.4)**	(2.6)	**(0.6)**	(2.2)	**(10.1)**	(5.4)
Earned premiums, net of reinsurance		**253.5**	261.8	**193.0**	208.7	**9.5**	14.0	**13.6**	12.8	**0.4**	1.3	**37.0**	25.0
Expenditure													
Gross claims incurred		**249.5**	292.4	**173.8**	253.7	**4.1**	6.5	**9.5**	6.0	**–**	–	**62.1**	26.2
Reinsurers' share		**(17.2)**	(91.6)	**6.6**	(89.7)	**–**	0.1	**1.4**	1.3	**–**	–	**(25.2)**	(3.3)
Claims incurred, net of reinsurance		**232.3**	200.8	**180.4**	164.0	**4.1**	6.6	**10.9**	7.3	**–**	–	**36.9**	22.9
Net operating expenses	9	**45.7**	43.5	**22.0**	24.3	**0.4**	0.4	**2.2**	2.1	**0.2**	0.3	**20.9**	16.4
Total expenditure		**278.0**	244.3	**202.4**	188.3	**4.5**	7.0	**13.1**	9.4	**0.2**	0.3	**57.8**	39.3
Balance on the technical account for general business		**(24.5)**	17.5	**(9.4)**	20.4	**5.0**	7.0	**0.5**	3.4	**0.2**	1.0	**(20.8)**	(14.3)
Non-technical account													
Balance on the technical account for general business		**(24.5)**	17.5	**(9.4)**	20.4	**5.0**	7.0	**0.5**	3.4	**0.2**	1.0	**(20.8)**	(14.3)
Investment return net of expenses and charges	6	**52.1**	30.1	**47.3**	27.3	**5.1**	0.8	**(0.6)**	1.6	**0.3**	0.4	**–**	–
Exchange gains/(losses)		**1.1**	(7.2)	**(5.2)**	(4.3)	**(0.2)**	(0.7)	**6.5**	(2.1)	**–**	(0.1)	**–**	–
Other (charges)/income including value adjustments		**(1.4)**	0.1	**(1.1)**	0.4	**–**	–	**–**	–	**–**	(0.3)	**(0.3)**	–
Share of operating profit/(loss) of associate undertaking		**0.4**	(0.3)	**0.4**	(0.3)	**–**	–	**–**	–	**–**	–	**–**	–
Excess/(shortfall) of income over expenditure before taxation		**27.7**	40.2	**32.0**	43.5	**9.9**	7.1	**6.4**	2.9	**0.5**	1.0	**(21.1)**	(14.3)
Tax on excess of income over expenditure	10	**4.9**	1.0	**0.1**	(0.7)	**0.1**	–	**–**	–	**–**	–	**4.7**	1.7
Excess/(shortfall) of income over expenditure for the financial year		**32.6**	41.2	**32.1**	42.8	**10.0**	7.1	**6.4**	2.9	**0.5**	1.0	**(16.4)**	(12.6)
Other comprehensive (expenses)/income net of tax		**(1.6)**	(0.9)	**1.6**	(2.2)	**–**	–	**–**	–	**–**	–	**(3.2)**	1.3
Total comprehensive income/(expenses) for the year transferred to contingency reserve		**31.0**	40.3	**33.7**	40.6	**10.0**	7.1	**6.4**	2.9	**0.5**	1.0	**(19.6)**	(11.3)

Notes to the financial statements continued

3. Segmental analysis by class continued

3.2 Consolidated balance sheet

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War		Syndicate	
	2018 US$m	2017 US$m	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m
Assets												
Investments	**861.1**	813.5	**723.1**	731.7	**73.9**	34.7	**48.0**	34.3	**10.9**	10.6	**5.2**	2.2
Reinsurers' share of technical provisions	**395.0**	418.5	**362.7**	413.5	**–**	–	**0.1**	0.1	**0.1**	–	**32.1**	4.9
Debtors	**128.9**	116.0	**86.7**	90.9	**2.2**	2.3	**1.6**	1.6	**0.3**	0.1	**38.1**	21.1
Other assets	**136.0**	113.1	**64.2**	94.1	**4.0**	3.2	**1.2**	1.7	**1.0**	1.4	**65.6**	12.7
Prepayments and accrued income	**17.4**	16.0	**7.7**	7.5	**0.8**	2.2	**0.1**	0.1	**–**	–	**8.8**	6.2
Total assets	**1,538.4**	1,477.1	**1,244.4**	1,337.7	**80.9**	42.4	**51.0**	37.8	**12.3**	12.1	**150.2**	47.1
Liabilities												
Reserves	**461.5**	430.5	**381.7**	348.0	**66.7**	56.7	**36.3**	29.9	**12.2**	11.7	**(35.4)**	(15.8)
Technical provisions	**1,000.9**	994.4	**880.8**	929.8	**10.1**	12.2	**12.9**	7.2	**0.1**	0.1	**97.0**	45.1
Provisions for other risks and charges	**0.4**	0.4	**0.4**	0.4	**–**	–	**–**	–	**–**	–	**–**	–
Creditors	**72.3**	49.6	**(19.8)**	58.3	**4.1**	(26.5)	**1.8**	0.7	**(0.1)**	0.3	**86.3**	16.8
Accruals and deferred income	**3.3**	2.2	**1.3**	1.2	**–**	–	**–**	–	**0.1**	–	**1.9**	1.0
Total liabilities	**1,538.4**	1,477.1	**1,244.4**	1,337.7	**80.9**	42.4	**51.0**	37.8	**12.3**	12.1	**149.8**	47.1

4. Gross premiums earned, including calls

	Total	
	2018 US$m	2017 US$m
Estimated total premium, other premiums and releases 2017/18 (2016/17)	**346.0**	347.4
Adjustments to previous policy years	**(3.6)**	0.4
Change in the gross provision for unearned premiums	**(8.1)**	(9.0)
Total calls and premiums	**334.3**	338.8

5. Outward reinsurance premiums

	2018 US$m	2017 US$m
International Group excess of loss	**31.5**	33.3
Adjustment to prior years	**(1.2)**	(1.4)
Other premiums	**54.0**	47.6
Adjustment to prior years	**(0.2)**	(1.6)
Change in the provision for unearned premiums, reinsurers' share	**(3.3)**	(0.9)
Reinsurance premiums paid	**80.8**	77.0

6. Investment return

	Total	
	2018 US$m	2017 US$m
Investment income		
Shares and other variable-yield securities and unit trusts	**6.2**	5.5
Debt securities and other fixed-income securities	**13.3**	13.1
Deposit interest	**0.9**	1.2
Income from investment property	**1.7**	1.7
Gains arising on realisation of investments	**26.5**	19.4
	48.6	40.9
Investment expenses and charges		
Investment management expenses	**(3.3)**	(3.1)
Losses on realisation of investments	**(7.4)**	(11.2)
	(10.7)	(14.3)
Unrealised gains on investments	**2.9**	9.1
Unrealised losses on investments	**11.3**	(5.6)
	14.2	3.5
Total investment return	**52.1**	30.1

7. Claims paid

	2018 US$m	2017 US$m
Members' claims	**206.9**	259.7
Other P&I clubs' Pool claims	**28.8**	32.4
Syndicate claims	**22.3**	8.3
Gross claims paid	**258.0**	300.4

8. Reinsurers' share of claims paid

	2018 US$m	2017 US$m
Claims recoverable from group GXL reinsurers	**(25.4)**	(37.4)
Claims recoverable from other reinsurers	**(4.4)**	(19.3)
Claims recoverable from the Pool	**(16.5)**	(14.6)
Reinsurers' share of claims paid	**(46.3)**	(71.3)

Notes to the financial statements continued

9. Net operating expenses

	2018 US$m	2017 US$m
Acquisition costs		
Management fee	**8.6**	9.9
General expenses	**15.5**	12.2
Change in deferred acquisition costs	**(2.0)**	(2.6)
Administrative expenses		
Management fee	**8.1**	8.8
General expenses	**12.9**	11.0
Depreciation	**–**	0.6
Safety and loss control	**0.8**	2.0
Directors' fees	**1.1**	1.0
Auditors' remuneration for audit services	**0.6**	0.3
Auditors' remuneration for other services	**0.1**	0.3
Net operating expenses	**45.7**	43.5

The highest paid director received directors' fees of US$106,000 during the year (2017: US$105,000). Directors are paid a flat fee with additional attendance fees. The club has no employees (2017: none).

During the year, the group (including its overseas subsidiaries) obtained the following services from the group's auditors as detailed below:

	2018 US$m	2017 US$m
Audit services		
Fees payable to the club's auditors for the audit of the parent company and consolidated financial statements	**0.2**	0.1
The audit of the club's subsidiaries, pursuant to legislation	**0.4**	0.2
Other services		
Fees payable to the club's auditors and its associates for other services:		
(a) Other services pursuant to legislation, including the audit of the regulatory return	**0.1**	0.3
(b) Tax services	**–**	–
	0.7	0.6

Fees payable to the club's auditors for the tax services were US$9,000 (2017: US$31,000).

10. Tax on excess of income over expenditure

	2018 US$m	2017 US$m
Analysis of charge in the period		
Current tax on income for the period	**0.2**	0.3
Adjustments in respect of prior periods	**0.1**	–
Total current tax	**0.3**	0.3
Deferred tax		
Origination and reversal of timing differences	**(3.9)**	(1.3)
Changes arising from movement in tax rates	**0.3**	–
Adjustments in respect of prior periods	**(1.6)**	–
Total deferred tax (note 11)	**(5.2)**	(1.3)
Tax in excess of income over expenditure	**(4.9)**	(1.0)

Factors affecting tax charge for the period

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

	2018 US$m	2017 US$m
Excess of income over expenditure before taxation	**27.7**	40.2
Tax at 19.25% (2017: 20%)	**10.7**	8.5
Income not assessable for tax purposes	**(7.0)**	(7.8)
Adjustments in respect of prior years	**1.5**	–
Current tax charge for the period	**4.9**	0.7

The club is subject to corporation tax in the jurisdictions in which it does business, except in Bermuda, where there is no corporation tax. In the UK, corporation tax is limited to investment income owing to the mutual status of the club.

Factors affecting current and future tax charges

There are no factors affecting current and future tax charges.

11. Deferred tax

Group	2018 US$m	2017 US$m
Deferred tax asset relating to:		
Untaxed loss on Syndicate results	**7.9**	2.5
Other timing differences	**0.4**	–
Deferred tax asset based on effective tax rate of 19.25% (2017: 20%)	**8.3**	2.5
Recognised deferred tax asset at 20 February 2017 (2016)	**2.5**	1.1
Effect of exchange rate fluctuations	**0.3**	(0.3)
Recognised deferred tax movement for the year in the income and expenditure account	**5.5**	1.7
Recognised deferred tax asset as at 20 February 2018 (2017)	**8.3**	2.5
Deferred tax liability relating to:		
Untaxed profit on rental income	**(0.4)**	(0.4)
Deferred tax asset based on effective tax rate of 19.25% (2017: 20%)	**(0.4)**	(0.4)
Recognised deferred tax movement for the year in the income and expenditure account	**(0.4)**	(0.4)
Recognised deferred tax liability as at 20 February 2018 (2017)	**(0.4)**	(0.4)
Net deferred tax asset/(liability) as at 20 February 2018 (2017)	**7.9**	2.1

The group has unused tax losses arising in the UK of $2.4m that are available indefinitely for offset against future taxable profits.

The group expects to reverse $0.2m of the deferred tax asset in the year ending 20 February 2019.

Notes to the financial statements continued

12. Investment property

Group	2018 US$m	2017 US$m
Net book value at 20 February 2017 (2016)	**27.4**	33.3
Additions at cost	**–**	–
Revaluation surplus/(deficit)	**3.5**	(5.9)
Net book value at 20 February 2018 (2017)	**30.9**	27.4

Investment property is comprised of the club's freehold premises at Essex Street, London. The property was acquired on 20 May 2008 and the initial cost was £19.8m. The property was valued at 20 February 2018 by the managers at £22.0m (2017: £22.0m). The valuation was based on the agreed sale price plus Charles Taylor plc contribution (see note 25). Any surplus or deficit on revaluation of the property, or arising as a result of exchange adjustments, is taken to the consolidated statement of comprehensive income.

Income earned by the group from the investment property, all of which is leased out under an operating lease, amounted to $1.7m (2017: $1.7m) as disclosed in note 6. The income consists of annual rent of $1.5m and an annual reimbursement charge for furniture and fixtures of $0.2m. The lease period is from 1 February 2010 to 27 April 2018.

At the balance sheet date, the group had contracted with the lessee for the following future minimum lease payments:

Group	2018 US$m	2017 US$m
Within one year	**0.3**	1.6
In second to fifth years inclusive	**–**	6.2
After five years	**–**	4.5
	0.3	12.3

On 27 April 2018, the property was sold for a cash consideration of £21.7m. Please refer to note 25 for further details.

13. Claims outstanding

The board closed the 2015/16 policy year at its meeting on 11 May 2018. The table below provides the position after closure.

	2018 US$m	2017 US$m
Open years		
Claims – own	**281.5**	265.2
Claims – Pool	**58.4**	52.3
Reinsurance recoveries – Pool	**(1.7)**	(42.3)
Reinsurance recoveries – GXL & other	**(63.3)**	(20.1)
Net claims provision for open years	**274.9**	255.1
Closed years		
Claims – own	**561.6**	603.5
Claims – Pool	**66.4**	50.1
Reinsurance recoveries – Pool	**(160.8)**	(163.4)
Reinsurance recoveries – GXL & other	**(164.1)**	(191.1)
Net claims provision for closed years	**303.1**	299.1
Total		
Claims – own	**843.1**	868.8
Claims – Pool	**124.8**	102.3
Gross outstanding claims	**967.9**	971.1
Reinsurance recoveries – Pool	**(162.5)**	(205.7)
Reinsurance recoveries – GXL & other	**(227.4)**	(211.2)
Reinsurance recoveries – total	**389.9**	416.9
Net claims provision	**578.0**	554.2

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

13.1 Movement in prior years' provision for claims outstanding

	2018 US$m	2017 US$m
Improvement in respect of prior years	**2.6**	24.0

Notes to the financial statements continued

13. Claims outstanding continued

13.2 Development claim tables

Claims outstanding (gross)

Policy year	2008/09 US$m	2009/10 US$m	2010/11 US$m	2011/12 US$m	2012/13 US$m	2013/14 US$m	2014/15 US$m	2015/16 US$m	2016/17 US$m	**2017/18 US$m**	Total US$m
Estimate of ultimate claims costs:											
– at end of policy year	179.3	250.4	299.2	446.7	343.0	373.7	353.7	332.1	249.1	**273.3**	3,100.5
– one year later	214.0	240.1	340.7	651.8	320.9	403.0	304.1	306.5	252.6		3,033.7
– two years later	195.2	224.8	334.3	824.6	308.9	433.7	275.4	311.4			2,908.3
– three years later	187.7	213.1	321.7	972.0	306.1	533.5	289.8				2,823.9
– four years later	186.9	212.2	310.8	958.4	308.4	509.9					2,486.6
– five years later	187.4	212.1	307.1	964.3	313.2						1,984.1
– six years later	186.5	209.3	303.5	957.9							1,657.2
– seven years later	183.3	207.8	303.7								694.8
– eight years later	182.0	207.8									389.8
– nine years later	183.2										183.2
Current estimate of cumulative claims	183.2	207.8	303.7	957.9	313.2	509.9	289.8	311.4	252.6	**273.3**	3,602.8
Cumulative payments to date	(180.7)	(201.9)	(284.4)	(904.7)	(183.2)	(337.4)	(226.6)	(226.4)	(128.0)	**(63.2)**	(2,736.5)
Liability recognised in the balance sheet	2.5	5.9	19.3	53.2	130.0	172.5	63.2	85.0	124.6	**210.1**	866.3
Provision in respect of prior years											101.6
Total provision included in the balance sheet											967.9

Claims outstanding (net)

Policy year	2008/09 US$m	2009/10 US$m	2010/11 US$m	2011/12 US$m	2012/13 US$m	2013/14 US$m	2014/15 US$m	2015/16 US$m	2016/17 US$m	**2017/18 US$m**	Total US$m
Estimate of ultimate claims costs:											
– at end of policy year	166.5	177.5	193.8	227.5	252.5	274.1	251.0	253.4	212.6	**216.4**	2,225.3
– one year later	176.1	169.1	213.0	238.7	231.2	288.0	222.1	258.2	237.2		2,033.6
– two years later	161.7	157.0	197.7	225.8	218.2	273.3	210.0	262.6			1,706.3
– three years later	159.8	157.9	192.1	220.0	212.5	270.6	211.4				1,424.3
– four years later	158.2	156.4	185.9	210.6	217.7	277.6					1,206.4
– five years later	157.9	157.6	183.1	209.5	216.5						924.6
– six years later	156.5	155.6	180.6	205.3							698.0
– seven years later	154.2	154.0	179.4								487.6
– eight years later	153.0	153.9									306.9
– nine years later	154.9										154.9
Current estimate of cumulative claims	154.9	153.9	179.4	205.3	216.5	277.6	211.4	262.6	237.2	**216.4**	2,115.2
Cumulative payments to date	(152.9)	(148.7)	(176.3)	(193.6)	(176.1)	(232.9)	(170.3)	(188.6)	(124.3)	**(62.5)**	(1,626.2)
Liability recognised in the balance sheet	2.0	5.2	3.1	11.7	40.4	44.7	41.1	74.0	112.9	**153.9**	489.0
Provision in respect of prior years											89.0
Total provision included in the balance sheet											578.0

14. Other financial investments

	2018 US$m	2017 US$m
Financial assets at fair value through statement of comprehensive income	**829.0**	785.3
Total financial assets at market value	**829.0**	785.3
Financial assets at fair value through statement of comprehensive income	**800.8**	771.6
Total financial assets at cost	**800.8**	771.6
At market value		
Shares and other variable-yield securities and units in unit trusts	**190.4**	210.3
Debt securities and other fixed-income securities	**639.8**	577.0
Open forward currency contracts	**(1.2)**	(2.0)
Total investments at market value	**829.0**	785.3
At cost		
Shares and other variable-yield securities and units in unit trusts	**14.9**	199.2
Debt securities and other fixed-income securities	**785.9**	572.4
Total investments at cost	**800.8**	771.6

Included in the carrying values above are amounts in respect of listed investments as follows :

	2018 US$m	2017 US$m
Shares and other variable-yield securities and unit trusts	**158.8**	184.5
Debt securities and other fixed-income securities	**548.0**	566.6
	706.8	751.1

Open forward currency contracts	2018 US$m	2017 US$m
Fair value asset	**(1.2)**	(2.0)
Contract/notional amount	**–**	283.6

Open forward currency contracts represent potential losses or gains on forward contracts, which have been entered into to protect the assets of the club. These have been revalued at 20 February 2018 using exchange rates prevailing at that date. The total of the open forward contracts at any one time is limited by guidelines set by the board of directors and matched against currency and asset holdings in excess of the amount of the contracts.

Notes to the financial statements continued

14. Other financial investments continued

Contractual amounts outstanding at the balance sheet date include forward currency contracts to transact the net equivalent of US$1.4m (2017: US$(2.0)m), as broken down by local currency in the following table:

	2018 Local currency US$m		2017 Local currency US$m	
	Purchase	Sell	Purchase	Sell
Australian dollar	2.6	–	1.9	–
Brazilian real	–	–	–	–
British pound sterling	4.9	(37.5)	52.6	(17.6)
Canadian dollar	4.4	–	4.2	–
European euro	21.4	(57.5)	46.3	(74.0)
HK Offshore Chinese yuan	–	–	–	(2.9)
Indian rupee	–	–	–	–
Japanese yen	–	(6.5)	–	(5.2)
Mexican peso	–	–	–	–
Norwegian krone	–	–	8.3	–
Polish zloty	–	(9.7)	–	–
Singapore dollar	–	–	–	–
South African rand	–	–	–	–
Swiss franc	–	–	–	(0.5)
Turkish lira	–	–	–	–
New Taiwan dollar	–	–	–	–
US dollar	98.3	(21.8)	100.7	(115.8)

The net US dollar position of the above transactions at cost is US$nil (2017: US$nil).

The forward currency contracts outstanding at year end expire by 16 May 2018 (2017: 23 March 2017).

During the year, a loss of US$10.2m (2017: US$6.0m) relating to such contracts was recognised. This is included in the net exchange gain of US$1.1m (2017: US$7.2m) in the consolidated income and expenditure non-technical account.

15. Management of insurance and financial risk

The club is exposed to a range of insurance and financial risks through its operations as a protection and indemnity insurer, and its investment in The Standard Syndicate at Lloyd's.

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

15.1 Insurance risk

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

15.1.1 Premium risk

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

Premium risk is mitigated through the acquisition of appropriate reinsurance programmes, including the International Group pooling and reinsurance programme, and also the club's own non-pool, retention and stop-loss reinsurances. Reinsurance strategy is set by the board in line with the board's risk appetite and is designed to mitigate the insurance risk through programmes tailored to the club's exposures.

15.1.2 Reserve risk

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

While the board considers that the liability for insurance claims recognised in these financial statements is adequate, it recognises that actual experience will differ from the expected outcome. The following table presents the sensitivity of the value of insurance liabilities disclosed in note 13 to movements in the assumptions used in the estimation of insurance liabilities. These sensitivities relate mainly to the P&I class, as this represents the club's largest exposure.

	Decrease		Increase	
Impact on profit – gross of reinsurance	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m
Increase/decrease in loss ratio by 5 percentage points	**16.7**	16.9	**(16.7)**	(16.9)
10% increase/decrease in the number of occupational disease claims	**3.8**	4.0	**(3.8)**	(4.0)
10% increase/decrease in claims handling expenses	**1.8**	1.9	**(1.8)**	(1.9)
10% increase/decrease in number of IBNR claims	**5.6**	23.5	**(5.6)**	(23.5)

Impact on profit – net of reinsurance	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m
Increase/decrease in loss ratio by 5 percentage points	**12.7**	13.1	**(12.7)**	(13.1)
10% increase/decrease in the number of occupational disease claims	**3.8**	4.0	**(3.8)**	(4.0)
10% increase/decrease in claims handling expenses	**1.8**	1.9	**(1.8)**	(1.9)
10% increase/decrease in number of IBNR claims	**3.8**	8.0	**(3.8)**	(8.0)

15.2 Financial risk

The club is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts), 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 investment and liabilities are interest rate risk and equity price risk.

Notes to the financial statements continued

15. Management of insurance and financial risk continued

15.2.1 Market risk

– Interest rate risk

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

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

At the end of the financial year, approximately 77% (2017: 74%) of the club's investment portfolio was invested in fixed interest assets. The weighted duration of the investment portfolio was 2.6 years (2017: 3.6 years).

The club has no debt liability with interest payments that vary with changes in the interest rate.

Sensitivity analysis for interest rate risk illustrates how changes in the fair value of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 150 basis points in bond yields would result in a cost to the club of $30.9m (2017: $41.0m).

– Equity price risk

The club is exposed as a result of its holdings in equity investments and hedge funds. The club has defined investment guidelines that limit exposure in such holdings.

Sensitivity analysis for equity price risk illustrates the effect of changes in equity market indices on the value of the investment portfolio. A 10% decrease in equity values would be estimated to have decreased the surplus before tax and reserves at the year end by $18.9m (2017: $21.0m).

– Currency risk

The club is exposed 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 pound 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 2018, had sterling strengthened by 10% against the US dollar, with all other variables held constant, profit for the year would have been $9.0m higher (2017: $10.3m higher). Had the euro strengthened by 10% against the dollar, profit for the year would have been $0.4m higher (2017: $2.9m lower).

15.2.2 Credit risk

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

Group	Total 2018 US$m	Total 2017 US$m
Derivative financial instruments	**(1.1)**	(2.0)
Debt securities	**639.8**	577.0
Loans and receivables	**82.6**	93.3
Assets arising from reinsurance contracts held	**10.1**	4.6
Cash at bank and in hand	**125.3**	108.1
Total assets bearing credit risk	**856.7**	781.0
AAA	**361.0**	221.9
AA	**62.5**	103.4
A	**231.1**	210.2
BBB	**87.4**	97.3
BB	**14.5**	29.9
B	**3.8**	20.0
Below CCC or not rated	**96.4**	98.3
Total assets bearing credit risk	**856.7**	781.0

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

15.2.3 Liquidity risk

The risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk 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.

Notes to the financial statements continued

15. Management of insurance and financial risk continued

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

Group	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 2018						
Shares and other variable-yield securities and units in unit trusts	**158.6**	**11.2**	**–**	**–**	**20.6**	**190.4**
Debt securities and other fixed-income securities	**639.8**	**–**	**–**	**–**	**–**	**639.8**
Forward currency contracts	**(1.2)**	**–**	**–**	**–**	**–**	**(1.2)**
Cash balances	**125.3**	**–**	**–**	**–**	**–**	**125.3**
Investment property	**–**	**–**	**–**	**–**	**30.9**	**30.9**
Debtors	**24.2**	**68.6**	**–**	**–**	**–**	**92.8**
Reinsurers' share of claims outstanding	**–**	**119.0**	**75.4**	**102.5**	**93.0**	**389.9**
	946.7	**198.8**	**75.4**	**102.5**	**144.5**	**1,467.9**
As at 20 February 2017						
Shares and other variable-yield securities and units in unit trusts	184.5	10.4	–	5.3	10.1	210.3
Debt securities and other fixed-income securities	577.0	–	–	–	–	577.0
Forward currency contracts	(2.0)	–	–	–	–	(2.0)
Cash balances	108.1	–	–	–	–	108.1
Investment property	–	–	–	–	27.4	27.4
Debtors	19.2	78.7	–	–	–	97.9
Reinsurers' share of claims outstanding	–	125.1	104.2	125.1	62.5	416.9
	886.8	214.2	104.2	130.4	100.0	1,435.6

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

Group	Within 1 year US$m	1-2 years US$m	2-5 years US$m	Over 5 years US$m	Total US$m
As at 20 February 2018					
Gross outstanding claims	**295.5**	**187.1**	**254.4**	**230.9**	**967.9**
Financial liabilities under investment contracts	**–**	**–**	**–**	**–**	**–**
Creditors	**72.3**	**–**	**–**	**–**	**72.3**
	367.8	**187.1**	**254.4**	**230.9**	**1,040.2**
As at 20 February 2017					
Gross outstanding claims	262.2	174.8	262.2	271.9	971.1
Financial liabilities under investment contracts	–	–	–	–	–
Creditors	49.6	–	–	–	49.6
	311.8	174.8	262.2	271.9	1,020.7

Company	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 2018					
Gross outstanding claims	**–**	**–**	**–**	**–**	**–**
Financial liabilities under investment contracts	**–**	**–**	**–**	**–**	**–**
Creditors	**8.8**	**–**	**–**	**–**	**8.8**
	8.8	**–**	**–**	**–**	**8.8**
As at 20 February 2017					
Gross outstanding claims	–	–	–	–	–
Financial liabilities under investment contracts	–	–	–	–	–
Creditors	22.7	–	–	–	22.7
	22.7	–	–	–	22.7

15.2.4 Fair value estimations

The table on the following page 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)

Notes to the financial statements continued

15. Management of insurance and financial risk continued

The following table presents the club's assets and liabilities measured at fair value at 20 February 2018 and 20 February 2017.

Financial assets at fair value through profit or loss:

Group	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
As at 20 February 2018				
Shares and other variable-yield securities and units in unit trusts	**158.6**	**–**	**31.8**	**190.4**
Debt securities and other fixed-income securities	**492.9**	**146.9**	**–**	**639.8**
Forward currency contracts	**(1.2)**	**–**	**–**	**(1.2)**
	650.3	**146.9**	**31.8**	**829.0**
As at 20 February 2017				
Shares and other variable-yield securities and units in unit trusts	184.5	15.4	10.4	210.3
Debt securities and other fixed-income securities	577.0	–	–	577.0
Forward currency contracts	(2.0)	–	–	(2.0)
	759.5	15.4	10.4	785.3

15.3 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 & Poor's
- to manage exposures to movement in exchange rates
- to retain financial flexibility by maintaining strong liquidity.

The club's principal regulators are the Bermuda Monetary Authority (BMA) 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 Asset Liability Management (ALM) framework the necessary tests to ensure continuous and full compliance with such regulations. Throughout the year the club complied with the BMA's capital requirements and the requirements in the other countries in which it operates.

16. Tangible assets

Group	Furniture, fixtures and fittings 2018 US$m	2017 US$m
Book cost		
As at 20 February 2017	**6.1**	6.1
Additions	**–**	–
Currency fluctuation adjustments	**–**	–
Transfers	**–**	–
As at 20 February 2018	**6.1**	6.1
Accumulated depreciation		
As at 20 February 2017	**3.6**	2.8
Charge for the year	**0.1**	0.8
As at 20 February 2018	**3.7**	3.6
Net book value	**2.4**	2.5

17. Intangible assets

Group	Computer software 2018 US$m	2017 US$m
Book cost		
As at 20 February 2017	**7.6**	7.6
Additions	**–**	–
Currency fluctuation adjustments	**–**	–
Transfers	**–**	–
As at 20 February 2018	**7.6**	7.6
Accumulated depreciation		
As at 20 February 2017	**7.6**	7.3
Charge for the year	**–**	0.3
As at 20 February 2018	**7.6**	7.6
Net book value	**–**	–

Notes to the financial statements continued

18. Investment in group undertakings and participating interests

	Classes of shares held	Year end	Principal business	% holding Group	% holding Company
Standard Reinsurance (Bermuda) Limited, incorporated in Bermuda	Ordinary	20 Feb	Reinsurance	100	100
The Standard Club (Europe) Limited, incorporated in the United Kingdom[1]	Note 1	20 Feb	Marine mutual	75	75
The Standard Club (Asia) Limited, incorporated in Singapore	Ordinary	20 Feb	Marine mutual	100	20
Hydra Insurance Company Limited (Standard Cell), incorporated in Bermuda	Preferred	20 Feb	Reinsurance	100	100
Standard House Limited, incorporated in Bermuda	Ordinary	20 Feb	Property investment	100	–
Charles Taylor Managing Agency Limited, incorporated in the United Kingdom[2]	Ordinary	31 Dec	Lloyd's Managing Agent	49.9	49.9
The Standard Club Corporate Name Limited, incorporated in the United Kingdom	Ordinary	31 Dec	Lloyd's Corporate Name	100	100
Standard Hydor AS, incorporated in Norway[3]	Ordinary	31 Dec	Lloyd's Coverholder	50	50

1 75% of voting control, no participating interest. No minority interest is shown in the group financial statements because the affairs of each class are managed on a unified basis throughout the group.
2 The group has an investment of $1.1m in an associate company, Charles Taylor Managing Agency Limited (CTMA), a Lloyd's Managing Agent. The group holds 49.9% of the nominal value of the allotted ordinary shares of CTMA. The cost of this investment was $2.2m.
3 The group has an investment of NOK50k in a jointly controlled company, Standard Hydor AS, a service company. The group holds 50% of the nominal value of the allotted ordinary shares of the company. The cost of this investment was $6k.

All subsidiary undertakings are consolidated in the financial statements.

19. Debtors arising out of direct insurance operations

Group	2018 US$m	2017 US$m
Members	**68.7**	78.7
Intermediaries	**27.7**	21.8
Reinsurers – Pool	**5.4**	0.4
Reinsurers – other	**4.3**	4.2
Debtors arising out of direct insurance operations	**106.1**	105.1

20. Other creditors including taxation and social security

Group	2018 US$m	2017 US$m
Trade creditors	**17.2**	1.5
Other creditors	**5.0**	5.4
Other creditors including taxation and social security	**22.2**	6.9

21. Reconciliation of operating surplus to net cash flow from operating activities

	2018 US$m	2017 US$m
Excess of income over expenditure before tax	**27.7**	40.2
Gains arising on realisation of investments	**(26.5)**	(19.4)
Losses arising on realisation of investments	**7.3**	11.2
Unrealised (gains)/losses on revaluation of investments	**(14.2)**	(3.5)
Depreciation	**–**	0.6
Decrease/(increase) in debtors	**(12.7)**	(10.5)
Increase/(decrease) in net claims provision	**22.1**	(15.9)
(Decrease)/increase in creditors	**15.1**	10.2
Taxation	**4.8**	1.0
Other charges including value adjustments	**(4.6)**	(0.1)
Exchange differences	**(1.1)**	1.6
Net cash flow generated from operating activities	**17.9**	15.4

22. Letters of credit, bail bonds and guarantees

In the normal course of business, the club has provided letters of credit and guarantees on behalf of its members. These are secured by investments and guarantees lodged with the club amounting to $98.9m (2017: $28.2m).

23. Related party transactions

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

All the directors (except five: two directors and shareholders of Charles Taylor plc, the ultimate holding company of the club's managers, Charles Taylor & Co (Bermuda); one senior executive and shareholder of Charles Taylor plc; one Bermuda resident director; and one independent director) are representatives or agents of member companies and other than the insurance and membership interests of the directors' companies, the directors have no financial interests in the club. The club paid management fees to the managers for the year of $47.1m (2017: $50.8m).

24. Rates of exchange

The following rates of exchange were applicable to US$1 at 20 February 2018 (2017):

	2018	2017
Australian dollar	**1.26**	1.30
Bermudian dollar	**1.00**	1.00
Canadian dollar	**1.25**	1.31
European euro	**0.80**	0.94
Japanese yen	**106.05**	112.83
Singapore dollar	**1.31**	1.42
Swiss franc	**0.93**	1.00
British pound sterling	**0.71**	0.80

25. Events after the reporting period

During December 2017, the board agreed to sell the club's investment property at Essex Street, London. On 27 April 2018, the freehold building with a net book value of $30.9m (£22.0m) was sold for a cash consideration of $30.2m (£21.7m). Fixtures and fittings with a net book value of £1.7m will also be disposed of upon sale of the property. Charles Taylor plc has agreed to make total cash contributions of £1.2m towards the sale (approximately £0.4m on completion and £0.1m annually for seven years). The financial effects of this sale have not been recognised at 20 February 2018.

Appendix I (unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I summary

	Appendix reference	Funds available and estimated future supplementary calls US$m	Estimated net claims and forecast of unreported claims US$m
At 20 February 2018			
Total closed policy years	III	290.9	290.9
Open policy years			
2017/18	II	129.9	125.8
2016/17	II	89.2	89.2
Total of open policy years		**219.1**	**215.0**
Reserves			
Contingency reserve	III	381.5	–
Statutory reserve		0.2	–
Total reserves		**381.7**	**–**
Funds available for outstanding and unreported claims		**891.7**	**505.9**

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

Appendix II (unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I open policy years

		2017 One year from inception US$m	2016 Two years from inception US$m	2015 Three years from inception US$m
At 20 February 2018				
Calls and premiums – current year		260.7	(1.1)	–
Calls and premiums – prior year		–	275.2	324.3
Less: claims, reinsurance premiums, administration expenses and tax		(143.6)	(194.0)	(278.6)
		117.1	80.1	45.7
Investment income to date		42.6	22.0	(6.6)
Funds available	A	**159.7**	**102.1**	**39.1**
Estimated known outstanding claims and forecast of unreported claims		161.4	95.1	76.8
Estimated reinsurance recoveries		(35.6)	(5.9)	(9.9)
	B	**125.8**	**89.2**	**66.9**
Anticipated surplus at closure	A-B	33.9	12.9	–
Deficit on closure of 2015/16 year		–	–	(27.8)
Transferred to contingency reserve at 20 February 2017		–	–	–
Transferred (to)/from contingency reserve at 20 February 2018		(33.9)	(12.9)	27.8
		–	–	–
Product of a 10% supplementary call		**20.2**	**21.6**	**24.6**

Notes

Estimated known outstanding claims and the forecast of unreported claims of open years (excluding the 2015/16 policy year) include the club's share of other clubs' Pool claims amounting to $58.4m.

Estimated reinsurance recoveries show the reinsurance recoveries to be made on reinsurance contracts net of provision for doubtful recoveries, and include anticipated Pool recoveries of $1.9m, recoveries from group excess of loss reinsurers of $32.6m, and recoveries from other reinsurers of $32.6m.

Investment income

All investment income received in the year has been allocated to the 2017/18 policy year.

Fixed premium and non-poolable business

Of the $271m of calls and premiums on the 2017 P&I policy year, $67m represents non-poolable business which is all fixed premium. The comparative figures for 2016 are $276m and $68m, and for 2015 $323m and $71m.

Appendix III (unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I closed policy years and contingency reserve

	Closed policy years		Contingency reserve	
	2018 US$m	2017 US$m	**2018 US$m**	2017 US$m
At 20 February 2017				
Balance available at 20 February 2017 (2016)	**295.9**	300.2	**347.8**	307.2
Transfers on closure of 2015/16 (2014/15) policy year	**66.9**	48.3	**(27.8)**	26.4
Premium adjustment	**–**	–	**(0.1)**	–
Claims paid net of reinsurance recoveries	**(45.7)**	(32.6)	**–**	–
	317.1	315.9	**319.9**	333.6
Transfer of anticipated surplus/(deficit) on open years	**–**	–	**46.8**	(5.5)
Other charges including value adjustments	**–**	–	**0.4**	(0.3)
Minority interest	**–**	–	**–**	–
Improvement of claims in closed policy years	**(14.4)**	(20.0)	**14.4**	20.0
Balance available at 20 February 2018 (2017)	**302.7**	295.9	**381.5**	347.8

Closed policy years

The balance available for outstanding claims of closed policy years (including the 2015/16 year which was closed at the club's meeting on 11 May 2018) includes a provision for incurred but not reported claims (IBNR) of $50.5m (2017: $186.3m) and is shown net of Pool recoveries of $188.2m (2017: $163.4m), recoveries from group excess of loss reinsurers of $21.6m (2017: $81.5m) and other non-group reinsurance recoveries which amount to $111.4m (2017: $109.5m). The balance available including IBNR includes $66.4m (2017: $50.1m) in respect of the club's share of other clubs' outstanding Pool claims.

Notice of annual general meeting

The Standard Club Ltd (the company)

Registered no: 1837

Notice is hereby given that the 47th annual general meeting of the company will be held on Friday 28 September 2018 at 8.50am (the meeting) at Fairmont Pacific Rim, 1038 Canada Place, Vancouver, British Columbia, Canada V6C OB9 for the purpose of considering and, if thought fit, passing the following ordinary resolutions:

Reports and financial statements

1. THAT the reports of the directors and auditors, and the audited financial statements of the company for the year ended 20 February 2018 be received and adopted.

Re-election of directors appointed since the last AGM

2. THAT Ronald Forest be re-elected as a director of the company.
3. THAT Lars Henneberg be re-elected as a director of the company.
4. THAT Allister Paterson be re-elected as a director of the company.
5. THAT Ken Soerensen be re-elected as a director of the company.
6. THAT Chen-Huei Yeh be re-elected as a director of the company.

Annual re-election of directors

7. THAT Necdet Aksoy be re-elected as a director of the company.
8. THAT Luigi D'Amato be re-elected as a director of the company.
9. THAT Cesare d'Amico be re-elected as a director of the company.
10. THAT Paolo Clerici be re-elected as a director of the company.
11. THAT Alistair Groom be re-elected as a director of the company.
12. THAT Bhumindr Harinsuit be re-elected as a director of the company.
13. THAT Erik Johnsen be re-elected as a director of the company.
14. THAT Ricardo Menendez Ross be re-elected as a director of the company.
15. THAT Constantine Peraticos be re-elected as a director of the company.
16. THAT Art Bensler be re-elected as a director of the company.
17. THAT Barnabas Hurst-Bannister be re-elected as a director of the company.
18. THAT Gunther Jaegers be re-elected as a director of the company.
19. THAT David Koo be re-elected as a director of the company.
20. THAT Emanuele Lauro be re-elected as a director of the company.
21. THAT David Marock be re-elected as a director of the company.

Appointment of auditors

22. THAT the directors be authorised to appoint the auditors and fix their remuneration.

Date: 11 May 2018
By order of the board,
Charles Taylor & Co (Bermuda)
Secretary

Registered Office:
Swan Building, 2nd Floor
26 Victoria Street
Hamilton HM12
P.O. Box HM 2904
Hamilton HMLX
Bermuda

Notice of annual general meeting continued

The Standard Club Ltd (the company)

Registered no: 1837

Re-election of directors holding office for over nine years

Necdet Aksoy (appointed 30 January 2002)	Principal of Akmar Shipping Group and Turkish Cargo Lines
Luigi D'Amato (appointed 24 January 2006)	Principal of Fratelli D'Amato SpA, Italy
Cesare d'Amico (appointed 28 January 2004)	Principal of d'Amico Società di Navigazione SpA, Italy
Paolo Clerici (appointed 29 January 2003)	Principal of Coeclerici SpA, Italy
Alistair Groom (appointed 1 October 2004)	Former CEO of the managers' London agents
Bhumindr Harinsuit (appointed 30 January 2007)	Managing Director of The Harinsuit Transport Co Ltd
Erik Johnsen (appointed 26 September 2003)	Director of Seaocean Carriers Ltd Pte
Ricardo Menendez Ross (appointed 18 May 1990)	CEO of Interocean Transportation Inc.
Constantine Peraticos (appointed 16 May 2003)	Principal of Pleiades Shipping Agents SA, Greece

Notes

1 A member of the company entitled to attend, speak and vote at the above meeting is entitled to appoint a proxy to attend, speak and vote on their behalf. The proxy need not be a member of the company.

2 The appointment of a proxy will not prevent a member from subsequently attending, speaking and voting at the meeting in person. Details of how to appoint the chairman of the meeting or another person as your proxy are set out in the notes to the Form of Proxy. If you wish your proxy to speak on your behalf at the meeting, you will need to appoint your own choice of proxy (not the chairman) and give your instructions directly to them.

3 For the instrument appointing a proxy to be effective, you must complete the enclosed Form of Proxy and ensure that the Form of Proxy, together with any power of attorney or other authority under which it is executed (or a notary certified copy of the same), is deposited with the Secretary of the company, Charles Taylor & Co (Bermuda), Swan Building, 2nd Floor, 26 Victoria Street, Hamilton HM12, P.O. Box HM 2904, Hamilton HMLX, Bermuda, or scanned and emailed to pandi.bermuda@ctplc.com not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.

4 A corporate member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same vote.

Form of proxy

The Standard Club Ltd (the company)

Registered no: 1837

47th annual general meeting
28 September 2018 at 8.50am (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 Fairmont Pacific Rim, 1038 Canada Place, Vancouver, British Columbia, Canada V6C OB9 on Friday 28 September 2018 at 8.50am, and at any adjournment thereof.

Signature...

Dated... 2018

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 2018 be received and adopted.		
2. THAT Ronald Forest be re-elected as a director of the company.		
3. THAT Lars Henneberg be re-elected as a director of the company.		
4. THAT Allister Paterson be re-elected as a director of the company.		
5. THAT Ken Soerensen be re-elected as a director of the company.		
6. THAT Chen-Huei Yeh be re-elected as a director of the company.		
7. THAT Necdet Aksoy be re-elected as a director of the company.		
8. THAT Luigi D'Amato be re-elected as a director of the company.		
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20. THAT Emanuele Lauro be re-elected as a director of the company.		
21. THAT David Marock be re-elected as a director of the company.		
22. THAT the directors be authorised to appoint the auditors and to fix their remuneration.		

Notes

1 If you wish any person other than the chairman to act as your proxy, please insert the name of your proxy in the space provided. If no name is inserted, you will be deemed to have appointed the chairman of the meeting. A proxy need not be a member.

2 Please indicate with an X in the appropriate spaces how you wish your vote to be cast in respect of each of the resolutions. On receipt of this form duly signed but without any specific direction on how you wish your votes to be cast, the proxy will vote in favour of the resolutions.

3 In the case of a corporation, this form must be signed under its common seal or be signed by an authorised officer or attorney duly authorised on that behalf, and the signatory should state in the line below his name, his office (eg company secretary, director).

4 To be valid at the annual general meeting referred to, this form must be completed, signed and dated. It should then be deposited with the secretary of the company, Charles Taylor & Co (Bermuda), Swan Building, 2nd Floor, 26 Victoria Street, Hamilton HM12, P.O. Box HM 2904, Hamilton HMLX, Bermuda, or scanned and emailed to pandi.bermuda@ctplc.com not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.

5 Completion and return of this form will not prevent you from attending and voting in person if you wish. Copies of the form can be downloaded from www.standard-club.com.

Managers and offices

Managers
Charles Taylor & Co (Bermuda)

Company Secretary
Charles Taylor & Co (Bermuda)

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

The Standard Club Ltd Annual report and financial statements 2018