

CORPORATE GOVERNANCE

1 Introduction

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

The club and its subsidiaries are regulated in the UK, Bermuda, Singapore and Australia as insurance operations, and the club has had particular regard for the requirements of these countries in arriving at its current practices.

The principal areas of corporate governance are explained in outline below.

2 Board composition and conduct

2.1 Board governance policies statement

The board's governance of the club is set out in the board governance policies statement. This sets out, *inter alia*, the board's role and matters reserved for the board, and the board's duties, composition and operation.

2.2 Board's conduct of affairs

The principal functions of the board include to:

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

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.

2.3 Board membership and performance

The great majority of directors are non-executive, as they are not involved in day-to-day executive management, and they exercise independent judgement in respect of the club's affairs.

The majority of the directors are, by virtue of the Bye-laws or Articles of Association, owners or senior executives of member companies.

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

The club has a Nomination and Governance Committee, whose terms of reference are agreed by the board. The committee's role includes that of identifying suitable candidates for board membership and membership of board committees, reviewing the overall composition of the board and leading periodic review of the board's effectiveness. The committee also leads the review of the managers' performance.

One third of the directors must retire from office by rotation at each annual general meeting. 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, for example if they cease to be an owner or executive of a member company. Additionally, directors holding office for a period of nine years should be subject to re-election at each AGM thereafter.

2.4 Chairman and deputy chairmen

The club has a chairman, and one or more deputy chairmen whose role is to assist the chairman in carrying out his duties, those duties being set out in the board governance policies statement. The chairman and deputy chairmen are elected for terms of three years but may be re-elected for four further terms. The chairman and deputies have regular contact with the managers to ensure that they are apprised of current issues.

2.5 Division of responsibilities between chairman and executive

The chairman is non-executive. The club does not have direct employees and day-to-day executive management is contracted to the managers who carry out executive responsibilities in accordance with the obligations and responsibilities set out in the management agreement, and who corporately fulfil the role of chief executive.

For Standard Asia, the Principal Officer role is exercised on the club's behalf by the general manager of CTMMA.

2.6 Audit and Risk Committee

The board has an Audit and Risk Committee, whose role, as set out in the committee's terms of reference, includes 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 controls.

2.7 Board information

At each board meeting the directors are provided with up-to-date reports on the key financial indicators for the club, and on risk, controls, underwriting, claims, investment and general policy issues. The directors are provided with board meeting papers in sufficient time before each board meeting to enable them to have adequate time to understand the relevant issues and to focus upon decisions that need to be made.

The managers are generally present at every board meeting to provide additional briefings and explanations as required. The managers and directors also have informal contacts between board meetings to discuss issues arising and general matters.

2.9 Remuneration

The club does not have a formal remuneration committee. Directors receive fees agreed by the club membership from time to time in general meeting, appropriate to their non-executive status. The fees paid to the directors are in line with those paid in other P&I clubs. Any change to the fees paid to directors must be agreed by the club's members at a general meeting. A manager who is also a director does not receive any director's fee.

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 review by the Nomination and Governance Committee, reporting to the board, of the managers' budgets, performance and cost, including in comparison with other clubs.

3 Systems of control and structure

The board has satisfied itself that there are suitable and appropriate systems of control within the club's management, including internal procedures, risk management, compliance and internal audit, and that the structure and allocation of responsibilities are appropriate to ensure the proper and effective management of the business.

4 Accountability and audit

The board issues an annual report which sets out a summary of the important issues discussed by it throughout the year, the industry environment and the strategy set by the board, together with financial statements which give a full explanation of the club's financial position.

The accounts are audited by independent registered auditors and published to the members. They are also available on the club's website.

5 Communications with members

The club's overall strategic direction, important news and decisions and matters of general interest to members are reported to the members by email updates, circular letter or by bulletins, as well as in the annual report.

The managers publish regular bulletins dealing with important club and industry issues, including safety and loss prevention, claims and legal matters. These are sent to the members and are also published on the club's website.

Club circular letters dealing with policy issues and the extent of, or proposed changes to the cover provided, are sent to every member.

The managers maintain regular contact with members through visits, handling of claims, underwriting discussions and general advisory assistance.

6 Conflicts of interest and related party transactions

The board has considered the potential conflicts of interest which exist within the club's and the board's operations. A conflicts register is maintained, identifying potential conflicts of interest which could affect the club.

In a mutual organisation the members are also the insuring underwriters. Negotiations relating to any matter concerning members or directors in their capacity as members are conducted at arm's length.

Directors do not participate in board discussions on specific matters concerning their companies as members.

Procedures are in place to ensure that potential conflicts of interest between the club and the managers, and between members and other clients of the managers' group, are identified and managed.

Other related party transactions are insignificant.

7 Internal controls and internal audit

The managers have comprehensive internal control procedures covering financial, operating and compliance areas. They report on risk, compliance and internal audit issues to the Audit and Risk Committee and to the board. All material risk incidents are reported to the board.

Regular audits of processes and controls are carried out by the managers' internal audit department, which is independent of the personnel involved with the day-to-day management of the club. The board has direct access to the head of internal audit, and to the compliance officer.

Terms of reference, programmes and KPRs, agreed by the board, are in place for the compliance and internal audit functions.

8 Risk management

The board, and its Audit and Risk Committee, sets, and reviews on a regular basis, the club's risk appetite, the major business risks facing the club, their potential impact, and the systems in place to manage and mitigate those risks. It reviews internal audit reports, including audit plans and audit results, and notes any incidents in which systems have failed or procedures have not

been followed, whether any actual loss was suffered or not, with a view to reviewing risks to the club

The managers have a comprehensive risk management system, which provides an effective method of monitoring and controlling risks, and continuously assess business risks and the effectiveness of control processes in place. They report on risk management at every board meeting.

9 Business and ethical values, treating customers fairly and complaints

The club is committed to conducting its business affairs in a fair, proper and ethical manner, and in compliance with all applicable laws, regulations and professional standards. The managers have adopted a set of corporate values to ensure that their work on behalf of the club is carried out with integrity and fairness, which have been communicated to all staff.

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

10 Environmental policy

The club is committed to the protection of the environment. To that end, it seeks to minimise the impact of its business on the environment and to develop the business in ways that are sustainable.

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

The club translates environmental policy into practical guidelines that assist implementation of responsible operating procedures amongst its membership. It regularly audits members' ships and management to monitor regulatory compliance, and to evaluate and encourage their implementation of good operating procedures. The club encourages members to be 'best in class' and looks at initiatives to help them achieve this. It will not accept for entry or continue to insure members who consistently fail to comply with regulations or fall below acceptable standards of responsible operation.

The day-to-day business of the club is carried out by its managers, who are committed to minimising the impact on the environment of their business operations and to achieving best practice in areas in which they do have an environmental impact. The managers have taken steps to reduce their carbon footprint, and strive to minimise their energy consumption through their energy management policy and by encouraging staff to use energy thoughtfully. Where possible, the managers use energy efficient business equipment, thereby giving rise to energy savings and a reduction in emissions.

Electronic document management systems have been implemented which reduce paper usage. Where practicable, the managers source their supplies from local businesses so as to minimise distribution and transport-related emissions. Suppliers are required, as far as possible, to have

an appropriate environmental policy. In order to reduce travel-related emissions, the company has invested in video-conferencing facilities. The managers have also implemented recycling programmes.

11 Prevention of financial crime and whistle-blowing

The managers have procedures to prevent the club being involved unwittingly in money laundering or in inappropriate payments. They also have in place whistle-blowing procedures to ensure that members of their staff can raise matters of concern confidentially so that they may be appropriately investigated.

12 Health and safety

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

13 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 from a number of different locations.