

The Standard Club Ltd

**Financial Condition
Report (FCR)
2017**



**Standard
Club**

CONTENTS

INTRODUCTION.....	3
I. BUSINESS AND PERFORMANCE	4
II. GOVERNANCE STRUCTURE	8
III. RISK PROFILE	17
A. UNDERWRITING RISK.....	17
B. MARKET RISK	19
C. CREDIT RISK.....	20
D. LIQUIDITY RISK	21
E. OPERATIONAL RISK	22
IV. SOLVENCY VALUATION	24
V. CAPITAL MANAGEMENT	26

INTRODUCTION

The Standard Club Ltd was incorporated in Bermuda on 5 February 1970, and is licensed as a Class 3A insurer by the Bermuda Monetary Authority. The Standard Club Ltd (the “club”) is a mutual association and provides marine Protection and Indemnity (“P&I”) and related covers to its members. The club also participates in the Lloyd’s market through Syndicate 1884.

This report covers the Business and Performance of the Company, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management.

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

I. BUSINESS AND PERFORMANCE

a. **Name**

The Standard Club Ltd

b. **Insurance and group supervisor**

Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton

c. **Auditors**

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

d. **Ownership details**

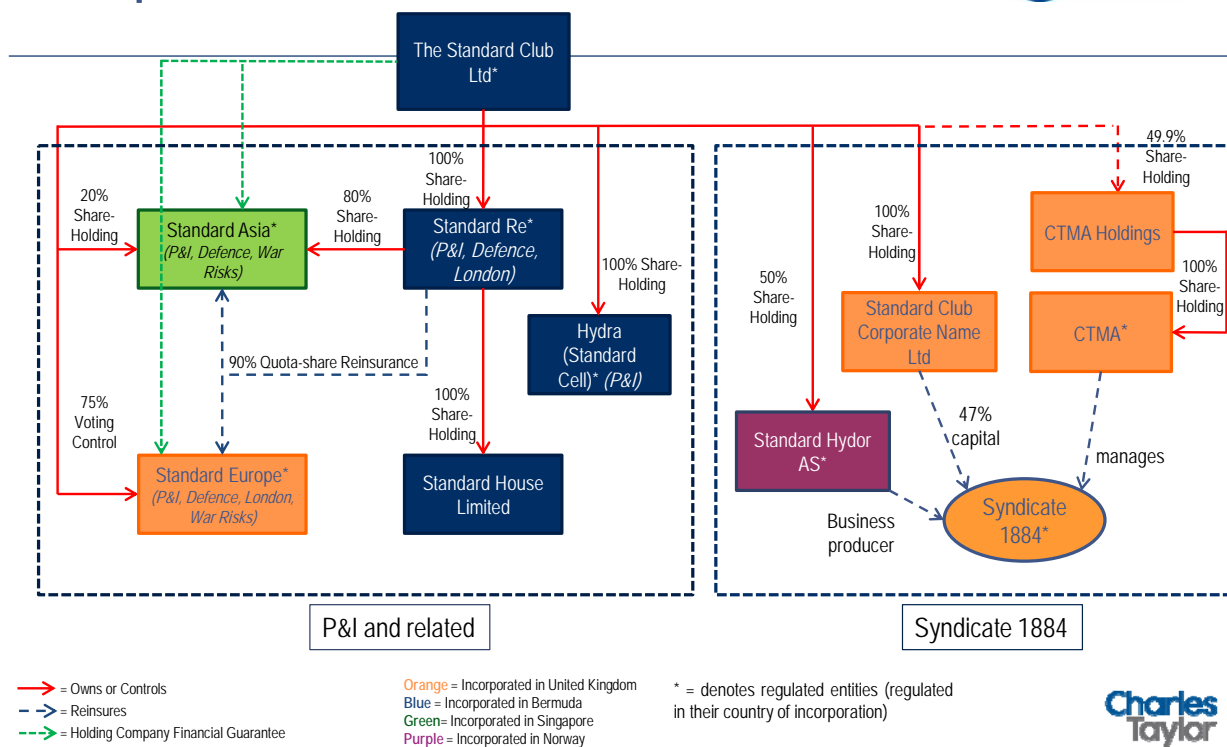
The club is a mutual association and is therefore owned and governed by its members. Members share risk and operate on a non-profit-making basis. The board of directors is primarily drawn from the membership.

e. **Group structure**

The Standard Club group ("group") structure chart is shown below.



Group Structure



f. **Insurance business written by business segment and by geographical region**

The principal activities of the group are the insurance and reinsurance of P&I and related risks, war risks, and defence risks, on behalf of its members. The group also participates in the Lloyd's market through its share of Syndicate 1884.

Business Segments	2017	2016
	Gross Premium Written (US\$ '000)	Gross Premium Written (US\$ '000)
P&I related	307,600	346,300
Syndicate	40,200	19,800
Total	347,800	366,100

The group insures shipowners located internationally; the material geographical areas where it insures risks are Europe and North America. The club's subsidiary, The Standard Europe Ltd ("Standard Europe"), is registered as an alien insurer in New York State, permitting it to write surplus lines insurance throughout the United States. Standard Europe provides insurance on a freedom of services basis throughout the European Union and European Economic Area. The club operates in the Asia Pacific region through another subsidiary, The Standard Club Asia Ltd ("Standard Asia").

BMA Geographical Zones		2017 Gross Premium Written (US\$ '000)	2016 Gross Premium Written (US\$ '000)
Zone 1	Central & Western Asia	27,356	28,147
Zone 2	Eastern Asia	19,152	22,622
Zone 3	South and South-Eastern Asia	17,970	17,954
Zone 4	Oceania	8,591	6,562
Zone 5	Northern Africa	1,833	2,074
Zone 6	Southern Africa	969	1,058
Zone 7	Eastern Europe	508	575
Zone 8	Northern Europe	32,609	54,334
Zone 9	Southern Europe	94,819	100,412
Zone 10	Western Europe	88,775	67,718
Zone 11	Northern America (Excluding USA)	18,195	23,134
Zone 12	Caribbean & Central America	5,161	5,434
Zone 13	Eastern South America	734	728
Zone 14	Northern, Southern and Western South America	2,499	3,805
Zone 15	North-East United States	7,242	7,980
Zone 16	South-East United States	17,628	19,424
Zone 17	Mid-West United States	-	-
Zone 18	Western United States	3,758	4,141
Total		347,800	366,100

g. **Performance of investments and material income & expenses**

Performance of investments

In the year to 20 February 2017, the group's total investments returned 3.0% (2016: -0.9%). The investments include assets in the investment portfolio, Standard House property and a currency hedge of the management fee.

Investments	2017 Balance (US\$ '000)	2017 Return (US\$ '000)	2017 Return (%)	2016 Return (%)
Corporate bonds	291,404	13,026	1.60%	-0.31%
Sovereign bonds including bills	276,496	12,359	1.52%	0.49%
Equities	118,421	5,293	0.65%	-1.27%
Alternatives	53,409	2,387	0.29%	-0.45%
Gold	17,214	769	0.09%	0.05%
Cash/FX forwards	11,527	515	0.06%	0.27%
Charles Taylor Shares	16,576	(4,131)	-0.51%	0.05%
Standard House property	27,350	(4,231)	-0.52%	1.09%
Currency hedge	(2,041)	(1,640)	-0.20%	0.00%
Share of Syndicate 1884	2,200	434	0.05%	0.00%
Total	812,556	24,783	3.05%	-0.09%

Assets highlighted grey in the table above are those within the investment portfolio. The investment portfolio made a return of 4.5% (2016: -1.3%).

All asset classes (bonds, equities, alternatives and gold) with the exception of FX forwards, made positive contributions to the portfolio return during the period. FX forwards were flat on the year.

The performance relative to the benchmark saw alternatives (including gold) and forwards outperform, whilst bonds and credit were inline, and equities underperformed.

Material income and expenses

The group's main revenue source is premium income. However, as a mutual insurance company, the club does not aim to make underwriting surpluses and instead its goal is break-even underwriting with investment returns used to strengthen the club's capital base.

For the 2016/17 financial year, the group achieved a positive result for members with a financial year combined ratio of 95% (2015/16: 95%), and this is after a return of 5% of poolable premium on the 2016/17 policy year (poolable premium being variable premium on which an unbudgeted call could be made).

This premium has been returned as of right to all mutual members entered in the year and irrespective of other considerations, such as renewal into 2017 or record. After the 5% return of the 2016/17 mutual call to members, the group's free reserves stood at \$430.5m at the year-end.

The group's major expense arises from insurance claims. The 2016/17 financial year saw low claims activity compared to prior years and no new large losses or International Group ("IG") pool claims. On average the group would expect to have between two to three pool claims a year.

Expense type	2017 (US\$ '000)	2016 (US\$ '000)
Claims incurred, net of reinsurance	200,800	206,900
Net operating expenses	43,500	39,600
Total	244,300	246,500

h. **Any other material information**Management of the club

The day to day management of the Standard Club group is outsourced to Charles Taylor and Co (Bermuda), a member of the Charles Taylor Plc group (collectively, with affiliated companies referred to as "the manager"). The outsourced management of the club by Charles Taylor and Co (Bermuda) and its predecessor companies has existed since the establishment of the Standard Club in 1884. As a consequence, the Standard Club group has no direct employees, with all of the group's activities being undertaken by the manager's staff. Further information is provided in section g. Outsourcing in chapter ii. Governance Structure.

Principal risk carrying subsidiary

The group's two underwriting subsidiaries, The Standard Club Europe Ltd and The Standard Club Asia Ltd, have in place a 90% quota share reinsurance arrangement with a fellow subsidiary, Standard Reinsurance (Bermuda) Limited ("Standard Re").

Standard Re holds 74% of the investments of the group, has 61% of the net assets, holds 77% of the net claims, and has 65% of the net premium of the group.

International Group of P&I clubs

The Standard Club is part of the International Group of P&I clubs ("IG"), made up 13 mutual P&I clubs who between them insure approximately 95% of the world's ocean going shipping. The IG pool (or share) large claims between them (currently claims excess of \$10m are pooled), and collectively the IG purchase external reinsurance once these pooled claims exceed \$100m.

II. GOVERNANCE STRUCTURE

a. Board and senior executive

i. Board and senior executive structure, role, responsibilities and segregation of responsibilities

1) Board

The board of the club comprises 32 directors, of which:

- 27 are drawn from leadership positions within shipping businesses which are insured by the club's subsidiaries;
- Three are non-executive directors with insurance industry experience;
- Two are drawn from the managers, who are currently the Chief Executive of Charles Taylor Plc's Management Services Division, and the Chief Executive Officer of Charles Taylor Plc.

The role of the board is to focus on those tasks that are unique to it as the representative of the members and necessary for it to undertake for the effective promotion of the company's interests. The board will assure itself that the club is achieving the purpose by satisfying itself that the business plan developed by the managers and accepted by the board represents a satisfactory means of progressing the purpose.

2) Board committees

There is a schedule of matters reserved for consideration by the board and the board has established three committees: Audit and Risk Committee ("ARC"), Nomination and Governance Committee ("NGC") and Strategy Committee.

The board and its committees meet at least three times a year. One meeting is held at least every other year in Bermuda, the other meetings are held throughout the world as the majority of the board is comprised of members drawn from the global shipping community.

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

3) Delegation of responsibilities and allocation of functions.

The day-to-day management of the club and its subsidiary companies is delegated to the manager by contract under a management agreement.

The management agreement sets out the terms upon which Charles Taylor and Company (Bermuda) and its affiliated Charles Taylor plc group companies provide management services to the group.

The services provided by the manager are subject to a Service Level Agreement ("SLA") which forms part of, and is subject to, the management agreement. The SLA sets out the key performance indicators ("KPI's") for the club's success.

The NGC and the board review the manager's performance against KPIs set out in the SLA on an annual basis.

The manager oversees execution of the day to day management of the club through a number of committees, which include; manager's executive committee, manager's risk committee, manager's regulatory risk committee, and which are comprised of selected management and staff of the manager with appropriate professional qualifications, skills and experience. The manager's executive committee is lead by the Chief Executive of the Management Services Division.

The club has appointed the following officer positions from employees of the manager:

Chief Risk Officer

Group Financial Controller

Group Compliance Officer

In addition Charles Taylor and Company (Bermuda) serves as the Company Secretary.

Each of these officers performs their group responsibilities from the head office in Bermuda and report directly to the club's board and committees as required.

4) Training - an annual program of training is provided to the board and its committees, key function holders and the manager's employees.

5) Internal audit and compliance reviews of management functions are carried out to assess performance against agreed systems and procedures and for effectiveness.

6) Annual appraisal process/board evaluation

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

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

ii. Remuneration policy and practices

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

Management fee – Annually in October the manager submits a proposal in respect of the proposed fee to be paid by the club to the manager, for the services provided under the management agreement for the following year, to the NGC. The NGC reviews the fee proposals and makes a recommendation to the board. The NGC in reviewing the fee takes account of the fees paid by the other P&I clubs to their respective management companies and the resources required to execute the company's business strategy.

Remuneration policy - The NGC considers the remuneration policy of the manager to ensure that it aligns with the interests of the club and that it does not promote excessive risk taking. In doing so, it additionally reviews the performance appraisal of the Chief Executive of the Management Services Division in respect of the previous year as well as the prospective objectives of the Chief Executive and selected members of the manager's executive committee. The chairman of the NGC reports to the board on its review of the policy.

iii. Pension or early retirement schemes

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

iv. Material transactions with shareholder controllers, persons who exercise significant influence, the board or senior executives

No transactions occurred during the financial year.

b. Fitness and proprietary requirements

i. Fit and proper process in assessing the board and senior executive

The club outsources management of the company and its subsidiaries to a manager, as is the most common operating structure for P&I Clubs across the world. The contract is with Charles Taylor and Company (Bermuda) who in turn engages other Charles Taylor plc group entities. There are two basic groups of roles that can be considered key to the club:

- The Non-Executive Directors of the Club who act as Chair of the Board, Audit and Risk Committee or the Nomination and Governance Committee;
- The manager’s executive committee which is comprised of management and staff of the manager with appropriate qualifications, skills and experience in all of the key roles and functions required to effectively operate the club’s business and execute it’s strategy.

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

A Fit and Proper Policy is in place for the club and describes the objectives, roles and responsibilities and governance around the selection, due diligence and appointment of resource into the key roles. The policy is reviewed and approved at least annually.

ii. Board and senior executives’ professional qualifications, skills and expertise

The board is drawn from a cross section of the club’s membership, all of whom are senior managers (or owners) in those organisations, plus three non-executive directors with insurance industry expertise, and two executives of the managers.

Below are details of the board’s areas of expertise:

CEO/MD/ Principal	CFO/Finance/ Investments	Legal	Corp Gov / Regulatory / Compliance	Insurance Expertise	Engineering	Shipping	Offshore	Board experience
25	8	2	5	5	1	27	2	32

c. Risk Management and Solvency Self-Assessment

i. Risk management process & procedures to identify, measure, manage and report on risk exposures

1) Risk management system

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

2) “Three lines of defence” principle

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

3) Risk management function

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

4) Risk strategy and appetite

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

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

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

In addition, the business monitors the level of capital held to ensure it is at a level appropriate to allow for the orderly management of its affairs consistent with its mutual objectives, including maintaining its financial strength and external credit rating.

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

5) Risk governance

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

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

6) Management information

Tools, models and systems have been developed in order to provide qualitative and quantitative management information for use in risk management decisions. In particular the group makes use of its internal model in order to quantify the levels of aggregate risk carried at both group and entity level and to monitor whether levels of risk are within strategic risk appetite. Detailed measures of the group’s appetite

for risk have also been established, with key risk indicators reported at each board meeting against pre-set board and management tolerances, for example with respect to key financial ratios, maximum exposure to individual investment counterparties, maximum exposure to specific ship types, or acceptable levels of new business growth.

7) Policies and procedures

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

ii. Risk management and solvency self-assessment systems implementation

1) Strategy and appetite

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

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

2) Risk assessment and control effectiveness reviews

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

3) Incident reporting and embedding risk management

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

4) Use of internal model

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

iii. Relationship between solvency self-assessment, solvency needs & capital, and risk management

1) Key elements of the Solvency Self-Assessment process (otherwise known as the Own Risk and Solvency Assessment ("ORSA") process)

The ORSA process brings together the key elements of risk, capital and strategy. The ORSA process is performed at both group and subsidiary level, and is summarised in a single annual report which is

approved by the board. At a group level the ORSA report meets the Bermuda regulatory requirement to prepare a Commercial Insurers Solvency Self-Assessment report.

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

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

2) Financial information and business plan

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

3) Stress and scenario testing and emerging risk review

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

iv. Solvency self-assessment approval process

1) ORSA report governance

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

2) ORSA process timing

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

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

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

d. Internal controls

i. Internal control system

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

Business functions (such as underwriting, loss prevention or claims) own the functional controls for their areas of responsibility. These controls are set out in the risk register and described in procedure manuals, often accompanied by process flows to aid the accurate adoption of procedures by new resource.

ii. Compliance function

The Compliance function, supported by Risk and Finance, covers four principal areas:

- Prudential (ensuring solvency and rating agency capital is maintained; regulatory capital is reported and pertinent waivers are maintained);
- Organisational (training and competence; fit and proper of key roles; general governance, including Conflicts of Interest and Data Protection issues)
- Transactional (regulatory reporting; conforming with licensing requirements; maintaining a complaints register; guarding against Financial Crime and screening against sanctioned entities, regions and cargo).
- Advisory (providing and issuing advice to the business on a range of regulatory issue)

The club has a Compliance Terms of Reference document that agrees the role of Compliance in advising the first line on new and ambiguous regulatory issues, monitoring the application of regulatory controls, reporting on findings, as well as training and supporting business change initiatives. The Compliance Terms of Reference are revised annually by the managers Regulatory Risk Committee ("RRC") and by the ARC.

e. Internal Audit

i. Implementation of the internal audit function

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

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

ii. Independence and objectivity of the internal audit function

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

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

f. Actuarial function

The actuarial director, a qualified actuary with more than 25 years of general insurance experience, has responsibility for the actuarial function, which:

- contributes to the effective implementation and embedding of the risk management system, in particular by designing, implementing, updating, testing, running and reporting on the internal model;
- calculates and validates the technical provisions;
- assists with the underwriting process by devising and maintaining pricing tools;
- expresses an opinion on the overall underwriting policy;
- uses the internal model to compare proposed reinsurance arrangements;
- expresses an opinion on the adequacy of current reinsurance arrangements;
- reports to the senior management and the board on the reliability and adequacy of actuarial calculations and technical provisions, including a comparison of actual developments with those previously expected; and
- liaises with the external auditors to assist with their annual independent assessment of the technical provisions.
- Provides an opinion to regulators on the adequacy of the respective group regulated entities technical provisions.

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

g. Outsourcing**i. Outsourcing policy and key functions that have been outsourced****1) Outsourced management of the business**

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

Charles Taylor and Co (Bermuda) controls the outsourced management of the group from Bermuda. Reflecting the wide geographical scope of the club's business, it has delegated performance of some activities to other entities within the Charles Taylor Plc group, the most significant of which are:

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

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

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

2) Outsourcing policy

An Outsourcing Policy is in place which considers both:

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

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

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

ii. Material intra-group outsourcing

There are no material intra-group outsourcing arrangements between the entities of the Standard Club group.

h. **Other material information**

No other material information to report.

III. RISK PROFILE

The group's main risk categories are underwriting, market, credit, liquidity and operational risks. To maximise the efficient use of capital within the group Standard Re retains 90% of the underwriting, credit, liquidity and operational risk of the core P&I business and related covers, and holds the majority of the investment assets of the group. As a result, while the following risks are set out at group level, they also apply to the principal group risk carrier, Standard Re.

A. UNDERWRITING RISK

a. Material underwriting risks

1) The underwriting risk of the club arises from two main categories of insurance product which it provides to its members:

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

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

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

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

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

In addition to the benefit provided by the IG pooling agreement, the club benefits from specific per claim reinsurance for non-poolable risks provided by commercial reinsurers.

2) Categorisation of types of underwriting risk

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

- Inappropriate insurance strategy, including reinsurance strategy;
- Ineffective implementation of underwriting strategy;

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

b. Risk mitigation techniques

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

1) Premium risk

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

2) Reserve risk

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

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

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

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

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

d. Stress and scenario testing

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

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

The club is assessed as being within its risk appetite in relation to the above scenarios.

e. Other information

The club has made an investment in the Standard Syndicate at Lloyd's (syndicate 1884 ("s1884")) through its subsidiary, The Standard Club Corporate Name Ltd ("SCCN"). SCCN has put up 40% of the capital on s1884's first two years of account (the 2015 and 2016 years), and has put up 47% of the capital on the 2017 year of account. In the club's ORSA, this exposure is modelled separately from the club other underwriting risks (in its core P&I and related covers), and given the small scale of this start up syndicate has limited impact on the overall level of ORSA capital. Under the BSCR this exposure is included as part of underwriting risk, although as with the ORSA the impact on the overall BSCR is immaterial.

B. MARKET RISK**a. Material market risks**

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

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

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

2) Categorisation of types of market risk

Market risk is considered in terms of three categories:

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

b. Risk mitigation techniques

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

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

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

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

The main changes in risk profile over the reporting period relate to an increase in currency risk following a reduction in exposure to Euro assets (compared to Euro liabilities). This has no material impact on the club's BSCR.

d. Investment in assets in accordance with the Prudent Person Principles of the Code of Conduct

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

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

These guidelines are reviewed on an annual basis and on an ad-hoc basis if any significant deviations have occurred that affect the financial markets.

e. Stress and scenario testing

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

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

The club is assessed as being within its risk appetite in relation to each of these scenarios.

C. CREDIT RISK

a. Material credit risks

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

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

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

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

b. Risk mitigation techniques

A number of risk mitigation techniques are used to manage reinsurer and IG pool reinsurance credit risk, including:

- Reinsurance is placed with a number of different reinsurers, reducing the potential impact of individual reinsurer default;
- The reinsurance programme is reviewed and approved by the board on an annual basis;

- All reinsurers are required to hold a credit rating of A- (Standard & Poor's or equivalent) or better;
- The board receives regular reports on the amounts recoverable from reinsurers;
- The IG pooling agreement includes mechanisms to protect member clubs in the event of the default of one of its members, including securitisation of pool recoverables through Hydra Insurance Company Limited, the IG members' captive insurer, and minimum solvency and rating requirements for P&I clubs to be included within the pooling agreement.

Risk mitigation techniques used with respect to the club's banking relationships include:

- Maximum counterparty limits with any single banking entity, which may not exceed \$50 million at any time and may not exceed \$35 million for more than 5 working days;
- Frequent monitoring of bank credit rating.

Risk mitigation techniques used with respect to the club's exposure to outstanding member premium balances include:

- Under the terms of coverage, member claims may be offset against outstanding premiums.
- Overdue premium amounts are monitored and reported to the manager's executive committee on a monthly basis.
- Member cover can be cancelled for non-payment of premium.
- Guarantor security is monitored by the managers' finance committee.

c. Material risk concentrations

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

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

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

d. Stress and scenario testing

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

D. LIQUIDITY RISK

a. Material liquidity risks

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

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

b. Risk mitigation techniques

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

- Asset-liability management controls are in place, which assist in the club's ability to manage liquidity;
- The investment rules require a significant proportion of the portfolio to be held in easily realisable assets such as highly liquid sovereign debt;
- The club regularly reviews the time period required to liquidate the investment portfolio;

- Principal reinsurance arrangements allow for short period recovery of all significant claims payments due;
- A monitoring process is in place to identify short term potential cash needs in the business;
- The likely cash outflows in relation to specific large claims are projected and kept under review.

c. Material risk concentrations

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

d. Stress and scenario testing

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

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

E. OPERATIONAL RISK

a. Material operational risks

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

Operational risk is considered in terms of five categories:

- Ineffective management of regulatory or corporate governance requirements;
- Ineffective management of people and relationships;
- Poor data management or application;
- Ineffective management of systems;
- Inadequate planning or reaction to external events.

b. Risk mitigation techniques

A number of risk mitigation techniques are in place including:

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

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

c. Material risk concentrations

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

The board has considered the impact, threats and opportunities to the club arising from the decision for the UK to exit from the European Union. Although the impact and potential transitional arrangements which may be put in place are uncertain, it is anticipated that following this change the club will no longer be able provide insurance on a freedom of services basis throughout the European Union. This will have a material impact on the ability of the club to provide its services to a significant proportion of its

membership. Contingency plans to facilitate the continued provision of insurance services to members within the European Union following such an exit have been developed and are in the process of implementation.

d. **Stress and scenario testing**

A range of operational risk stress and scenario tests are performed in order to understand the potential impact of potential operational issues. The most significant scenarios identified include:

- Rogue investment manager
- Rogue chief financial officer
- Regulator action
- Cyber attack

The club is assessed as being within its risk appetite in relation to the above scenarios.

IV. SOLVENCY VALUATION

a. Valuation bases, assumptions and methods to derive the value of each asset class

The club has used the valuation principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- Cash and cash equivalents – these are valued at the amount held at period end date. Foreign currencies are translated at the US dollar rate of exchange at the balance sheet date.
- Investments – these are valued at market price at period end provided by the club's custodian, Northern Trust. The club uses Bloomberg to ascertain that investments are traded in active markets and hold no over the counter assets requiring modelling in the portfolio.
- Real estate - these are valued at their open market value at the period end 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.
- Accounts and premium receivables – these are valued at cost less any provision for impairment in value. Premium receivable from members recognised as insurance receivables under UK GAAP, forms part of the best estimates technical provision in the EBS. See section b below on the valuation of technical provisions.
- Reinsurance balances receivable – these are valued at cost less any provision for impairment in value.
- Fixed 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.

b. Valuation bases, assumptions and methods to derive the value of technical provisions

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

- Any prudence in the GAAP reserves is removed to arrive at a 'best estimate'. At the year-end, any potential case reserve redundancy not taken credit for in the GAAP reserves is removed.
- Time value of money. While the GAAP reserves take credit for the time value of money on the asbestos reserves, under EBS discounting is applied to all cash flows for all classes of business.
- An explicit additional allowance is made for events not in data ("ENIDs"): large events that have not happened in the past (so are not in the basic reserves) but might happen in the future.
- An allowance is made for the expenses, both external and internal, of settling the claims. A claims handling expense ("CHE") allowance is already included in the GAAP reserves, however the methodology for calculating this allowance differs under EBS, and so this difference is adjusted for at this stage.
- An allowance is made for reinsurance bad debt. The managers use the credit ratings of the club's reinsurers and default rates published by S&P to estimate the cost of reinsurer defaults over the future lifetime of the claims.
- Risk margin. A risk margin is included to allow for the cost of funding the solvency capital required to support the reserves until they fully run off.

- 'Premiums provisions' are added, on the same basis, for premiums, claims and expenses in respect of future exposures that the club has already agreed to underwrite.

At 20 February 2017, the total Technical Provisions amounted to \$507m net of reinsurance comprising the following (reported in thousand units):

Technical Provision	2017 Net (US\$ '000)
Best Estimate Loss and Loss Expense Provision	435,301
Best Estimate Premium Provision	(15,170)
Risk Margin	87,058
Total	507,189

c. Description of recoverables from reinsurance contracts

The main elements of the reinsurance recoverable balance are in respect of (a) recoveries on pooled business from the IG pooling arrangement, which includes recoveries from pool members and from external excess-of-loss reinsurers; and (b) recoveries on non-pooled business from external excess-of-loss reinsurers.

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

d. Valuation bases, assumptions and methods to derive the value of other liabilities

Similar to the valuation principles for assets, the club's liabilities follow the valuations principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime".

- Insurance and reinsurance balances payables – these are valued at cost less any provision for impairment in value.
- Accounts payables and accrued liabilities – these are valued at cost less any provision for impairment in value.
- Derivative instruments – these are valued at quoted market prices. In the absence of an active market, prices are based on observable market inputs.
- Any other liabilities – these are valued at cost less any provision for impairment in value. Accrued expenses are included on an accrual basis.

e. Any other material information

No additional material information to report.

V. CAPITAL MANAGEMENT

a. Eligible capital

i. Capital management policy and process for capital needs, how capital is managed and material changes during the reporting period

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

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

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

There were no material changes during the reporting period.

ii. Eligible capital categorised by tiers in accordance to the eligible capital rules used to meet ECR and MSM requirements of the Insurance Act

At the end of the reporting period, the group's Eligible Capital for its Minimum Margin of Solvency (MSM) and Enhanced Capital Requirement (ECR) was categorised as follows:

Eligible Capital	2017 MSM (US\$ '000)	2017 ECR (US\$ '000)
Tier 1	350,536	350,536
Tier 2	44,632	44,632
Tier 3	-	-
Total	395,168	395,168

The majority of capital is Tier 1, the highest quality capital, consisting of contributed surplus, and statutory surplus. The group has a modest amount of Tier 2 capital consisting of a portion of encumbered assets for policy holder obligations that are not collateralised. The group does not have any Tier 3 capital.

iii. Confirmation of eligible capital that is subject to transitional arrangements

There is no eligible capital subject to transitional arrangements.

iv. Identification of any factors affecting encumbrances on the availability and transferability of capital to meet the ECR

None identified.

v. Identification of ancillary capital instruments approved by the Authority

The group does not currently have any ancillary capital approved by the Authority, however it will be applying to have the ability to make unbudgeted supplementary calls recognised as tier 2 capital in the future.

vi. Identification of differences in shareholder's equity as stated in the financial statements versus the available capital and surplus

Differences relate to the impact of employing statutory-based technical provision valuation techniques as summarised below:

Reconciliation - UK GAAP to EBS	2017 Capital and Surplus (US\$ '000)
UK GAAP capital and surplus	430,500
Technical provision adjustments (ex-risk margin)	51,726
Risk Margin	(87,058)
BMA EBS capital and surplus	395,168

b. Regulatory capital requirements

i. ECR and MSM requirements at the end of the reporting period

The group's regulatory capital requirements at 20 February 2017 were assessed as follows:

Requirement	2017 (US\$ '000)
Minimum Margin of Solvency	82,368
Enhanced Capital Requirement	181,111

ii. Identification of any non-compliance with the MSM and the ECR

The group was compliant with the MSM and ECR requirement at the end of the reporting period.

iii. A description of the amount and circumstances surrounding the non-compliance, the remedial measures and their effectiveness

Not applicable.

iv. Where the non-compliance is not resolved, a description of the amount of the non-compliance

Not applicable.

c. Approved internal capital model

i. Description of the purpose and scope of the business and risk areas where the internal model is used

Not applicable - the club has not applied to have its internal capital model approved to determine regulatory capital requirements.

ii. Where a partial internal model is used, description of the integration with the BSCR model

Not applicable.

iii. Description of methods used in the internal model to calculate the ECR

Not applicable.

iv. Description of aggregation methodologies and diversification effects

Not applicable.

v. Description of the main differences in the methods and assumptions used for the risk areas in the internal model versus the BSCR model

Not applicable.

vi. Description of the nature & suitability of the data used in the internal model

Not applicable.

vii. Any other material information

Not applicable.

viii. Significant and subsequent events

1) Planning for Brexit

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