

Confidently embracing the future

Annual Report & Financial Statements for
TT Club Mutual Insurance Limited
For the year ended 31 December 2018

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Directors and Management

Chairman

U Kranich 3 4
Hamburg

Deputy Chairman

J Küttel
Ermewa, Paris

Directors

U Baum 1 2 (appointed 21 March 2018)
Röhlig Logistics GmbH & Co KG

M Onslow 2
Specialist Director – Insurance

J Chowdhury
Through Transport Mutual Services (UK) Ltd,
London

D Robinson MBE 1 2
PD Ports, Middleborough

C Fenton
Through Transport Mutual Services (UK) Ltd,
London

N Smedegaard
DFDS, Copenhagen

Registered office

90 Fenchurch Street
London
EC3M 4ST

Telephone +44 (0) 20 7204 2626
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Managers and company secretary

Through Transport Mutual Services (UK) Ltd

Company registration number

2657093

- 1 TT Bermuda Audit & Risk Committee Member**
- 2 TT Club Mutual Insurance Limited (“TTI”) Audit & Risk Committee member**
- 3 Investment Committee Member**
- 4 Nominations Committee Member**

Independent auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Strategic Report

Business review

This report is addressed to, and written for, the Members of TT Club Mutual Insurance Limited ("TTI"). The Directors wish to draw attention to a number of financial and environmental uncertainties, including but not limited to the premium rating environment, the rate of claims inflation, cost inflation, foreign exchange movements and economic growth. This means that the actual results in the future may vary considerably from both historic and projected outcomes contained within any 'forward-looking statements'.

TTI operates in the UK and the US and through branches in Singapore, Hong Kong and Australia.

Strategy and values

TTI's business is the provision of liability and asset insurances and related risk management services to the international transport and logistics industry. TTI is a mutual company, limited by guarantee. It is a subsidiary of Through Transport Mutual Insurance Association Limited ("TT Bermuda"), a mutual insurance company based in Bermuda. The two companies have separate corporate governance arrangements but operate as a single business.

TTI has entered into a 90% quota share reinsurance contract with TT Bermuda. The reinsurance contract also includes a stop loss element to protect TTI from an excess accumulation of claims within its 10% retention.

TTI's business strategy is to provide superior insurance products and claims handling to its policyholder Members at a competitive price, whilst maintaining excellent financial security over the long term. Insurance is very much a cyclical business, with premium rates fluctuating in accordance with the supply of capital in the market and with the investment returns available to the owners of that capital. TTI maintains a conservative investment strategy.

TTI's executive function, including that relating to investment management, is performed by companies within the Thomas Miller Holdings Limited group of companies.

Strategic Report (continued)

Financial performance, capital strength and solvency

TTI's underwriting performance in 2018 continued to be affected by market pressure on premium rates. The technical result, after allowing for the attribution of investment return on the claims reserves, was a surplus of US\$ 1.9 million (2017: deficit of US\$ 1.0 million). The overall deficit after tax was US\$ 0.9 million (2017: surplus of US\$2.0 million).

The principal Key Performance Indicators ("KPIs") by which performance is monitored by the Board are set out in the charts below. The position is shown as at the end of 2018 and 2017.

	2018	2017
AM Best rating	A- (Excellent)	A- (Excellent)
Surplus and reserves	US\$62.8m	US\$63.8m
Technical result (after attribution of investment return)	US\$1.9m	US\$(1.0m)
Investment return (incl. exchange gains/losses, after attribution of investment return to technical account)	US\$(2.7)m	US\$2.8m
Net result	US\$(0.9)m	US\$2.0m

TTI's financial strategy, approved by the Board, is to maintain within the business sufficient capital to meet regulatory requirements, and to maintain an AM Best rating of A- (Excellent) over the insurance market cycle, with a substantial margin in each case. The Directors are satisfied that both elements of this strategy have been maintained throughout 2018.

Principal Risks and Uncertainties

All principal risks and uncertainties have been assessed by management and details of these can be found in the Directors' Report.

Brexit

The impact on TTI of the UK electorate's decision in the referendum in June 2016 to leave the EU is still unclear. TTI is committed to putting in place the necessary arrangements to be able to provide its product and service to affected Members. To this end, TTI's planning has been based on the assumption that arrangements will need to be in place by 29 March 2019. It seems likely, but not guaranteed at the time of writing, that transitional arrangements will be put in place to extend the period which companies such as TTI have in order to put in place their arrangements for a post-Brexit world. To that extent TTI's planning is being undertaken on a basis that gives it as much flexibility as possible in its preparations depending on decisions arrived at between the United Kingdom and European Union negotiators.

Strategic Report (continued)

Corporate and social

The Directors are of the opinion that the environmental impact of TTI's activities is low, due to the small size and the nature of its business. There are therefore currently no KPIs relating to environmental matters. The business is however conscious of its environmental responsibility, and continues to invest in electronic claims handling and underwriting systems designed to increase efficiency and reduce reliance on paper-based records. It is also investing in website technology in order to facilitate electronic distribution of its products and information to Members, brokers, suppliers and third parties.

As TTI has outsourced all of its management activities to independent professional managers there are no employee matters to report.

Charitable donations

During the year there were no charitable donations (2017: \$nil).

By approval of the Board

Through Transport Mutual Services (UK) Limited, *Company Secretary*

21 March 2019

Directors' Report

The Directors present herewith their Annual Report and the audited financial statements of TT Club Mutual Insurance Limited ("TTI") for the year ended 31 December 2018.

Directors and Officers

The names of the Directors of TTI who served during the year are shown on page 2. All the Directors retiring at the Annual General Meeting and seeking re-election were re-elected.

There were no qualifying third party indemnity provisions in force for the benefit of one or more of the Directors at any time during the financial year, or at the time when the annual report was approved.

Meetings of the Directors

The Board of TTI met formally on six occasions during 2018, with its main focus being to direct the operations of underwriting, sales, the external reinsurance programme, service, claims management, information technology and general administration. The Board also monitored performance against budget.

The Board is assisted by TTI's Audit & Risk Committee and by the Nominations and Investment Committees of both TTI and its parent company, Through Transport Mutual Insurance Association Limited ("the Group"). The Board is apprised as to the main issues discussed and all minutes of meetings of the committees are distributed to the Board.

TTI's Audit & Risk Committee assists the Board in discharging its responsibilities for the integrity of the financial statements, the assessment of the effectiveness of the systems of internal control and risk management, monitoring the effectiveness and objectivity of the internal and external auditors and compliance with regulatory requirements in relevant jurisdictions. The Audit & Risk Committee met on five occasions during 2018.

Risks and risk management

The Board has adopted the Group risk management policy which is designed to protect TTI from occurrences that hinder sustainable achievement of our objectives and financial performance and to ensure that TTI complies with regulatory requirements in the jurisdictions in which it operates.

The following key principles outline TTI's approach to risk management:

- The Board is responsible for risk management and internal control;
- The Board is responsible for ensuring that a framework exists which sets out risk appetite, risk management and control and business conduct standards; and
- The Board is responsible for ensuring that the Managers implement and maintain a sound system of internal control.

Directors' Report (continued)

Risks and risk management (continued)

All types of risk facing the business are analysed and each one is rated according to its severity (impact on the business) and probability of occurrence, adjusted for any mitigation measures that have been implemented. The residual risks are prioritised with the most highly rated items being considered as fundamental risks. Each fundamental risk is monitored and managed by a member of the executive management. All risks identified are summarised, categorised and prioritised in a Risk Log which is reviewed and approved by the Board, at least annually and more frequently if required.

The principal risks and uncertainties faced by the business are summarised as follows:

Insurance risk

Insurance risk is the potential adverse financial impact on TTI as a result of:

- Inaccurate pricing of risk when underwritten;
- Inadequate reinsurance protection;
- Fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations; and
- Inadequate claims reserves.

Insurance risk is mitigated by means of:

- Prior approval of all quotations by a minimum of two senior underwriters
- Underwriters' authority levels based on experience and competence
- Technical underwriting and claims file reviews by management
- Key performance indicators and key risk indicators relating to underwriting and claims functions
- Actuarial, management and Board review of claims reserves (every four months)
- Management review of reinsurance adequacy and security

Financial risks

Financial risks consist of:

- Market risk
- Currency risk
- Credit risk
- Liquidity and cash flow risk

Information on the use of financial instruments by TTI and its management of financial risks is disclosed in Note 4 to the financial statements.

Directors' Report (continued)

Risks and risk management (continued)

Operational risk

Operational risk arises from inadequately controlled internal processes or systems, human error and from external events. Operational risks include, for example, risks arising from outsourcing, conduct, information technology, information security, project management, human resources, taxation, legal, fraud and compliance.

TTI's IT systems are established and stable; any development follows standard project methodologies.

Appropriate operational policies and procedures covering all aspects of the business have been embedded through the organisation. Management information supports the control framework and is subject to on-going validation and enhancement to ensure that it is appropriate to business requirements.

The Directors have assessed the mitigation and control environment relating to each of these types of risk and have made an assessment of the capital required to meet the residual risks faced by the business.

Future Developments

The Board will maintain the current strategy for the business in future years and anticipates future performance, in a competitive marketplace, to be in line with the previous year.

Foreign Branches

TT Club Mutual Insurance Limited operates branches in Singapore, Hong Kong, and Australia.

Distribution to members

There was no distribution made to members in the year.

Directors' Report (continued)

Statement of disclosure of information to auditors

Each of the persons who are a Director at the date of this report confirms that:

- 1) So far as each of them is aware, there is no information relevant to the audit of TTI's financial statements for the year ended 31 December 2018 of which the auditors are unaware; and
- 2) The Director has taken all steps that he/she ought to have taken in his/her duty as a Director in order to make him/herself aware of any relevant audit information and to establish that TTI's auditors are aware of that information.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the annual general meeting.

Post Balance Sheet Events

There have been no post balance sheet events.

By approval of the Board

Through Transport Mutual Services (UK) Limited, *Company Secretary*

21 March 2019

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

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

By approval of the Board

Through Transport Mutual Services (UK) Limited, *Company Secretary*

21 March 2019

Notice of Meeting

Notice is hereby given that the twenty-eighth Annual General Meeting of the Members of TT Club Mutual Insurance Limited will be held at the Fairmont Olympic Hotel, Seattle, on the twenty-seventh day of June 2019 at 8.55 am for the following purposes:

To receive the Directors' report and financial statements for the year ended 31 December 2018 and to adopt them.

To elect Directors.

To appoint auditors and to authorise the Directors to fix their remuneration.

To transact any other business of an Ordinary General Meeting.

By approval of the Board

Through Transport Mutual Services (UK) Limited, *Company Secretary*

21 March 2019

Independent Auditors' Report to the Members of TT Club Mutual Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, TT Club Mutual Insurance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its deficit 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); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the statement of income and retained earnings and the notes to the financial statements, which include a description of the significant accounting policies.

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 company 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, as applicable to public interest entities, 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 8 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

Independent Auditors' Report to the Members of TT Club Mutual Insurance Limited (continued)

Our audit approach

Overview

Materiality	<ul style="list-style-type: none"> Overall materiality: \$3,000,000 (2017: \$3,291,992), based on approximately 5% of Surplus and Reserves.
Audit scope	<ul style="list-style-type: none"> We performed full scope audit procedures over all components, including the UK and Europe, Singapore, Hong Kong, and Australia.
Key audit matters	<ul style="list-style-type: none"> Reserving methodology and subjectivity in key reserving assumptions.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority (see page 37 of the Annual Report), and we considered the extent to which non-compliance might have a material effect on the financial statements of the company. We also considered those laws and regulations that have a direct impact on the financial statements of the company such as the Companies Act 2006, the Prudential Regulation Authority's regulations, and the UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure of the company, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of general insurance contract liabilities. Audit procedures performed by the engagement team included:

- Discussions with the executive management, internal audit, and senior management involved in the Risk and Compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes;

Independent Auditors' Report to the Members of TT Club Mutual Insurance Limited (continued)

Capability of the audit in detecting irregularities, including fraud (continued)

- Reviewing the company's internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of general insurance contract liabilities described in the related key audit matter;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, Companies Act 2006, UK tax legislation, Prudential Regulation Authority's regulations.

Our tests included, but were not limited to, review of the financial statement disclosures and the review of correspondence with the regulators. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Independent Auditors' Report to the Members of TT Club Mutual Insurance Limited (continued)

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="237 916 825 981"><i>Reserving methodology and subjectivity in key reserving assumptions</i></p> <p data-bbox="237 999 825 1294">See Note 2 of the financial statements for disclosures of related accounting policies, judgments and estimates. The outstanding claims reserve is a material balance within the financial statements. Its determination has a significant impact on the financial result and there is a high degree of complexity and judgement involved in determining the estimate. In particular we focused on:</p> <ul data-bbox="237 1312 825 2033" style="list-style-type: none"> • Degree of consistency in the reserving philosophy across reserving classes, including factors such as speed of case reserving and reserving for major issues; • Key judgements and assumptions made by management in the reserving process; • The use of appropriate reserving methodologies and assumptions and the consistency of their application from year to year; • The process and governance surrounding the final selection of incurred by not reported reserves made by management; • Appropriateness of the margin added to the actuarial best estimate of claims reserves, to provide for the risk of adverse development in the claims recognised. The appropriate margin to recognise is a judgement taken by management, based on the perceived uncertainty and potential for volatility in the underlying claims. As such, it is a subjective estimate. 	<p data-bbox="847 916 1434 1032">We have assessed the degree of consistency in the reserving philosophy adopted by management to support the methodology and assumptions used.</p> <p data-bbox="847 1059 1434 1207">We also tested the completeness and accuracy of the underlying data used in the actuarial calculations through performing reconciliations on the data back to the financial ledger and the actuarial data.</p> <p data-bbox="847 1234 1434 1538">In order to challenge management's methodology and assumptions, we were assisted by our actuarial specialist team members who assessed the reserve estimates based on reviewing the methodology, assumptions and judgements made for the most significant classes and performed key indicator reviews over the remaining classes to identify and follow up any anomalies.</p> <p data-bbox="847 1565 1434 1713">Applying our industry knowledge and experience, our assessment considered whether the methodology and assumptions were in line with recognised actuarial techniques and best practices.</p> <p data-bbox="847 1740 1434 1856">We assessed the consistency of management's approach to the margin and its appropriateness in accordance with the business experience.</p> <p data-bbox="847 1883 1434 2000">Based on the work performed, we concluded that the methodologies and assumptions taken in setting the claims reserves were reasonable.</p>

Independent Auditors' Report to the Members of TT Club Mutual Insurance Limited (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	<ul style="list-style-type: none"> • \$3,000,000 (2017: \$3,291,992).
How we determined it	<ul style="list-style-type: none"> • Approximately 5% of Surplus and Reserves.
Rationale for benchmark applied	<ul style="list-style-type: none"> • The primary users of the financial statements are members and policyholders. The benchmark most applicable to the requirements of these users is the Members' Funds. As a marine mutual, management's main objective is to build up capital reserves, as opposed to the generation of profits to pay dividends and therefore this is the most appropriate benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$300,000 (2017: \$329,199) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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 company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Independent Auditors' Report to the Members of TT Club Mutual Insurance Limited (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.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, 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 company'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 company or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' Report to the Members of TT Club Mutual Insurance Limited (continued)

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 FRC'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 Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 21 June 2005 to audit the financial statements for the year ended 31 December 2005 and subsequent financial periods. The period of total uninterrupted engagement is 14 years, covering the years ended 31 December 2005 to 31 December 2018.

Deepti Vohra, Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

21 March 2019

Statement of Income and Retained Earnings for the year ended 31 December 2018

Technical Account

	Note	2018 US\$000s	2017 US\$000s
Gross premiums written	5	186,227	177,626
Outward reinsurance premiums		(154,067)	(145,869)
Premiums written, net of reinsurance		32,160	31,757
Change in provision for unearned premiums			
Gross	6	(1,939)	(5,897)
Reinsurers' share	6	1,589	5,462
		(350)	(435)
Earned premiums, net of reinsurance		31,810	31,322
Allocated investment return transferred from the non-technical account		(644)	1,075
Commission income		16,453	23,451
Other technical income, net of reinsurance		32	36
Claims paid			
Gross	7	(89,998)	(110,535)
Reinsurers' share	7	82,597	101,531
		(7,401)	(9,004)
Change in the provision for claims			
Gross		(7,329)	2,993
Reinsurers' share		8,899	(4,190)
		1,570	(1,197)
Claims incurred, net of reinsurance		(5,831)	(10,201)
Net operating expenses	8	(39,925)	(46,663)
Balance on the technical account		1,895	(980)

All activities derive from continuing operations.

Statement of Income and Retained Earnings for the year ended 31 December 2018 (continued)

Non-technical Account

	<i>Note</i>	2018 US\$000s	2017 US\$000s
Balance on the technical account		1,895	(980)
Investment income		1,588	843
Unrealised gains on investments		359	11
Interest payable		(589)	(437)
Exchange (losses)/gains		(4,722)	3,410
Total investment return	9	(3,364)	3,827
Allocated investment return transferred to the technical account	9	644	(1,075)
(Deficit)/surplus on ordinary activities before tax		(825)	1,772
Tax on ordinary activities	10	(96)	256
(Deficit)/surplus on ordinary activities after tax	14	(921)	2,028
(Deficit)/surplus for the year		(921)	2,028
Surplus and reserves at 1 January 2018		63,770	61,742
(Deficit)/surplus for the year		(921)	2,028
Surplus and reserves at 31 December 2018		62,849	63,770

All activities derive from continuing operations.

The notes on pages 23 to 49 form an integral part of these financial statements.

There is no material difference between the surplus on ordinary activities before taxation and the retained earnings for the year stated above and their historic cost equivalents.

Statement of Financial Position as at 31 December 2018

	<i>Note</i>	2018 US\$000s	2017 US\$000s
Assets			
Investments			
Investment in subsidiary	11	–	–
Other financial investments	12	99,662	64,027
Reinsurers' share of technical provisions			
Provision for unearned premiums	6	56,875	55,286
Claims outstanding	7	263,453	262,097
		320,328	317,383
Debtors			
Arising out of direct insurance operations			
– policyholders		43,804	45,351
Arising out of reinsurance operations		3,471	11,722
Corporation tax debtor		238	1,502
Other debtors		369	1,403
		47,882	59,978
Cash at bank		40,320	52,924
Prepayments and accrued income			
Accrued interest		527	321
Deferred acquisition costs	13	6,294	6,092
Prepayments		208	237
		7,029	6,650
Total assets		515,221	500,962

Statement of Financial Position as at 31 December 2018 (continued)

	<i>Note</i>	2018 US\$000s	2017 US\$000s
Liabilities and reserves			
Surplus and reserves	14	62,849	63,770
Technical provisions			
Provision for unearned premiums – gross	6	67,382	65,443
Claims outstanding – gross	7	287,047	287,101
		354,429	352,544
Creditors			
Arising from reinsurance operations		56,360	56,534
Other creditors including taxation and social security		869	1,956
Amounts due to group undertakings		38,277	23,905
		95,506	82,405
Accrued expenses and sundry creditors		2,437	2,253
		97,943	84,648
Total liabilities and reserves		515,221	500,962

The notes on pages 23 to 49 form an integral part of these financial statements.

These financial statements on pages 19 to 49 were approved by the Board of Directors on 21 March 2019 and were signed on its behalf by:

U Kranich, *Director*

J Küttel, *Director*

Company Registered Number

2657093

Notes to the Financial Statements

Note 1: Constitution

TT Club Mutual Insurance Limited (“TTI”) was incorporated as a mutual company limited by guarantee in the United Kingdom under the Companies Act 1985 on 24 October 1991 – Registered office - 90 Fenchurch Street, London, EC3M 4ST. The liability of Assureds is limited to the supplementary premiums set by the Directors. Under TTI's Memorandum of Association, individual Members' liabilities are limited, in the event of TTI being wound up, to a maximum of £5 and, under TTI's Articles, in the event of its liquidation, any net assets of TTI are to be distributed equitably amongst the Members.

Note 2: Accounting policies

(a) Basis of preparation (statement of compliance)

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”), Financial Reporting Standard 103, “Insurance Contracts” (“FRS 103”) and the Companies Act 2006.

The Financial Statements have been prepared on the 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 TTI's ability to continue to do so for at least 12 months from the date of these Financial Statements.

Under FRS 102 section 7: Cash Flows, no cash flow has been presented in these Financial Statements as TTI is deemed to be a wholly owned subsidiary of Through Transport Mutual Insurance Association Limited and the cash flows of TTI are included within the consolidated financial statements of that entity.

No other exemptions have been taken.

The functional currency of TTI is considered to be United States Dollar (“USD”) because that is the currency of the primary economic environment in which TTI operates. The consolidated financial statements are also presented in USD. Foreign operations are included in accordance with the policies set out below.

Underwriting Activities

(b) Premiums

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of provisions for anticipated adjustment premiums, less an allowance for cancellations. Premiums are stated before the deduction of commissions and brokerage but net of taxes and duties levied.

Notes to the Financial Statements (continued)

Note 2: Accounting policies (continued)

(c) Unearned premiums

Premiums written during the financial year are earned as revenue on a daily pro-rata basis over the period of cover provided, in line with the incidence of risk. Amounts relating to periods after the year end are treated as unearned and included within liabilities in the statement of financial position.

(d) Claims

A provision is made for all claims incurred during the year, whether paid, estimated or unreported, claims management costs and adjustments to claims provisions brought forward from previous years. In addition, claims include claims management costs and an allowance for estimated costs expected to be incurred in the future in the management of claims. Estimated claims stated in currencies other than the functional currency are converted at year end rates of exchange and any exchange difference is included within claims incurred in the Statement of Income.

The provision for claims outstanding includes both estimates for known outstanding claims and for claims incurred but not reported (“IBNR”). The estimates for known outstanding claims are based on the best estimate and judgment of the likely final cost of each individual claim based on current information. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to TTI, where more information is generally available.

TTI takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures.

The best estimate of unreported claims on each policy year and the eventual outcome may vary from the original assessment. As a result of this inherent uncertainty, sophisticated estimation techniques are required to determine an appropriate provision. The estimate is made using a range of standard actuarial projection techniques, such as the Chain Ladder and Bornheutter-Ferguson methods. Such methods extrapolate the development of claims for each policy year, based on the claims patterns of earlier years and the expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. Judgment is used to assess the extent to which past trends may not apply in future and alternative approaches are applied as appropriate.

An estimate for Members and general reinsurance in relation to the provision for unreported claims has been made by reference to the relationship between gross and net claims on prior policy years and having due regard to recoverability.

Notes to the Financial Statements (continued)

Note 2: Accounting policies (continued)

(e) Reinsurance

Contracts entered into by TTI with reinsurers, under which TTI is compensated for losses on one or more contracts issued by TTI and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Insurance contracts entered into by TTI under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts, provided there is significant transfer of insurance risk.

Reinsurance premiums, less returns, are debited to the statement of income in the financial year as and when charged to TTI, together with a provision for any future costs of existing reinsurance policies.

The liabilities of TTI are reinsured above certain levels and for certain specific risks. In addition, TTI has a quota share reinsurance agreement with the parent company covering all risks insured by TTI.

The figure credited to the Statement of Income for reinsurance recoveries includes receipts and amounts due to be recovered on claims already paid together with changes in the amount of recoveries to be made on outstanding claims. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, 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, adjusted to reflect changes in the nature and extent of the company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the statement of income as 'Outward reinsurance premiums' when due.

(f) Acquisition costs

Brokerage and commission payments and other direct costs incurred in relation to securing new contracts and rewriting existing contracts are deferred to the extent that they are attributable to premiums unearned at the statement of financial position date and are shown as assets in the statement of financial position. Amounts deferred are amortised over the life of the associated insurance contract.

Notes to the Financial Statements (continued)

Note 2: Accounting policies (continued)

(g) Unexpired risk reserve

Full provision is made for unexpired risks when it is anticipated that unearned premiums, net of associated acquisition costs, will be insufficient to meet the expected claims and expenses of business as at the year end after taking account future investment income. Unexpired risk surpluses and deficits are offset where business classes are managed together and provision is made if a deficit arises.

(h) Commission income

Commission income is earned on TTI's quota share reinsurance with the parent company, TTI's general reinsurance programme, and on insurance arranged by TTI on behalf of Members and others. Commission income also includes overriding commission on quota share reinsurance premiums, which is shown net of operating expenses. TTI has both internal and external reinsurance that it earns commission income on.

(i) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less impairment. TTI reviews the carrying value of its subsidiaries at each statement of financial position date where there has been an indication that impairment has occurred. If the carrying value of a subsidiary undertaking is impaired, the carrying value is reduced through a charge to the income and expenditure account.

(j) Financial assets

TTI has applied the requirements of FRS 102 sections 11 and 12 to the measurement, presentation and disclosure of its financial assets. Financial assets are classified between the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the assets were acquired and is determined at initial recognition and this is re-evaluated at every reporting date.

Fair value through profit and loss account

Assets, including all of the investments of TTI, which are classified as fair value through the profit and loss account, are designated as such by management to minimise any measurement or recognition inconsistency with the associated liabilities.

Investments are included in the statement of financial position at market value translated at year end rates of exchange. The market value of listed investments is based on current bid prices as at the balance sheet date. Where there is no active market, fair value is measured by reference to other factors such as independent valuation.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions at an arms length basis. If the above criteria are not met, the market is regarded as being inactive.

Notes to the Financial Statements (continued)

(i) Financial assets (continued)

The cost of investments denominated in currencies other than the US dollar, are converted into US dollars on the date of purchase. Any subsequent changes in value, whether arising from market value or exchange rate movements, are charged or credited to the Income and Expenditure Account and are then accumulated within the Investment Revaluation Reserve until realised. The movement in unrealised investment gains and losses includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current period.

Net gains or losses arising from changes in fair value of financial assets at fair value through profit or loss are presented in the Income and Expenditure Account within 'Unrealised gains/(losses) on investments' in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are carried at cost less provision for impairment. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. A bad debt provision is created against any balances that may be impaired. Commission payable to intermediaries is netted off against debtors arising from insurance operations.

Available for sale

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. No available for sale assets are held.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and within UCITS. The UCITS are Undertakings for Collective Investments of Transferable Securities and are used as an alternative to short term cash deposits. They are classified as cash equivalents as they are short term, highly liquid investments that can be readily converted to cash, with original maturities of three months or less.

(j) Investment return

Investment return comprises income on fixed interest securities, interest on deposits and cash, and realised and unrealised gains and losses on investments. Other investment income is recognised on an accruals basis. Interest income accrued but not received at the year end is held as accrued income in the statement of financial position.

The movement in unrealised gains and losses on investments represents the difference between the fair value at the statement of financial position date and their purchase price (if purchased in the financial year) or the fair value at the last statement of financial position date, together with a reversal of previously recognised unrealised gains and losses on investments disposed of in the current period.

Notes to the Financial Statements (continued)

Note 2: Accounting policies (continued)

(j) Investment return (continued)

TTI allocates a proportion of its actual investment return to the technical account based on the average ratio of outstanding claims to funds available to meet outstanding claims.

Investment return measurement

Dividends are recognised as income on the date the relevant securities are marked ex-dividend.

Other investment income and interest is recognised on an accruals basis.

(k) Foreign currencies

Revenue transactions are translated into USD at the rate applicable for the month in which the transaction took place. Monetary assets and liabilities have been translated at the closing USD exchange rate. The resulting differences, apart from those relating to estimated future claims or investments, are shown separately in the Statement of Income. Non-monetary assets and liabilities are carried at the exchange rate prevailing at the date of the transaction.

Exchange gains or losses arising on non-USD cash holdings are treated as realised and are included in the Statement of Income.

(l) Policy year accounting

When considering the results of individual policy years, premiums, reinsurance premiums payable, claims and reinsurance recoveries are allocated to the policy years to which they relate based on the period of cover of each insurance policy. The fixed portion of the management fee is charged to the current policy year while any performance related management fee is allocated to the Reserve Fund. General administration expenses are charged against the current policy year.

Investment income and exchange gains or losses are allocated proportionately to the average balance on each open policy year and the Reserve Fund. UK taxation, which is based on investment income, is allocated proportionately between the open policy years and the Reserve Fund. Other taxation is allocated entirely to the policy years to which it relates.

(m) Closure of policy years

On formal closure of a policy year, a sum equivalent to the anticipated future investment income on the balance on that year is transferred from the Reserve Fund to the credit of the closing year. Thereafter, any income derived from such funds is credited to the Reserve Fund, thereby offsetting the amount originally debited.

For closed policy years, TTI retains a balance sufficient to meet the estimated net outstanding claims and claims incurred but not reported on that year. Future adjustments to these amounts as well as differences between the estimates and the ultimate payments will be met by transfers to or from the Reserve Fund.

Notes to the Financial Statements (continued)

Note 2: Accounting policies (continued)

(n) Taxation

Deferred tax

Deferred taxation is provided in full on timing differences that result in an obligation at the statement of financial position date to pay more tax, or a right to pay less tax, at a future date, at rates enacted or substantially enacted when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax balances are not discounted.

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. As a mutual TTI is exempt from UK corporation tax on its underwriting activities. Current tax is charged on its investment return.

(o) Related parties

TTI has no share capital and is controlled by its members who are also the insured. The insurance transactions are deemed to be related party transactions but these are the only transactions between TTI and its members.

TTI also discloses transactions with other related parties, details of which can be found in Note 16.

Note 3: Critical accounting estimates and judgments and estimation uncertainty

TTI makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is TTI's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that TTI will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, TTI uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. This is further explained in Note 2 (d).

Notes to the Financial Statements (continued)

Note 3: Critical accounting estimates and judgments and estimation uncertainty (continued)

Pipeline premiums

TTI makes an estimate of premiums written during the year that have not been notified in the financial year as detailed in Note 2 (b). The amount recognised in 2018 was US\$ 2.38 million (2017: US\$2.73 million).

Note 4: Management of Financial Risks

Financial risk management objectives

TTI is exposed to financial risk through its financial investments, reinsurance assets, and liabilities to policyholders. In particular, the key financial risk is that the proceeds from financial investments are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk are market risk or investment risk (comprised of interest rate risk, equity price risk, and currency risk) together with credit risk and liquidity risk.

TTI manages these risks using a risk governance structure incorporating the Managers' Risk Committee and the Audit & Risk Committee. Further details can be found in the Directors' report on pages 6 to 9.

The Board is responsible, advised by the Chief Executive working with the Investment Committee, for setting investment policy and the appropriate level of market or investment risk. This is set with reference to the overall risks faced by TTI which are analysed as part of the ORSA process.

The processes used to manage risks within TTI are unchanged from the previous period.

(a) Market – interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

TTI's investment policy is set to ensure that the duration of the investment portfolio is appropriately matched to the duration of the policyholder liabilities. Interest rate risk is then monitored by comparing the mean duration of the investment portfolio and that of the policyholder liabilities. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 100 basis points in interest rates at the statement of financial position date, with all other factors unchanged, would result in a US\$ 1.5 million decrease in market value of the Group's investments (2017: US\$ 0.9 million fall). A decrease in 100 basis points in interest rates would result in a US\$ 1.5 million increase in the market value of the Group's investments (2017: US\$ 0.9 million increase).

Notes to the Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(b) Currency risk

TTI is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than USD. The most significant currencies to which TTI is exposed to are pounds sterling (“GBP”) and the Euro (“EUR”).

The following table shows TTI’s assets by currency. TTI seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with financial investments denominated in the same currency.

2018	USD US\$000s	GBP US\$000s	EUR US\$000s	Other US\$000s	Total US\$000s
Debt securities	94,544	–	–	–	94,544
Assets arising from reinsurance contracts held	321,201	42	159	2,397	323,799
Debtors arising from insurance contracts	35,358	3,144	3,770	1,532	43,804
Other debtors	257	–	67	283	607
Cash and cash equivalents	17,335	2,536	1,950	23,617	45,438
Other	6,478	137	–	414	7,029
Liabilities	(306,378)	(32,239)	(66,746)	(47,009)	(452,372)
Net assets	168,795	(26,380)	(60,800)	(18,766)	62,849
2017	USD US\$000s	GBP US\$000s	EUR US\$000s	Other US\$000s	Total US\$000s
Debt securities	60,853	–	–	–	60,853
Assets arising from reinsurance contracts held	324,914	58	968	3,166	329,106
Debtors arising from insurance contracts	36,755	3,371	4,094	1,131	45,351
Other debtors	427	1,178	59	1,241	2,905
Cash and cash equivalents	12,463	2,185	14,455	26,995	56,098
Other	6,132	110	–	408	6,650
Liabilities	(302,997)	(19,040)	(63,877)	(51,279)	(437,193)
Net assets	138,547	(12,138)	(44,301)	(18,338)	63,770

Notes to the Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(b) Currency risk (continued)

At 31 December 2018, if the USD weakened/strengthened by 5% against GBP, with all other factors unchanged, the deficit for the year would have decreased/increased by US\$1.27 million (2017: US\$0.58 million).

If the USD weakened/strengthened by 5% against the Euro, with all other factors unchanged, the deficit for the year would have decreased/increased by US\$2.90 million (2017: US\$2.11 million).

(c) Credit risk

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

- Reinsurers' shares of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from policyholders;
- Amounts due from insurance intermediaries;
- Amounts due from bond issuers;
- Cash at banks and deposits with credit institutions; and
- Counterparty risk with respect to derivative transactions.

Reinsurance is used to manage insurance risk. This does not, however, discharge TTI's liability as primary insurer. If a reinsurer fails to pay a claim, TTI remains liable for the payment to the policyholder. Credit risk on reinsurance balances is mitigated by assessing the creditworthiness of a reinsurer before it is used and strict criteria are applied (including the financial strength of the reinsurer) before a reinsurer is approved. Counterparty limits based on credit ratings are also in place in relation to amounts due from bond issuers and cash and bank deposits.

Notes to the Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(c) Credit risk (continued)

The following table provides information regarding aggregated credit risk exposure, for financial assets with external credit ratings, as at 31 December 2018. The credit rating bands are provided by independent ratings agencies:

2018	AAA	AA	A	BBB+ or less or not rated	Total
	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s
Debt securities	–	91,707	2,837	–	94,544
Assets arising from reinsurance contracts held	–	60,132	258,547	5,120	323,799
Debtors arising from direct insurance	–	–	–	43,804	43,804
Other debtors	–	–	–	607	607
Cash and cash equivalents	119	12,947	32,271	101	45,438
Other	–	–	–	7,029	7,029
Total assets bearing credit risk	119	164,786	293,655	56,661	515,221

2017	AAA	AA	A	BBB+ or less or not rated	Total
	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s
Debt securities	-	60,353	500	-	60,853
Assets arising from reinsurance contracts held	–	46,197	277,106	5,802	329,105
Debtors arising from direct insurance	–	–	–	45,351	45,351
Other debtors	–	–	–	2,905	2,905
Cash and cash equivalents	7,438	14,122	34,431	107	56,098
Other	–	–	–	6,650	6,650
Total assets bearing credit risk	7,438	120,672	312,037	60,815	500,962

TTI's policy is to make a full provision against all reinsurance debts with an age in excess of two years and a fifty percent provision for reinsurance debts between one and two years old. TTI also provides against all amounts due from policyholders and insurance intermediaries that are more than nine months overdue.

After assessing all other financial assets at the end of the year, no objective evidence was found to suggest that any were impaired (2017: no impairments).

Notes to the Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(d) Liquidity and cash flow risk

Liquidity and cash flow risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. TTI maintains holdings in short term deposits to ensure there are sufficient funds available to cover anticipated liabilities and unexpected levels of demand. As at 31 December 2018 TTI's short term deposits (including cash and UCITS) amounted to US\$ 45.4 million (2017: US\$56.1 million).

The tables below provide a maturity analysis of TTI's financial assets:

	2018						
	Neither past due nor impaired	Past due but not impaired				Financial assets that have been impaired	Carrying value in the balance sheet
		0-3 months	3-6 months	6 months- 1 year	> 1 year		
US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	
Debt securities	94,544	–	–	–	–	–	94,544
Assets arising from reinsurance contracts held	323,799	–	–	–	–	–	323,799
Debtors arising from direct insurance	28,417	11,270	4,117	–	–	–	43,804
Other debtors	607	–	–	–	–	–	607
Cash and cash equivalents	45,438	–	–	–	–	–	45,438
Other	7,029	–	–	–	–	–	7,029
Total	499,834	11,270	4,117	–	–	–	515,221

	2017						
	Neither past due nor impaired	Past due but not impaired				Financial assets that have been impaired	Carrying value in the balance sheet
		0-3 months	3-6 months	6 months- 1 year	> 1 year		
US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	
Debt securities	60,853	–	–	–	–	–	60,853
Assets arising from reinsurance contracts held	329,105	–	–	–	–	–	329,105
Debtors arising from direct insurance	29,149	10,239	5,963	–	–	–	45,351
Other debtors	2,905	–	–	–	–	–	2,905
Cash and cash equivalents	56,098	–	–	–	–	–	56,098
Other	6,650	–	–	–	–	–	6,650
Total	484,760	10,239	5,963	–	–	–	500,962

Notes to the Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(d) Liquidity and cash flow risk (continued)

The table below provides a maturity analysis of the TTI's financial assets and liabilities:

2018	< 6 months or on demand US\$000s	6 months- 1 year US\$000s	1-2 years US\$000s	2-5 years US\$000s	> 5 years US\$000s	Total US\$000s
Debt securities	18,579	–	20,799	52,330	2,836	94,544
Assets arising from reinsurance contracts held	109,443	49,097	58,693	76,413	30,153	323,799
Debtors arising from direct insurance	43,804	–	–	–	–	43,804
Other debtors	607	–	–	–	–	607
Other	7,029	–	–	–	–	7,029
Cash and cash equivalents	45,438	–	–	–	–	45,438
Sub-total	224,900	49,097	79,492	128,743	32,989	515,221
Creditors	(97,943)	–	–	–	–	(97,943)
Technical provisions - gross	(120,876)	(53,494)	(63,948)	(83,257)	(32,854)	(354,429)
Total	6,081	(4,397)	15,544	45,486	135	62,849
<hr/>						
2017	< 6 months or on demand US\$000s	6 months- 1 year US\$000s	1-2 years US\$000s	2-5 years US\$000s	> 5 years US\$000s	Total US\$000s
Debt securities	8,844	–	31,097	20,912	–	60,853
Debtors arising from direct insurance	62,131	64,152	95,174	80,248	27,400	329,105
Assets arising from reinsurance contracts held	4,691	11,862	28,798	–	–	45,351
Other debtors	2,905	–	–	–	–	2,905
Other	6,650	–	–	–	–	6,650
Cash and cash equivalents	56,098	–	–	–	–	56,098
Sub-total	141,319	76,014	155,069	101,160	27,400	500,962
Creditors	(84,648)	–	–	–	–	(84,648)
Technical provisions - gross	(56,113)	(71,461)	(107,246)	(87,761)	(29,963)	(352,544)
Total	558	4,553	47,823	13,399	(2,563)	63,770

Notes to the Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(e) Insurance risk

TTI's exposure to insurance risk is initiated by the underwriting process and incorporates the possibility that an insured event occurs, leading to a claim on TTI from a policyholder. The risk is managed through the underwriting process, the purchase of reinsurance cover, the management of claims costs, and the reserving process.

Sensitivity to insurance risk

The result of sensitivity testing is set out below, showing the impact on surplus before tax and equity. The impact of a change in a single factor is shown as a 1% increase in net claims reserves, with other assumptions unchanged.

	2018 US\$000s	2017 US\$000s
1% increase in net claims reserves reduces surplus before tax and equity by:	236	250

A 1% decrease in net claims reserves would have an equal and opposite effect.

(i) Underwriting process

Underwriting authority is delegated to specific individuals who operate under set underwriting instructions and parameters with the on-going guidance and review of senior management. These parameters cover areas such as pricing, categories of business, limits of cover, and new business risks to ensure that they fall within TTI's guidelines for acceptable risk.

(ii) Reinsurance

The establishment of TTI's reinsurance programme is driven by the Board's objective to manage risk to an acceptable level and to optimise TTI's capital position. The programme comprises excess of loss reinsurance cover to protect against individual large losses, facultative reinsurance to protect against specific risks, and whole account quota share reinsurance to protect against an accumulation of retained claims and to help manage TTI's solvency.

(iii) Management of claims cost

Claims performance is monitored by senior management on a weekly basis through the use of management information and exception reports. Movements in notified claims costs are also monitored on a monthly basis with comparison made against actuarial expected development. Quarterly claims developments are reviewed by the reserving committee and the Boards.

Notes to the Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(e) Insurance risk (continued)

(iv) Reserving process

TTI establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions are established through the application of actuarial techniques and assumptions as set out in Note 2 of the financial statements as directed and reviewed by the Boards. In order to minimise the risk of understating these provisions, the assumptions made and actuarial techniques employed are reviewed in detail by senior management.

TTI considers that the liability for insurance claims recognised in the statement of financial position is adequate. However, actual experience will differ from the expected outcome.

(f) Capital management

TTI maintains capital, comprising of policyholders' funds (surplus and reserves), consistent with TTI's risk profile and the regulatory requirements of the business. As at 31 December 2018, the total regulatory capital available amounted to US\$62.8 million (2017: US\$63.8 million), which exceeded the UK Prudential Regulation Authority requirements.

As at 31 December 2018, TTI held deposits and letters of credit totalling US\$60.4 million to meet overseas regulatory requirements (2017: US\$59.8 million). This included a collateralised letter of credit amounting to US\$24.3 million (2017: US\$24.3 million) in relation to Hong Kong and a trust fund deposit of US\$35.6 million (2017: US\$34.9 million) in relation to the US.

TTI's strategy is to maintain sufficient capital to meet regulatory requirements and to maintain an AM Best rating of A- (Excellent) over the insurance market cycle, with a substantial margin in each case.

The Group continues to be regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). During the year to 31 December 2018 the group complied with Solvency II regulation having transitioned from Solvency I on 1 January 2017. TTI assesses and maintain the amount of capital in excess of the amount required to meet the risks that it faces based on a 99.5 per cent confidence level of solvency.

Notes to the Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(g) Fair value estimations

In accordance with section 34 of FRS 102, as a financial institution, TTI applies the requirements of paragraph 11.27 of FRS 102. This requires, for financial instruments held at fair value in the statement of financial position, disclosure of fair value measurements by level of the following fair value hierarchy

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1. Prices of recent transactions for identical instruments

Level 3 – Valuation techniques using observable & unobservable market data

All of the assets and liabilities that are measured at fair value at both 31 December 2018 and 31 December 2017 fall into the Level 1 category, with the exception of the debt securities, which fall into level 2.

	2018 Level 1 US\$000s	2018 Level 2 US\$000s	2018 Total US\$000s	2017 Level 1 US\$000s	2017 Level 2 US\$000s	2017 Total US\$000s
Debt securities	–	94,544	94,544	–	60,853	60,853
UCITS	5,118	–	5,118	3,174	–	3,174
Financial assets held at fair value through profit and loss	5,118	94,544	99,662	3,174	60,853	64,027

Note 5: Segmental information

	2017 US\$000s	2016 US\$000s
Gross premiums written		
– Members located in UK	8,788	8,243
– Members located in other EU states	28,681	25,595
– Members located outside EU	148,758	143,788
	186,227	177,626

TTI writes only marine, aviation and transport business.

Notes to the Financial Statements (continued)

Note 5: Segmental information (continued)

Concentration of risk

TTI considers that the concentration of insurance risk most relevant to TTI's financial statements is according to the type of insurance cover offered and the location of insured risk.

The concentration of insurance risk before reinsurance by location in relation to the type of insurance risk accepted is summarised below:

	Members located outside EU 2018 US\$000s	Members located in other EU states 2018 US\$000s	Members located in UK 2018 US\$000s	Total 2018 US\$000s
Gross premiums written				
Cargo	6,239	1,273	700	8,212
Containers and Chassis	32,191	9,703	1,213	43,107
Logistics	42,698	8,423	3,100	54,221
Other	4,952	27	96	5,075
Ports & Terminals	41,568	6,216	2,477	50,261
Property	21,111	3,039	1,201	25,351
	148,759	28,681	8,787	186,227

	Members located outside EU 2017 US\$000s	Members located in other EU states 2017 US\$000s	Members located in UK 2017 US\$000s	Total 2017 US\$000s
Gross premiums written				
Cargo	4,216	1,773	737	6,726
Containers and Chassis	30,842	8,746	1,009	40,597
Logistics	36,704	7,584	2,731	47,019
Other	8,515	56	109	8,680
Ports & Terminals	43,650	5,337	2,369	51,356
Property	19,861	2,099	1,288	23,248
	143,788	25,595	8,243	177,626

Notes to the Financial Statements (continued)

Note 6: Reconciliation of insurance balances

The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		Reinsurers' share	
	2018 US\$000s	2017 US\$000s	2018 US\$000s	2017 US\$000s
At 1 January 2018	65,443	59,546	55,286	49,824
Increase in provision	1,939	5,897	1,589	5,462
At 31 December 2018	67,382	65,443	56,875	55,286

Note 7: Claims

(i) Claims paid

Claims paid include claims handling charges paid to the Managers totalling US\$8.9 million (2017: US\$9.7 million).

(ii) Insurance contract liabilities and assets

Movement in insurance liabilities and reinsurance assets

	2018 Gross US\$000s	2018 RI US\$000s	2018 Net US\$000s	2017 Gross US\$000s	2017 RI US\$000s	2017 Net US\$000s
Technical provisions at the beginning of the year	287,101	(262,097)	25,004	279,737	(256,030)	23,707
Claims paid (recovered)	(89,998)	82,597	(7,401)	(110,535)	101,531	(9,004)
Claims incurred	97,327	(91,496)	5,831	107,542	(97,341)	10,201
Exchange differences	(7,383)	7,543	160	10,357	(10,257)	100
Technical provisions at the end of the year	287,047	(263,453)	23,594	287,101	(262,097)	25,004

Notes to the Financial Statements (continued)

Note 7: Claims (continued)

(ii) Insurance contract liabilities and assets (continued)

Claims development tables

The development of insurance liabilities provides a measure of TTI's ability to estimate the ultimate value of claims. The top half of each table below illustrates how TTI's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount shown in the consolidated statement of financial position.

Movement in prior year's provision for claims outstanding

There was a release in prior year's reserves and margins of US\$ 3.2 million during the year. (2017: US\$ 0.2 million released).

Assumptions underlying insurance balances

Reserving process

The risks associated with insurance contracts are complex and subject to a number of variables. TTI uses several statistical and actuarial techniques based on past claims development experience. This includes indications such as average claims cost and ultimate claims numbers. The key methods used by TTI in estimating liabilities are:

- Chain ladder;
- Bornhuetter-Ferguson; and
- Other statistical and benchmarking techniques.

Significant delays are experienced in the notification and settlement of certain types of insurance claims, the ultimate cost of which may vary from the original assessment. Adjustments to claims provisions established in previous years are reflected in TTI's financial statements for the period in which the adjustments are made. There have been no changes in these assumptions since the previous year end.

Notes to the Financial Statements (continued)

Note 7: Claims (continued)

Insurance claims – gross

Estimate of ultimate claims costs attributable to the policy year

Insurance claims gross	2010	2011	2012	2013	2014	2015	2016	2017	2018
	US\$000s								
At end of reporting year	115,156	140,644	138,524	118,051	115,939	135,673	113,216	125,638	133,413
1 year later	122,241	154,624	137,890	100,649	102,323	120,229	113,931	108,682	–
2 years later	119,358	151,985	127,325	90,852	94,035	119,556	106,387	–	–
3 years later	104,950	121,121	129,271	87,935	96,489	111,222	–	–	–
4 years later	106,678	112,936	125,434	86,567	94,341	–	–	–	–
5 years later	106,271	112,259	125,268	84,352	–	–	–	–	–
6 years later	105,486	110,446	119,154	–	–	–	–	–	–
7 years later	104,827	110,069	–	–	–	–	–	–	–
8 years later	103,170	–	–	–	–	–	–	–	–
Estimate of ultimate claims	103,170	110,069	119,154	84,352	94,341	111,222	106,387	108,682	133,413
Cumulative payments to date	98,701	107,161	109,620	75,195	82,961	81,094	69,558	48,663	21,458
Liability recognised on statement of financial position	4,469	2,908	9,534	9,157	11,380	30,128	36,829	60,019	111,955

	Total US\$000s
Total liability relating to the 2010 to 2018 years	276,379
Other claims liabilities for prior years	10,668
Total technical provisions included in statement of financial position	287,047

Notes to the Financial Statements (continued)

Note 7: Claims (continued)

Insurance claims – net

Estimate of ultimate claims costs attributable to the policy year

Insurance claims net	2010	2011	2012	2013	2014	2015	2016	2017	2018
	US\$000s								
At end of reporting year	10,045	10,614	11,610	10,179	10,181	10,273	10,015	11,215	9,922
1 year later	10,720	10,983	11,416	8,802	8,955	9,910	9,551	9,671	–
2 years later	10,293	11,152	10,622	7,881	8,165	9,925	9,966	–	–
3 years later	9,031	10,007	9,982	7,694	8,359	9,195	–	–	–
4 years later	9,087	9,534	9,758	7,584	8,175	–	–	–	–
5 years later	9,055	9,507	9,630	7,175	–	–	–	–	–
6 years later	8,918	9,336	9,493	–	–	–	–	–	–
7 years later	8,823	9,316	–	–	–	–	–	–	–
8 years later	8,732	–	–	–	–	–	–	–	–
Estimate of ultimate claims	8,732	9,316	9,493	7,175	8,175	9,195	9,966	9,671	9,922
Cumulative payments to date	8,285	9,057	8,842	6,359	7,167	6,517	6,857	4,249	1,595
Liability recognised on statement of financial position	447	259	651	816	1,008	2,678	3,109	5,422	8,327

	Total US\$000s
Total liability relating to the 2010 to 2018 years	22,717
Other claims liabilities for prior years	877
Total technical provisions included in statement of financial position	23,594

Notes to the Financial Statements (continued)

Note 8: Net operating expenses

	2018 US\$000s	2017 US\$000s
Acquisition costs		
Brokerage and commission	21,153	20,082
Management fee in respect of underwriting	14,488	14,518
Change in deferred acquisition costs	(202)	(725)
	35,439	33,875
Administration expenses		
Management fee in respect of management and performance related fee	10,502	11,519
General expenses	4,281	3,887
Directors' fees	373	316
Directors' travelling costs	14	84
Auditors' remuneration:		
– Fee payable to the company's auditor for the audit of the company's annual Financial Statements	190	94
Non-audit services		
– Other services pursuant to legislation, including the audit of the regulatory returns	98	257
– Tax compliance services	–	–
– Other services	–	–
	15,458	16,157
Total operating expenses before commission on reinsurance contracts	50,897	50,032
Commission on reinsurance contracts	(10,972)	(3,369)
	39,925	46,663

The Directors of TTI and its parent company, TT Bermuda, agree a management fee covering the management of TTI as a whole.

TTI had no employees during the year (2017: none).

Notes to the Financial Statements (continued)

Note 9: Investment return

	2018 US\$000s	2017 US\$000s
Investment income		
Income from financial assets held at fair value through profit or loss	1,828	1,090
Net losses on the realisation of investments	(59)	(50)
Net unrealised gains on investments	359	11
Foreign exchange gains	–	3,410
Interest income	5	–
	2,133	4,461
Investment expenses and charges		
Foreign exchange losses	(4,722)	–
Other investment management expenses	(186)	(197)
Interest payable	(589)	(437)
	(3,364)	3,827
Total investment return	(3,364)	3,827
Investment return is analysed between:		
Allocated investment return transferred to the technical business account	(644)	1,075
Net investment return included in the non-technical account	(2,720)	2,752
	(3,364)	3,827
Total investment return	(3,364)	3,827

Note 10: Tax on ordinary activities

	2018 US\$000s	2017 US\$000s
UK tax	(96)	(125)
Foreign tax	118	–
Adjustments in respect of prior years	(118)	381
	(96)	256

Notes to the Financial Statements (continued)

Note 10: Tax on ordinary activities (continued)

	2018 US\$000s	2017 US\$000s
(ii) Factors affecting tax charge for the current year		
The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in the UK: 19% (2017: 20%) – the differences are explained below:		
Surplus on ordinary activities before tax	(825)	1,772
Tax at 19% (2017: 19%) thereon	(157)	337
Effects of:		
<i>Tax Levied outside Bermuda</i>		
<i>Change in current year</i>		
Australia	118	–
UK	(96)	(125)
<i>Adjustments in respect of prior years</i>		
Australia	(126)	–
Italy	(2)	(19)
United States	–	400
United Kingdom	10	–
	(96)	256

The taxation charge comprises a charge for UK taxation based at a rate of 19% based on 10% of the investment return. The Corporation Tax main rate (for all profits except ring fence profits) will reduce from 19% to 17% for the year starting 1 April 2020.

Note 11: Investments

On 7 September 2017 TT Club Mutual Insurance Limited (“TTI”) acquired Scottish Boatowners’ Mutual Insurance Association Ltd (“SBO”) for nil consideration.

The net assets acquired are shown in the table below. In accordance with s401 of the Companies Act 2006, these net assets have not been consolidated into the Financial Statements of TTI as they are included within the consolidated financial statements of TTI’s parent company, Through Transport Mutual Insurance Association Limited. TTI’s investment in SBO has been included at nil cost in TTI’s Statement of Financial Position as at 31 December 2018.

Notes to the Financial Statements (continued)

Note 11: Investments (continued)

	£'000s	US\$000s
Land and buildings	163	218
Reinsurers' share of claims outstanding	1,630	2,186
Debtors arising out of reinsurance operations	106	144
Other debtors	48	64
Cash at bank and in hand	2,544	3,320
Other prepayments and accrued income	20	27
Total assets	4,511	5,959
Claims outstanding	(1,630)	(2,186)
Other creditors	(25)	(33)
Accruals and deferred income	(17)	(52)
Pension deficit	(47)	(63)
Total liabilities	(1,719)	(2,334)
Net assets	2,792	3,625

An exchange rate of 1.342 has been used to convert the Pounds Sterling assets and liabilities into their US Dollar equivalent balances.

Note 12: Other financial investments

TTI's financial investments are summarised by measurement category in the table below:

	Carrying Value		Purchase Price	
	2018 US\$000s	2017 US\$000s	2018 US\$000s	2017 US\$000s
Held at fair value through profit or loss:				
– debt securities	94,544	60,853	94,406	61,074
– UCITS	5,118	3,174	5,118	3,174
	99,662	64,027	99,524	62,248

TTI's debt securities and UCITS are all geographically located in the United States.

Notes to the Financial Statements (continued)

Note 13: Deferred acquisition costs

	2018 US\$000s	2017 US\$000s
On insurance contracts	6,294	6,092

The reconciliation of opening and closing deferred acquisition costs is as follows:

	2018 US\$000s	2017 US\$000s
At 1 January 2018	6,092	5,367
Expenses for the acquisition of insurance contracts deferred during the year	202	725
At 31 December 2018	6,294	6,092

Note 14: Surplus and reserves

	2018 US\$000s	2017 US\$000s
Balance at beginning of year	63,770	61,742
(Deficit)/surplus on ordinary activities after tax	(921)	2,028
Balance at end of year	62,849	63,770

Note 15: Guarantee from parent company

Through Transport Mutual Insurance Association Limited has issued a guarantee, not to exceed US\$2.5 million (2017: US\$2.5 million), to TT Club Mutual Insurance Limited to enable it to comply with the solvency margin requirements of the Financial Services and Markets Act 2000. The amount withdrawn as 31 December 2018 amounted to nil (2017: nil).

Notes to the Financial Statements (continued)

Note 16: Related party transactions

TT Club Mutual Insurance Limited is reinsured by its parent Through Transport Mutual Insurance Association Limited (“TTB”) under a 90% whole account quota share. TT Club Mutual Insurance Limited is managed by Through Transport Mutual Services (UK) Ltd. The premiums written on this agreement amounted to \$97.9m (2017: \$104.3m). The recoveries on paid claims was \$66.8m (2017: \$81.0m). A total of \$16.8m was paid to TTI from TTB in relation to commission on the quota share contract (2017: \$23.6m).

Reinsurers’ share of the provision for unearned premiums includes US\$38.2 million (2017: US\$36.4 million) in relation to the quota share with the parent company. Reinsurers’ share of the provision for outstanding claims includes US\$212.3 million (2017: US\$225.0 million) in relation to the quota share with the parent company.

All other material related party transactions are disclosed separately within the financial statements.

Note 17: Ultimate parent company

TTI’s immediate and ultimate parent company and controlling party is Through Transport Mutual Insurance Association Limited, a company incorporated in Bermuda. The financial statements are available from the registered office of TTI. This is the smallest and largest group into which these financial statements are consolidated.

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