

Confidently embracing the future

Annual Report & Financial Statements for
Through Transport Mutual Insurance Association Limited
For the year ended 31 December 2018

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Through Transport Mutual Insurance Association Limited

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Directors and Management

Chairman

U Kranich 3 4
Hamburg

Deputy Chairman

J Callahan 4
Nautilus International Holding Corporation,
Los Angeles

Directors

A Abbott (appointed 21 June 2018)
Atlantic Container Line, New York

Y Narayan
DP World, Dubai

U Baum 1 2
Röhlig Logistics GmbH & Co KG, Bremen

J Neal
Carrix, Seattle

G Benelli 3
Specialist Director - Investment

M d'Orey (appointed 21 June 2018)
Orey Shipping SL, Lisbon

A Chang
Evergreen Group, Taipei

O Rakkenes (resigned 21 June 2018)
Atlantic Container Line AB, New Jersey

Chen Xiang
Cosco Container Line, Shanghai

J Reinhart
Virginia Port Authority

M Engelstoft
A P Møller-Maersk, Copenhagen

D Robinson MBE 1 2
PD Ports, Middlesbrough

T Faries
Appleby, Bermuda

N Smedegaard
DFDS, Copenhagen

A Fullbrook 3
OEC Group, New York

CK Tan
Pacific International Lines (Pte) Ltd, Singapore

J Küttel
Ermewa, Paris

S Vernon (appointed 7 November 2018)
Triton International Ltd, London

T Leggett 1
Specialist Director - Finance

T Yamauchi 4
Kawasaki Kisen Kaisha Ltd, Tokyo

P Levesque
Modern Terminals Ltd, Hong Kong

E Yao 3
Orient Overseas Container Line Ltd, Hong Kong

R Murchison
Murchison Group, Argentina

Registered office

Canon's Court, 22 Victoria Street
Hamilton, Bermuda

Managers

Thomas Miller (Bermuda) Ltd

Company registration number

1750

Company secretary

Thomas Miller (Bermuda) Limited
Telephone +441624 645242

- 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 auditors

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

Financial Highlights 2018

	2018 US\$000s	2017 US\$000s
Results for financial year		
Gross earned premiums ¹	194,983	181,790
Brokerage ²	(22,842)	(20,816)
Gross earned premiums, net of brokerage	172,141	160,974
Reinsurance earned premiums ceded ³	(56,876)	(32,925)
Investment income and unrealised gains and losses	4,911	8,237
Interest payable and financing costs	(589)	(2,442)
Exchange (losses)/gains	(985)	1,552
Net claims incurred	(71,354)	(95,365)
Expenses, including taxation ⁴	(41,372)	(35,896)
Overriding commission on reinsurances	10,584	3,159
Surplus on ordinary activities after tax	16,460	7,294

	2018 US\$000s	2017 US\$000s
Summary balance sheet		
Total cash and investments	483,773	469,206
Other assets	135,574	128,413
Total assets	619,347	597,619
Gross unearned premiums and claims reserves	(377,122)	(374,471)
Other liabilities	(32,705)	(30,088)
Total surplus and reserves	209,520	193,060

1. Gross earned premiums is calculated as the sum of Gross premiums written and Change in provision for gross unearned premiums.
2. Brokerage is shown on an earned basis.
3. Reinsurance earned premiums ceded is calculated as the sum of Reinsurance premiums ceded and Change in provision of unearned premiums, reinsurers' share.
4. Expenses, including taxation is calculated as Net operating expenses excluding Brokerage and Overriding commissions on quota share reinsurances, plus Tax on ordinary activities for the year.

Chairman's Review

2018 was a very good year for the Club. The Club's financial performance was better than the business plan, and the results of the Customer Satisfaction Survey evidenced that the Club's product and service is meeting, and in many cases exceeding, Members' and brokers' expectations. Against this background I am very pleased to be reporting to you on the Club's progress in the year.

Although a good year for the Club, 2018 was another difficult year for the insurance industry. The global broker Aon has assessed the 2017 and 2018 years as the costliest back to back years for insured losses. Such levels of losses have not had the positive impact on pricing that was expected. This coupled with the continued availability of capital, impacted the pricing of risk and the ability of insurers to recover their outgoings and balance their books to the required level of profitability.

Financial Performance

Close readers of these reviews will recall that the Club was not significantly impacted by the major industry loss events in 2017, Hurricanes Harvey, Irma and Maria. I am very pleased to say that the experience in 2017 was repeated in 2018. The two large events that the Club was involved with were 'Maersk Honam' and Hurricane Michael. 'Maersk Honam' is another significant event for the industry and has added greater urgency to the initiatives aimed at improving the visibility of cargo carried inside containers. Hurricane Michael was only one of a number of natural catastrophe events in 2018, the most publicised of which were the wildfires in northern and southern California in the second part of the year. The gross cost of Hurricane Michael to the Club is just over US\$ 5 million, which should be extremely reassuring to Members as an insight into the Club's management of its exposures, particularly when taken together with the limited cost of Hurricanes Harvey, Irma and Maria in 2017.

In spite of the premium environment being on the whole challenging, the Club's premium income grew in the year. The volumes declared by Members were higher than in recent years, new business was good and retention remained high. Notably premium growth was achieved without the addition of single large accounts and as a result the balanced growth targeted and achieved in recent years has continued. This is particularly pleasing because the growth in the number of policyholders, reducing average premiums per policyholder, has resulted in a good level of financial stability enabling the Club to focus on providing service to Members and brokers and assisting the industry with loss prevention.

Aside from the occurrence of the claims mentioned above, claims performance generally was as expected for the 2018 policy year. Claims for the prior years performed significantly better than expectations. You will remember that your Board manages the Club's finances prudently, and this is particularly the case in respect of setting claims reserves. Accordingly, the expectation is that claims levels overall will improve as they develop. The extent of this positive development in 2018 exceeded expectations and is the major cause of the result of this year.

Those of you that follow investment markets will appreciate that 2018 was something of a challenging year, particularly in the fourth quarter when equity markets fell substantially. The Club was budgeting to make a return of 2%, which was up on recent years and predicated on interest rates in the United States increasing. As it was, the Club returned 1.32% which, while below budget, was a good return given the Club's portfolio contains a portion of equities in order to maintain the right balance between risk and return.

Chairman's Review (continued)

The Club's surplus for the year is US\$ 16 million, and the Club's total surplus and reserves have broken through the US\$ 200 million barrier and stand at US\$ 209 million. The AM Best A-rating was maintained in the year and I do not expect it to change when the rating is reviewed later this year, based on performance in 2018 and in early 2019.

Loss Prevention

The Club's aspiration has always been to operate at the heart of the international transport and logistics industry. While the insurance coverage provided by the Club has been honed over the decades, specifically to support the legal and operational exposures of the membership, the industry issues of the day have always been greater than individual risk profile or indeed the Club itself. Hence, throughout its 50 years, the Club has sought to understand the broad trends in the industry, interact with key stakeholders and lobby for change as appropriate nationally, regionally and internationally.

The 'Brave new world – container transport in 2043' report, produced jointly with McKinsey & Co as part of the Club's 50th anniversary, forms part of this continuing activity and seeks to serve the membership and industry by identifying some potential futures. The research revealed much consensus, but also passionate divergence over whether the fundamental drivers for the next quarter century will be based on global trade patterns or a thoroughly digitised world. The Club has been pleased to work through the conclusions of the report with a number of stakeholder groupings, seeking to tease out certain 'no regret moves' and the signposts to watch.

More obviously concerned with safety, the Club has continued to develop its 'cargo integrity' / #Fit4Freight campaign through the last year. Those familiar with the complexity, diversity and fragmentation of the global supply chain will recognise that this campaign necessarily has many facets. The Club has continued to work on this with industry associations, including CINS, the Global Shippers Forum, ICHCA International and the World Shipping Council. Furthermore, it has been active with ICHCA and certain national competent authorities in making submissions to the International Maritime Organization, leading to valuable debate and commitment to review certain areas of international regulation.

Sadly, the poignancy of this work has to some extent been fuelled by significant maritime casualties, such as the fire that engulfed the forward section of 'Maersk Honam'. Those entities closely involved are to be commended for taking action to galvanise the industry in considering key safety changes and the Club continues to be involved in such initiatives. Two similar casualties in rapid succession in January 2019 merely increase this focus. It is worth recognising that the scope of the Club's reach means that its interest in such casualties includes assessment of diverse consequent exposures and legal concepts, such as General Average and 'places of refuge'.

Apart from this important and long term campaign, the Club has been active in numerous other loss prevention initiatives during the last year. Inevitably, there has been increasingly heightened concern over cybercrime. The Club has repeatedly warned of email scams and the vulnerability to mandate fraud, and was pleased to collaborate with UKP&I Club to put together a guide on how stakeholders, particularly at the ship/port interface, can help prevent losses and disruption due to malicious cyber activity. The transport and logistics industry's reliance on computers and the increasing interconnectivity within the broad supply chain makes it highly vulnerable to cyber incidents.

Chairman's Review (continued)

Not unrelated, one of the major ongoing risk exposures through the industry is theft of cargo. BSI and the Club authored a report on theft experience during the first half of 2018 in order to highlight the dynamic cargo theft risks present across the globe. By increasing awareness it is hoped that the industry will be able to engage in a proactive approach in preventing cargo crime and also minimising the financial loss and brand reputation damage that results.

While the Club remains passionate about highlighting issues of concern, working – often with others – to mitigate and reduce risks in the industry, it also places importance on encouraging the highest standards of good practice throughout all stakeholder entities. In this vein, the Club has sponsored FIATA's Young International Freight Forwarder Award throughout its twenty-year history.

In addition to this, the Club will for the third time sponsor the 'Innovation in Safety' award, to be presented at the ICHCA Conference in November 2019. At the same time, the Club is pleased to support the annual 'Newcomer of the Year' journalist award that recognises young talent, and has also supported the launch of the educational game 'Business on the Move', which seeks to enthuse teenagers and young adults in the complexities and exhilaration of the supply chain industry.

Brexit

At the time of writing, regrettably the position on the United Kingdom's departure from the European Union continues to be unclear. As Members and brokers will have read in Circulars issued by the Club on this subject, the Club's planning has been based around having in place from 1 January 2021, the point at which an implementation period accompanying an agreement between the UK and the EU would end if an agreement could be put in place, arrangements for serving EU based Members and brokers. Those preparations are, however capable of being flexed to enable the Club to continue to write business and pay claims from 30 March 2019, if required and at its meeting in February 2019 the Club's Audit and Risk Committee walked through these arrangements. While continuing to be of the view that the UK will not leave the EU on 30 March without a deal and an accompanying transition period, the Club is therefore in a position to continue providing its product and service in the EU.

Customer Satisfaction Survey

The Club undertook what is now a biennial survey of its Members' and brokers' perception and experience of service in the latter part of 2018. The survey assesses satisfaction against a KPI set by the Board and, in addition to producing this score, also provides valuable insights into where the Club can serve you better, which will be utilised to shape our operational priorities in the years ahead.

One area of that feedback, relating to the need for the Club to be able to respond and adapt in a rapidly changing technological environment, is an area where the Club is already focusing its attention. In the first part of 2019 a new piece of functionality will be launched via the Club's website giving Members and brokers improved access and flexibility to the data the Club holds on their behalf.

Chairman's Review (continued)

Directors and Board Committee Membership - the governance arrangement

There were no changes to the Board and Committee structure in 2018. The Committee of the TTI Board put in place in 2016 to take decisions in respect of discretionary cover questions met for the first time in 2018. This is an important element of the Club's overall governance since its remit is that element of the Club's mutual nature which is unique to the Club's product – the ability the Directors have under the rules to agree to cover a Member in circumstances where the terms of cover are not clear or the circumstances of the claims were not contemplated when the Member's policy was written.

In terms of Directors, Olav Rakkenes retired in June 2018. I would like to thank Mr Rakkenes for his contribution during his ten years as a Director of the Club and also acknowledge the contribution of Atlantic Container Line (ACL) to the Club. Mr Rakkenes is a former CEO of that company, and Atlantic Container Line was key to starting the Club in 1968. In Peter Carlsson, ACL provided the Club's first Chairman.

During the year, we welcomed Andrew Abbott, Miguel d'Orey and Simon Vernon and my Board colleagues and I look forward to working with them in the interests of the Members. The Nominations Committee, which oversaw the appointment of these individuals in the year, is charged with ensuring not only that we have the right expertise available to guide the Club, but also that we have in the Board representation that mirrors that of Club Members, both in terms of their industry segments and regional geographies.

I should mention that there was no change to the Directors' fees paid in the year, with the next review to be carried out in early 2019 for consideration by the membership at the Annual General Meeting in June.

This year the Club Board will meet in Taipei in March, Seattle in June and Dubai in November. Events for local Members and their brokers will be held alongside all three meetings. Events held adjacent to Board meetings to mark the Club's 50th year have given your Board opportunities to hear at first hand your experience of dealing with the Club, and proposals for improvement. I am grateful to all those that either through these events or through the Customer Satisfaction Survey have fed back their experiences.

Before closing I would like to acknowledge the work of two groups. First to my colleagues on the two Boards of the Club, who have been dedicated in their oversight of the Club's operations in the year. Second, the Managers. The financial result achieved in 2018, and more generally the financial stability experienced by the Club in recent years, coupled with the excellent Customer Satisfaction Survey scores attained in 2018 is testament to their expertise and hard work. May I close by wishing you all the best for a successful 2019.

U Kranich, *Chairman*

21 March 2019

Strategic Report

The Directors present herewith their strategic report for the year ended 31 December 2018.

Business review

The principal activities of Through Transport Mutual Insurance Association Limited (“the Club”) and its subsidiary, TT Club Mutual Insurance Limited (“TTI”) – trading collectively as “TT Club” – during the year were the provision of insurance and reinsurance in respect of the equipment, property and liabilities of its Members in the international transport and logistics industry.

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

Strategy

TT Club’s business is the provision of liability and asset insurances and related risk management services to the international transport and logistics industry. It consists of two mutual insurance companies with separate corporate governance arrangements but operating as a single business, and is owned by its policyholder members.

Its 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. TT Club maintains a conservative investment policy.

TT Club’s business model is to outsource the entire management function, including that relating to investment management, to companies within the Thomas Miller Holdings Limited group of companies.

Financial performance, capital strength and solvency

Gross earned premiums amounted to US\$ 195.0 million which was 7.2% higher than 2017 due to net new business and member volume growth.

The Club has entered into a five year quota share reinsurance agreement with Swiss Re which covers the 2018–2022 policy years. The quota share cession for the 2018 policy year was 25% compared to the 2017 year cession of 10% under the previous agreement.

The forecast ultimate loss ratio for the 2018 policy year is 82% which is slightly lower than the 2017 year at the same stage. Prior policy year claims development has been lower than expected, resulting in a release of prior year best estimate claims reserves, excluding currency effects, of US\$ 25.4 million (2017: US\$ 11.3 million).

The technical result for 2018, after allowing for the attribution of investment income on the claims reserves, was a surplus of US\$ 15.0 million (2017: surplus of US\$ 3.8 million). The underlying investment return, excluding currency effects, was 1.3%. The non-technical account produced a surplus of US\$ 1.5 million (2017: US\$ 3.1 million), resulting in an overall net surplus after tax of US\$ 16.5 million (2017: US\$ 7.3 million).

Strategic Report (continued)

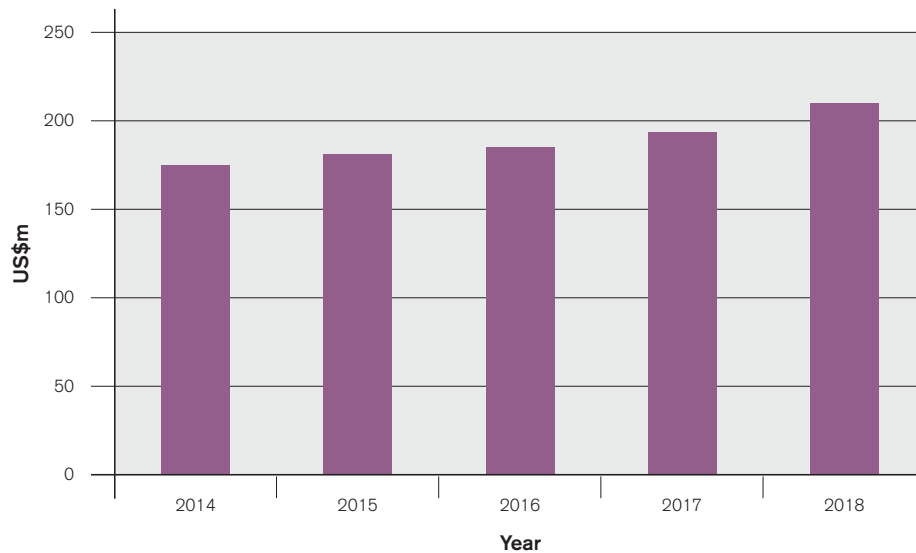
As a result TT Club's surplus and reserves now stand at US\$ 209.5 million (2017: US\$ 193.1 million).

The principal KPIs by which performance is monitored by the Board are detailed below.

1. Financial strength – AM Best rating

The Group has had a rating of A- (Excellent) since 2006.

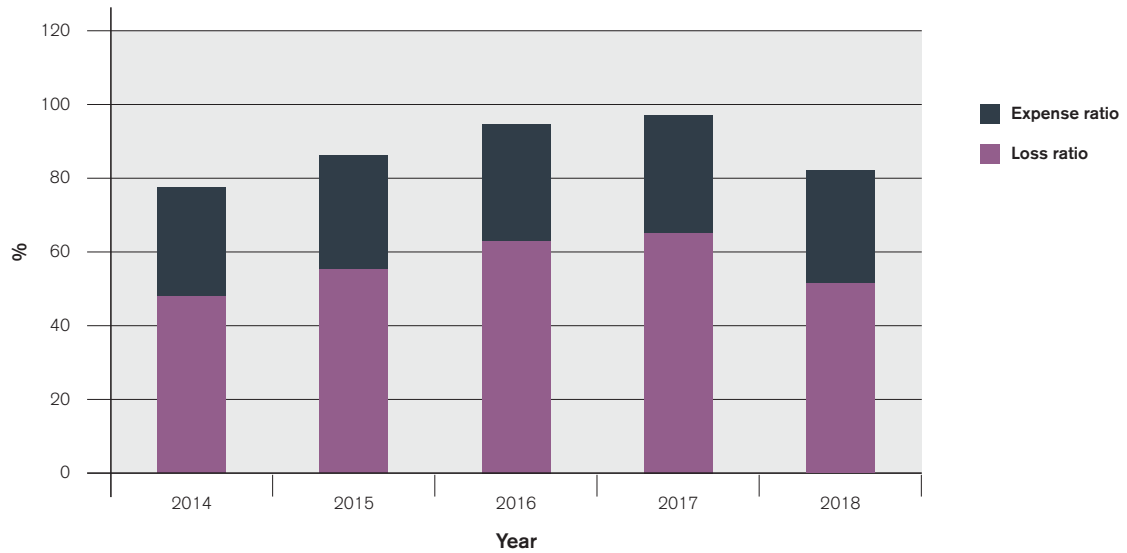
2. Capital – surplus and reserves



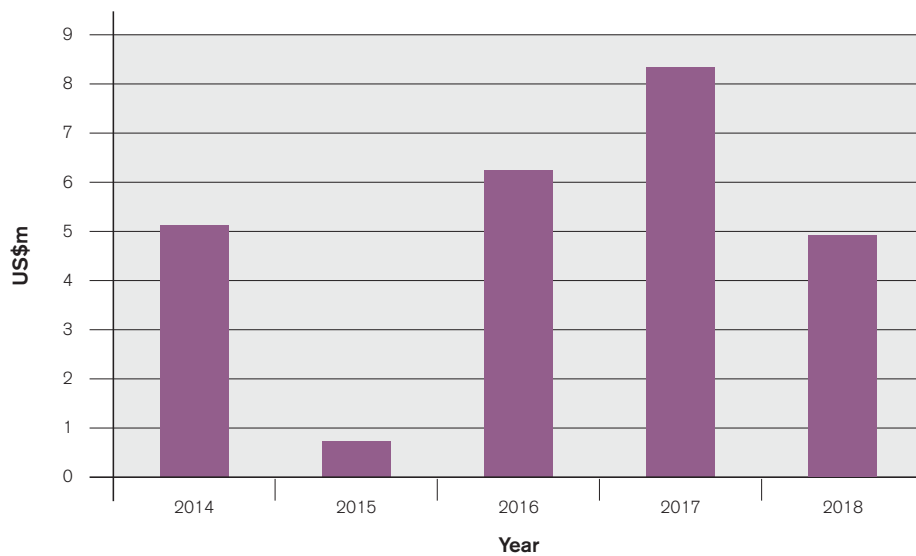
TT Club's financial strategy, approved by the Board, is to maintain within the business sufficient capital to meet regulatory requirements, and to maintain an AM Best rating of A- (Excellent) over the insurance market cycle, with a substantial margin in each case. The Directors are satisfied that both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

Strategic Report (continued)

3. Operating ratios - net loss ratio, expense ratio and combined ratio, excluding the effect of exchange movements on claims reserves

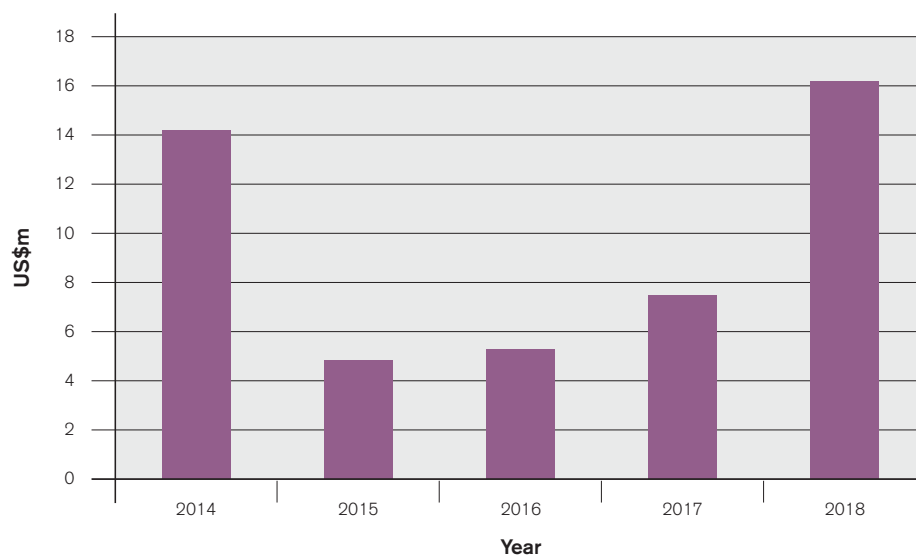


4. Investment performance – total investment return gross of tax and excluding exchange movements, interest payable and financing costs



Strategic Report (continued)

5. Surplus for the year



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

Details regarding Brexit can be found in the Chairman's Review on page 6.

Corporate and social

The Directors are of the opinion that the environmental impact of TT Club'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 TT Club's executive function is performed by independent professional managers there are no employee matters to report.

By approval of the Board

Thomas Miller (Bermuda) Limited, Company Secretary

21 March 2019

Directors' Report

The Directors present herewith their Report and the audited consolidated financial statements of TT Club.

This report is addressed to, and written for, the Members of the Company, and the Directors wish to draw attention to a number of financial and environmental uncertainties, including but not limited to the rate of claims and costs inflation, foreign exchange movements and economic growth, which mean that the actual results in the future may vary considerably from both historic and projected outcomes contained within any 'forward-looking statements'.

Future Performance

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 recent years.

Foreign Branches

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

Risks and risk management

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

The following key principles outline TT Club'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.

All types of risk facing the business are identified and analysed, and each one is rated according to its probability of occurrence and impact, being an assessment of the significance of the event if it occurs, on the basis of financial, reputational, legal/regulatory and customer measures. The rating of each risk is carried out on the basis of both inherent risk and residual risk, the latter taking account of controls that are already operating. Risks are defined as 'Red', 'Amber' or 'Green' on both inherent and residual risk bases to assist the Board with the prioritisation of the management of risks, and also to demonstrate the importance of the mitigation or control that is in place. All risks are summarised and categorised in a Risk Log, which is monitored and re-assessed on an annual basis. The Club has established mitigation and control in order to respond to the risks that are identified and assessed as above. These response activities reflect the nature of the Club's business. The appropriateness and adequacy of mitigation and control for each risk is monitored. The Board recognises and accepts that additional action may be disproportionate or not further reduce the risk exposure.

Directors' Report (continued)

Risks and risk management (continued)

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

Insurance risk

Insurance risk is the potential adverse financial impact on TT Club 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
- 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
- Regular actuarial, management and Board review of claims reserves
- Management review of reinsurance adequacy and security (refer to Note 4)

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 TT Club and its management of financial risks is disclosed in Note 4 to the financial statements.

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.

Directors' Report (continued)

Operational risk (continued)

TT Club'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 controls environment relating to each of these types of insurance, financial, and operational risk and have made an assessment of the capital required to meet the residual risks faced by the business.

Directors and Officers

The names of the Directors of the Club who served during the year and up to the date of signing the financial statements are shown on page 2. All the Directors retiring at the Annual General Meeting and seeking re-election were re-elected. The Directors of TT Club Mutual Insurance Limited are shown at the front of TT Club Mutual Insurance Limited annual report.

The Board of the Club met formally on three occasions during the year to carry out the general and specific responsibilities entrusted to it by the Members under the Bye-Laws of the Club. The number of Directors present at these meetings was 19, 15, and 20 respectively.

Amongst the matters considered, the Directors received and discussed written reports from the Managers on TT Club's financial development, with particular reference to underwriting policy, investment of its funds, insurance reserves and the major claims paid or outstanding.

Meetings of the Directors

Reports on the results of the negotiations for the renewal of Members at the start of and during the 2018 policy year were received and the Directors reviewed the list of new entries and of those Members whose entries had terminated.

The Annual Report and Financial Statements for the year ended 31 December 2018 were approved by the Board for submission to the Members of the Club at the Annual General Meeting. The Directors confirmed their intention not to levy any supplementary premium for the 2017 policy year and in addition, closed the 2015 policy year.

Directors' Report (continued)

Board Committees

The Board has delegated specific authority to a number of committees. The Board is apprised as to the main issues discussed and all minutes of meetings of the committees are distributed to the Board.

The Nominations Committee ensures that the Board is appropriately skilled to direct a mutual insurance company, that the Directors are appropriately senior and representative of the membership, and that there is a proper balance of Directors taking account of the different categories of Member, different sizes of businesses insured and different locations of Members' businesses. The Nominations Committee met on three occasions during 2018.

The Audit & Risk Committee assists the Board in discharging its responsibilities for the integrity of TT Club's financial statements, the assessment of the effectiveness of the systems of internal control, 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 four occasions during 2018.

The Investment Committee makes recommendations to the Board in respect of investment policy and reviews in detail the performance of TT Club's investments. The Investment Committee met on three occasions during 2018.

Statement of disclosure of information to auditors

Each person who is 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 the Club'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 the Club'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.

By approval of the Board

Thomas Miller (Bermuda) Limited, *Company Secretary*

21 March 2019

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable laws and regulations in Bermuda.

The directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards. The financial statements are required to give a true and fair view of the state of affairs of TT Club and Parent Company and of the profit or loss of TT Club and Parent Company for that year.

In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of TT Club and Parent Company and to enable them to ensure that the financial statements comply with applicable law and United Kingdom Accounting Standards. They are also responsible for safeguarding the assets of the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Through Transport Mutual Insurance Association website, www.ttclub.com, is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in Bermuda and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By approval of the Board

Thomas Miller (Bermuda) Limited, *Company Secretary*

21 March 2019

Notice of Meeting

Notice is hereby given that the fiftieth Annual General Meeting of the Members of the Club will be held at the Fairmont Olympic Hotel, Seattle on the twenty-eighth day of June 2019 at 8.50 am for the following purposes:

- To receive the Directors' Report and Financial Statements for the year ended 31 December 2018 and, if they are approved, 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

Thomas Miller (Bermuda) Limited, *Company Secretary*

21 March 2019

Independent Auditors' Report to the Members of Through Transport Mutual Insurance Association Limited

Report on the audit of the Group and Parent Company financial statements

Opinion

In our opinion, Through Transport Mutual Insurance Association Limited's group and parent financial statements (the "financial statements"):

- give a true and fair view of the state of the group and parent company's affairs as at 31 December 2018 and of the group surplus and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Parent Statement of Financial Position as at 31 December 2018; the Consolidated Income Statement, the Consolidated Statement of Changes in Equity; the Parent Statement of Changes in Equity; the Consolidated Statement of Cash Flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

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

Independence

We remained independent of the group and parent 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 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Independent Auditors' Report to the Members of Through Transport Mutual Insurance Association Limited (continued)

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 group and parent 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 group and parent 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.

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the *Directors' Responsibilities Statement* set out on page 16, 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.

Independent Auditors' Report to the Members of Through Transport Mutual Insurance Association Limited (continued)

Responsibilities for the financial statements and the audit (continued)

In preparing the financial statements, the directors are responsible for assessing the group and parent 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 group and parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Section 90 of the Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

Chartered Accountants, London

21 March 2019

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

Consolidated Income Statement for the year ended 31 December 2018

Technical account

	Note	2018 US\$000s	2017 US\$000s
Gross premiums written	8	197,113	187,562
Reinsurance premiums ceded		(56,650)	(42,233)
Premiums written, net of reinsurance		140,463	145,329
<i>Change in provision for unearned premiums</i>			
Gross	7	(2,130)	(5,770)
Reinsurers' share	7	(225)	9,308
		(2,355)	3,538
Earned premiums, net of reinsurance		138,108	148,867
Allocated investment return transferred from the non-technical account	2(i)	1,813	4,245
Other technical income		34	35
<i>Claims paid</i>			
Gross	5(i)	(95,028)	(113,666)
Reinsurers' share	5(i)	15,718	20,607
		(79,310)	(93,059)
<i>Change in the provision for claims</i>			
Gross		(7,868)	5,227
Reinsurers' share		15,824	(7,533)
		7,956	(2,306)
Claims incurred, net of reinsurance		(71,354)	(95,365)
Net operating expenses	9	(53,568)	(53,957)
Balance on the technical account		15,033	3,825

All activities derive from continuing operations.

Consolidated Income Statement 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		15,033	3,825
Investment income		9,261	7,444
Unrealised (losses)/gains on investments		(4,350)	793
Exchange (losses)/gains		(985)	1,552
Interest payable and financing costs	<i>10</i>	(589)	(2,442)
		3,337	7,347
Allocated investment return transferred to the technical account	<i>10</i>	(1,813)	(4,245)
Surplus on ordinary activities before tax		16,557	6,927
Tax on ordinary activities	<i>11</i>	(97)	367
Surplus on ordinary activities after tax		16,460	7,294
Surplus for the year		16,460	7,294

All activities derive from continuing operations and are attributable to members.

The notes on pages 28 to 59 form an integral part of these financial statements.

Consolidated and Parent Statement of Financial Position as at 31 December 2018

		Consolidated		Parent Company	
	Note	2018 US\$000s	2017 US\$000s	2018 US\$000s	2017 US\$000s
Assets					
Goodwill	12	(3,625)	(3,625)	–	–
<i>Investments</i>					
Land and buildings		204	220	–	–
Shares in subsidiary undertakings	13	–	–	12	12
Other financial investments	14	432,500	391,903	332,838	327,876
Derivative financial instruments	15	96	539	96	539
<i>Reinsurers' share of technical provisions</i>					
Provision for unearned premiums		18,817	19,042	–	–
Claims outstanding		55,451	40,464	1,962	1,200
		74,268	59,506	1,962	1,200
<i>Debtors</i>					
Arising out of direct insurance operations - policyholders		46,607	48,478	2,803	3,127
Arising out of reinsurance operations		3,766	11,781	38,469	36,977
Amounts due from group undertakings		–	–	38,278	23,897
Other debtors		564	2,101	43	56
		50,937	62,360	79,593	64,057
Cash and cash equivalents		51,177	76,765	7,999	20,586
Other assets	15	4,388	1,251	4,388	1,251
Retirement benefits and similar obligations	18	27	–	–	–
<i>Prepayments and accrued income</i>					
Accrued interest		1,831	1,381	1,304	1,060
Deferred acquisition costs		7,123	6,860	829	768
Prepayments		421	459	180	195
		9,375	8,700	2,313	2,023
Total assets		619,347	597,619	429,201	417,544

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

	Note	Consolidated		Parent Company	
		2018 US\$000s	2017 US\$000s	2018 US\$000s	2017 US\$000s
Liabilities and reserves					
<i>Reserves</i>					
Statutory reserve		240	240	240	240
Surplus and reserves		209,280	192,820	147,085	129,147
		209,520	193,060	147,325	129,387
<i>Technical provisions</i>					
Provision for unearned premiums - gross		72,497	70,367	43,327	41,343
Claims outstanding – gross		304,625	304,104	227,541	239,836
		377,122	374,471	270,868	281,179
<i>Creditors</i>					
Arising out of reinsurance operations		18,872	20,846	718	1,192
Derivative financial instruments	15	2,954	1,461	2,954	1,461
Other creditors including taxation and social security		1,167	2,724	177	1,484
		22,993	25,031	3,849	4,257
Accruals and deferred income		9,748	5,029	7,159	2,721
Retirement benefits and similar obligations	13,18	–	64	–	–
		32,741	30,124	11,008	6,978
Equity minority interest		(36)	(36)	–	–
Total liabilities and reserves		619,347	597,619	429,201	417,544

The notes on pages 28 to 59 form an integral part of these financial statements.

The financial statements on pages 21 to 59 were approved by the Board of Directors on 21 March 2019 and were signed on its behalf by:

U Kranich, Director

J Callahan, Director

Company Registered Number

1750

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	Statutory reserve US\$000s	Surplus and reserve US\$000s	Total US\$000s
At 31 December 2016	240	185,526	185,766
Surplus for the year	–	7,294	7,294
At 31 December 2017	240	192,820	193,060
Surplus for the year	–	16,460	16,460
At 31 December 2018	240	209,280	209,520

**Parent Statement of Changes in Equity
for the year ended 31 December 2018**

	Statutory reserve US\$000s	Surplus and reserve US\$000s	Total US\$000s
At 31 December 2016	240	123,816	124,056
Surplus for the year	–	5,331	5,331
At 31 December 2017	240	129,147	129,387
Surplus for the year	–	17,938	17,938
At 31 December 2018	240	147,085	147,325

Consolidated Statement of Cash Flows for the year ended 31 December 2018

<i>Note</i>	2018 US\$000s	2017 US\$000s
Cash flows from operating activities		
Premiums received from Members	175,342	160,561
Reinsurance premiums ceded paid	(58,615)	(38,608)
Claims paid	(94,920)	(114,042)
Reinsurance receipts in respect of claims	23,760	13,249
Investment income	9,261	7,444
Management fee paid	(35,924)	(31,008)
Expenses paid	(1,066)	(3,478)
Other operating cash movements	(2,024)	(843)
Overriding commissions on quota share reinsurance	10,971	3,369
Taxation reclaimed/(paid)	428	(926)
Net cash generated from operating activities	27,213	(4,282)
Cash flows from investment activities		
Net payments for acquisition of debt instruments, equities and forward contracts	(45,384)	16,434
Net cash flows from investing activities	(45,384)	16,434
Cash flows from financing activities		
Interest paid	(589)	(2,442)
Net cash flows from financing activities	(589)	(2,442)
Net (decrease)/increase in cash and cash equivalents	(18,760)	9,710
Cash and cash equivalents at the start of the year	90,350	76,309
Effect of exchange rate fluctuations on cash and cash equivalents	(10,286)	4,331
Cash and cash equivalents at the end of the year (UCITS and cash at bank and in hand)	61,304	90,350

4(b)

Notes to the Consolidated Financial Statements

Note 1: Constitution and ownership

The Club is incorporated in Bermuda under the Through Transport Mutual Insurance Association Limited Consolidation and Amendment Act 1993 as an exempted company. The liability of Members is limited to the supplementary premiums set by the Directors and, in the event of its liquidation, any net assets of the Club (including the Statutory Reserve of US\$ 240,000) are to be distributed equitably to those Members insured by it during its final underwriting year. There is no ultimate parent company or controlling party.

Note 2: Accounting policies

(a) Basis of preparation (statement of compliance)

These Group financial statements which consolidate the financial statements of the Club and its subsidiary undertakings have been prepared under the Bermuda Companies Act 1981, and also under the UK Companies Act 2006. The Club and its subsidiary undertakings have applied uniform accounting policies and on consolidation all intra-group transactions, profits, and losses have been eliminated. The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”), Financial Reporting Standard 103, “Insurance Contracts” (“FRS 103”) and the Companies Act 2006. TT Club financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations relating to insurance groups.

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

In accordance with section 401 of the Companies Act 2006, the net assets of Scottish Boatowners’ Mutual Insurance Association Ltd (“SBO”) have been consolidated into the Financial Statements of the Club. Goodwill has been recognised. See Note 12 for further details.

(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.

(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 on the statement of financial position.

Notes to the Consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(d) Commission income

Commission income is earned on TT Club's general reinsurance programme and on insurance arranged by TT Club on behalf of Members and others. Overriding commission on quota share premiums is shown as a reduction of net operating expenses.

(e) Claims

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 management costs include 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 income statement.

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 judgement of the likely final cost of each individual claim based on current information. The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of cost of settling claims already notified to the Club, where more information is generally available.

The Club 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. Judgement 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 current and prior policy years and having due regard to recoverability.

(f) Reinsurance recoveries

The liabilities of TT Club are reinsured above certain levels and for certain specific risks.

The figure credited to the income statement 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.

Notes to the Consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(g) Acquisition costs

Brokerage, commission payments, and other direct costs incurred in relation to securing new contracts and re-writing 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.

(h) Financial assets

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

Fair value through profit and loss

Assets, including all investments of TT Club, are classified as fair value through profit and loss and 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. Fair values of investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors such as independent valuation reports.

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 arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

The costs of investments denominated in currencies other than the US dollars are translated 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 statement. 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 Consolidated Income Statement within 'Unrealised gains/(losses) on investments' in the period in which they arise.

Notes to the Consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(h) Financial assets (continued)

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 provision is created against any balance that may be impaired. Commission payable to intermediaries is netted off against debtors arising from insurance operations.

Derivative financial instruments

TT Club designates derivatives as either: hedges of a firm commitment or highly probable forecast transactions; or non-hedge derivatives.

Non-hedge Derivative Financial Instruments

Non-hedge derivative financial instruments include open foreign currency contracts. They are designated as fair value through profit and loss. They are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value.

Changes in fair value are charged or credited to the Consolidated Income Statement. Fair values are obtained from quoted market prices in active markets. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Hedge Derivative Financial Instruments

TT Club documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 15.

The changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the Consolidated Income Statement. The cumulative hedging gain or loss on the unrecognised firm commitment is recognised as an asset or liability with a corresponding gain or loss recognised in the Consolidated Income Statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, UCITS, and deposits held at call with banks. 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.

Notes to the Consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(i) Investment return

Investment return comprises dividend income from equities, income on fixed interest securities, interest on deposits and cash, and realised and unrealised gains and losses on investments.

Dividends are recognised as income on the date the relevant securities are marked ex-dividend. Other investment income is recognised on an accruals basis.

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.

TT Club 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.

(j) Foreign currencies

Revenue transactions are translated into US dollars at the rate applicable for the month in which the transaction took place. Monetary assets and liabilities have been translated at the closing US dollar exchange rate. The resulting differences are shown separately in the Consolidated Income Statement. 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-US dollar cash holdings are treated as realised and are included in the statement of comprehensive income.

(k) Policy year accounting

When considering the results of individual policy years for the purposes of membership accounting, 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.

Notes to the Consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(l) 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, TT Club 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.

(m) 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 of future investment income.

Unexpired risk surpluses and deficits are offset where business classes are managed together and provision is made if a deficit arises.

(n) Reinsurance

Contracts entered into by TT Club with reinsurers, under which TT Club is compensated for losses on one or more contracts issued by TT Club and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts. Insurance contracts entered into by TT Club under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts, provided there is significant transfer of insurance risk. 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 TT Club'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 Consolidated Income Statement, 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 profit and loss account as 'Outward reinsurance premiums' when due.

Notes to the Consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(o) Taxation

Deferred tax

Deferred taxation is provided in full on timing differences that result in an obligation at the statement of financial position to pay more tax, or a right to pay less tax, at a future date. The rates used in these calculations are those which are expected to apply when the timing differences 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 on investment income. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

TT Club incurs current tax on investment income at 10% of any net gain.

(p) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less impairment. The Club 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 statement.

(q) Related parties

TT Club discloses transactions with related parties which are not wholly owned within the same Group. Further details can be found in Note 17.

(r) Business combination

The acquisition of Scottish Boatowners' Mutual Insurance Association Ltd ("SBO") was accounted for using the purchase method. The assets and liabilities have been recognised at their fair values at the acquisition date. These were translated at the relevant spot rate on the date of acquisition, with subsequent revaluation being made at the year-end.

All exchange gains and losses are recognised through the Consolidated income statement.

All post-acquisition income and expenditure has been recognised in the Consolidated income statement.

Notes to the Consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(s) Goodwill

Goodwill is initially measured at its cost, being the excess of the cost of the acquisition over the net assets acquired. It is then measured at cost less accumulated amortisation and accumulated impairment losses.

Note 3: Critical accounting estimates and judgments and estimation uncertainty

TT Club 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 TT Club's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that TT Club 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, TT Club 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 (e).

(a) Pipeline premiums

TT Club makes an estimate of premiums written during the year that have not been notified in the financial year ('pipeline premiums') as detailed in Note 2 (b). 2018: US\$ 2.4 million (2017: US\$2.3 million).

Note 4: Management of Financial Risk

Financial Risk Management Objectives

TT Club is exposed to financial risk primarily 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 insurance 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.

TT Club manages these risks using a risk governance structure incorporating the Managers' Risk Committee and the Audit & Risk Committee. Further details are set out in the Directors' Report on pages 12 - 15.

Notes to the Consolidated Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

The Boards of TT Club are responsible, advised by the Chief Executive working with the Investment Manager, for setting investment policy and the appropriate level of market or investment risk. This is set with reference to the overall risks faced by TT Club which are analysed as part of the Own Risk and Solvency Assessment (“ORSA”) process.

The processes used to manage risks within TT Club are unchanged from the previous period and are set out in the Directors’ Report.

(a) Market risk

(i) 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.

TT Club’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 year end date, with all other factors unchanged would result in a US\$ 5.10 million decrease in market value of TT Club’s investments (2017: US\$ 3.21 million decrease). A decrease in 100 basis points in interest rates would result in a US\$ 5.10 million increase in the market value of TT Club’s investments (2017: US\$ 3.21 million increase).

(ii) Investment price risk

TT Club is exposed to price risk as a result of its equity investments. TT Club’s investment policy sets limits on TT Club’s exposure to equities.

(b) Currency risk

TT Club is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than US dollar. The most significant currencies to which TT Club is exposed to are Pounds Sterling and the Euro. From time to time TT Club uses forward currency contracts or options to protect against adverse in year exchange movements.

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

Notes to the Consolidated Financial Statements (continued)**Note 4: Management of Financial Risk** (continued)**(b) Currency risk** (continued)

2018	USD	GBP	EUR	Other	Total
	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s
Debt securities	364,012	10,819	5,733	–	380,564
Equity shares	26,302	7,884	7,623	–	41,809
Derivative financial instruments	(24,422)	(6,036)	30,554	–	96
Assets arising from reinsurance contracts held	71,534	1,959	777	3,764	78,034
Debtors arising from insurance contracts	38,161	3,144	3,770	1,532	46,607
Other debtors	564	–	–	–	564
Cash and cash equivalents	27,862	7,849	1,975	23,618	61,304
Other	9,397	504	4	464	10,369
Total assets	513,410	26,123	50,436	29,378	619,347
Liabilities	(328,930)	(16,603)	(42,109)	(22,185)	(409,827)
Net assets	184,480	9,520	8,327	7,193	209,520
2017	USD	GBP	EUR	Other	Total
	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s
Debt securities	330,188	9,441	6,063	–	345,692
Equity shares	13,532	8,998	10,096	–	32,626
Derivative financial instruments	(24,935)	(4,026)	29,500	–	539
Assets arising from reinsurance contracts held	64,653	1,893	968	3,773	71,287
Debtors arising from insurance contracts	39,882	3,371	4,094	1,131	48,478
Other debtors	2,101	–	–	–	2,101
Cash and cash equivalents	40,636	8,262	14,457	26,995	90,350
Other	5,654	461	3	428	6,546
Total assets	471,711	28,400	65,181	32,327	597,619
Liabilities	(273,749)	(22,288)	(65,680)	(42,842)	(404,559)
Net assets	197,962	6,112	(499)	(10,515)	193,060

Notes to the Consolidated Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(b) Currency risk (continued)

As at 31st December 2018 the currency split of TT Club's claims estimates was as follows: US\$ 223.1 million in US dollars and currencies pegged to the US dollar, US\$ 14.9 million in Pounds Sterling, US\$ 40.4 million in Euros and US\$ 26.2 million in other currencies.

At 31 December 2018, if the US dollar weakened by 5% against Sterling, with all other factors unchanged, Surplus and reserves would have increased by US\$ 0.45 million (2017: US\$ 0.29 million increase). If the US dollar strengthened by 5% against Sterling, with all other factors unchanged, Surplus and reserves would have decreased by US\$ 0.45 million (2017: US\$ 0.29 million decrease).

At 31 December 2018, if the US dollar weakened by 5% against the Euro, with all other factors unchanged, Surplus and reserves would have increased by US\$ 0.4 million (2017: US\$ 0.02 million decrease). If the US dollar strengthened by 5% against the Euro, with all other factors unchanged, Surplus and reserves would have decreased by US\$ 0.4 million (2017: US\$ 0.02 million increase).

(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 TT Club 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 corporate bond issuers; and
- Counterparty risk with respect to derivative transactions.

Reinsurance is used to manage insurance risk. This does not, however, discharge TT Club's liability as primary insurer. If a reinsurer fails to pay a claim, TT Club remains liable for the payment to the policyholder. The creditworthiness of a reinsurer is considered before it is used and strict criteria are applied (including the financial strength of the reinsurer) before a reinsurer is approved.

Notes to the Consolidated Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(c) Credit risk (continued)

The following tables provide information regarding aggregated credit risk exposure, for financial assets with external credit ratings, as at 31st 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	44,706	305,354	30,504	–	380,564
Equity shares	–	–	–	41,809	41,809
Derivative financial instruments	–	–	–	96	96
Assets arising from reinsurance contracts held	–	61,668	9,862	6,504	78,034
Debtors arising from insurance contracts	–	–	–	46,607	46,607
Other debtors	–	–	–	564	564
Cash and cash equivalents	5,596	15,805	39,802	101	61,304
Other	–	–	–	10,369	10,369
Total	50,302	382,827	80,168	106,050	619,347
2017	AAA	AA	A	BBB+ or less or not rated	Total
	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s
Debt securities	55,232	252,625	32,805	5,030	345,692
Equity shares	–	–	–	32,626	32,626
Derivative financial instruments	–	–	–	539	539
Assets arising from reinsurance contracts held	–	47,586	18,174	5,527	71,287
Debtors arising from direct insurance	–	–	–	48,478	48,478
Other debtors	–	–	–	2,101	2,101
Cash and cash equivalents	26,058	17,376	46,807	109	90,350
Other	–	–	–	6,546	6,546
Total	81,290	317,587	97,786	100,956	597,619

Notes to the Consolidated 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 to pay obligations as they fall due at a reasonable cost. TT Club 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 TT Club's short term deposits (including cash and UCITs) amounted to US\$ 61.3 million (2017: US\$ 90.4 million).

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

2018	Past due but not impaired					Financial assets that have been impaired US\$000s	Carrying value in the balance sheet US\$000s
	Neither past due nor impaired US\$000s	0-3 months US\$000s	3-6 months US\$000s	6 months-1 year US\$000s	> 1 year US\$000s		
Debt securities	380,564	–	–	–	–	–	380,564
Equity shares	41,809	–	–	–	–	–	41,809
Derivative financial instruments	96	–	–	–	–	–	96
Assets arising from reinsurance contracts held	78,034	–	–	–	–	–	78,034
Debtors arising from direct insurance	31,307	11,127	4,173	–	–	–	46,607
Other debtors	564	–	–	–	–	–	564
Cash and cash equivalents	61,304	–	–	–	–	–	61,304
Other	10,369	–	–	–	–	–	10,369
Total	604,047	11,127	4,173	–	–	–	619,347
2017	Past due but not impaired					Financial assets that have been impaired US\$000s	Carrying value in the balance sheet US\$000s
	Neither past due nor impaired US\$000s	0-3 months US\$000s	3-6 months US\$000s	6 months-1 year US\$000s	> 1 year US\$000s		
Debt securities	345,692	–	–	–	–	–	345,692
Equity shares	32,626	–	–	–	–	–	32,626
Derivative financial instruments	539	–	–	–	–	–	539
Assets arising from reinsurance contracts held	71,287	–	–	–	–	–	71,287
Debtors arising from direct insurance	31,871	10,595	6,012	–	–	–	48,478
Other debtors	2,101	–	–	–	–	–	2,101
Cash and cash equivalents	90,350	–	–	–	–	–	90,350
Other	6,546	–	–	–	–	–	6,546
Total	581,012	10,595	6,012	–	–	–	597,619

Notes to the Consolidated Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(d) Liquidity and cash flow risk

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

2018	< 6 months or on demand US\$000s	Between 6 months & 1 year US\$000s	Between 1 and 2 years US\$000s	Between 2 and 5 years US\$000s	> 5 years US\$000s	Total US\$000s
Debt securities	125,394	44,173	60,202	130,420	20,375	380,564
Equity shares	41,809	–	–	–	–	41,809
Derivative financial instruments	–	96	–	–	–	96
Assets arising from reinsurance contracts held	4,176	4,176	5,025	6,626	2,580	22,583
Reinsurers' share of claims outstanding	10,255	10,254	12,339	16,268	6,335	55,451
Debtors arising from insurance contracts	46,607	–	–	–	–	46,607
Other debtors	564	–	–	–	–	564
Cash and cash equivalents	61,304	–	–	–	–	61,304
Other	10,369	–	–	–	–	10,369
Total assets	300,478	58,699	77,566	153,314	29,290	619,347
Creditors	(105,202)	–	–	–	–	(105,202)
Claims outstanding	(56,334)	(56,333)	(67,785)	(89,369)	(34,804)	(304,625)
Net assets	138,942	2,366	9,781	63,945	(5,514)	209,520

Notes to the Consolidated Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(d) Liquidity and cash flow risk (continued)

2017	< 6 months or on demand US\$000s	Between 6 months & 1 year US\$000s	Between 1 and 2 years US\$000s	Between 2 and 5 years US\$000s	> 5 years US\$000s	Total US\$000s
Debt securities	106,417	7,000	125,588	101,657	5,030	345,692
Equity shares	32,626	–	–	–	–	32,626
Derivative financial instruments	–	539	–	–	–	539
Assets arising from reinsurance contracts held	5,701	5,701	6,917	9,286	3,218	30,823
Reinsurers' share of claims outstanding	7,493	7,492	9,025	12,239	4,215	40,464
Debtors arising from insurance contracts	48,007	471	–	–	–	48,478
Other debtors	2,101	–	–	–	–	2,101
Cash and cash equivalents	90,350	–	–	–	–	90,350
Other	6,546	–	–	–	–	6,546
Total assets	299,241	21,203	141,530	123,182	12,463	597,619
Creditors	(100,455)	–	–	–	–	(100,455)
Claims outstanding	(56,246)	(56,246)	(68,247)	(91,621)	(31,744)	(304,104)
Net assets	142,540	(35,043)	73,283	31,561	(19,281)	193,060

(e) Capital management

TT Club's capital is made up of policyholders' funds (surplus and reserves). TT Club's strategy is to maintain sufficient capital to meet regulatory requirements and to maintain an AM Best financial strength rating of A- (Excellent) over the insurance market cycle, with a substantial margin in each case.

TT Club 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 TT Club complied with Solvency II regulation. The Club assesses and maintains 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.

As at 31 December 2018 TT Club's total regulatory capital available amounted to US\$ 209.5 million (2017: US\$ 193.1 million).

Notes to the Consolidated Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(e) Capital management (continued)

As at 31 December 2018, TT Club held deposits and letters of credit totalling US\$ 67.2 million to meet overseas regulatory requirements (2017: US\$ 66.5 million). This includes collateralised letters 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\$ 42.4 million (2017: US\$ 41.7 million) in relation to the US.

(f) Fair value estimations

In accordance with section 34 of FRS 102, as a financial institution, TT Club applies the requirements of paragraph 11.27 of FRS 102. This requires, for financial instruments held at fair value in the balance sheet, 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 TT Club's financial assets 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 and forward currency contracts, which fall into Level 2.

Consolidated	2018	2018	2018	2017	2017	2017
	Level 1	Level 2	Total	Level 1	Level 2	Total
	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s
Debt securities	–	380,564	380,564	–	345,692	345,692
Equity shares	41,809	–	41,809	32,627	–	32,627
Derivative financial instruments	–	96	96	–	539	539
UCITS	10,127	–	10,127	13,584	–	13,584
Financial assets held at fair value through profit and loss	51,936	380,660	432,596	46,211	346,231	392,662

Notes to the Consolidated Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(f) Fair value estimations (continued)

Parent	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	–	286,020	286,020	–	284,839	284,839
Equity shares	41,809	–	41,809	32,627	–	32,627
Derivative financial instruments	–	96	96	–	539	539
UCITS	5,009	–	5,009	10,410	–	10,410
Financial assets held at fair value through profit and loss	46,818	286,116	332,934	43,037	285,378	328,415

(g) Insurance Risk

TT Club'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 TT Club 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

Results of sensitivity testing are 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 reserves, with other assumptions unchanged.

	2018 US\$000s	2017 US\$000s
1% increase in net reserves reduces surplus before tax and equity by:	2,492	2,519

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

Notes to the Consolidated Financial Statements (continued)

Note 4: Management of Financial Risk (continued)

(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 TT Club's guidelines for acceptable risk.

(ii) Reinsurance

The establishment of TT Club's reinsurance programme is driven by the Board's objective to manage risk to an acceptable level and to optimise TT Club'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 TT Club'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.

(iv) Reserving process

TT Club 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.

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

Notes to the Consolidated Financial Statements (continued)

Note 5: Claims paid

(i) Claims paid

Claims paid include claims handling charges paid to the Managers totalling US\$ 9.3 million (2017: US\$ 10.0 million).

	2018	2018	2018	2017	2017	2017
	Gross	RI	Net	Gross	RI	Net
	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s
Technical provisions at the beginning of the year	304,104	(40,464)	263,640	296,723	(44,816)	251,907
Claims (recovered)/paid	(95,028)	15,718	(79,310)	(113,666)	20,607	(93,059)
Claims incurred	102,896	(31,542)	71,354	108,439	(13,074)	95,365
Exchange differences	(7,347)	837	(6,510)	12,609	(3,181)	9,428
Technical provisions at the end of the year	304,625	(55,451)	249,174	304,104	(40,464)	263,640

Claims development tables

The development of insurance liabilities provides a measure of TT Club's ability to estimate the ultimate value of claims. The top half of each table below illustrates how TT Club'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

Prior year reserves and margins released during the year amounted to US\$ 23.0 million (2017: US\$ 10.7 million released).

Notes to the Consolidated Financial Statements (continued)**Note 5: Claims paid** (continued)**Assumptions underlying insurance balances***Reserving process*

The risks associated with insurance contracts are complex and subject to a number of variables. The Club 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 the Club in estimating liabilities are:

- Chain ladder
- Bornhuetter-Ferguson
- 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 the consolidated 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 Consolidated Financial Statements (continued)

Note 5: Claims paid (continued)

Insurance claims – gross

Estimate of ultimate claims costs attributable to policy years

Insurance claims gross	2010	2011	2012	2013	2014	2015	2016	2017	2018
	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s
At end of reporting year	115,978	122,414	140,720	118,652	119,166	140,464	119,149	132,620	138,946
1 year later	123,417	155,471	138,007	104,326	103,435	123,738	117,031	114,054	–
2 years later	120,558	152,172	127,693	94,008	98,057	122,370	109,758	–	–
3 years later	109,737	122,718	129,305	91,789	100,776	116,116	–	–	–
4 years later	107,836	117,942	125,939	90,422	99,198	–	–	–	–
5 years later	110,276	117,257	125,877	86,592	–	–	–	–	–
6 years later	110,436	112,100	119,656	–	–	–	–	–	–
7 years later	109,626	111,729	–	–	–	–	–	–	–
8 years later	107,916	–	–	–	–	–	–	–	–
Estimate of ultimate claims	107,916	111,729	119,656	86,592	99,198	116,116	109,758	114,054	138,946
Cumulative payments to date	99,564	108,821	110,122	77,432	86,514	83,943	71,510	52,805	22,035
Liability recognised on statement of financial position	8,352	2,908	9,534	9,160	12,684	32,173	38,248	61,249	116,911

	Total
	US\$000s
Total liability relating to the 2010 to 2018 years	291,219
Other claims liabilities for prior years	13,406
Total technical provisions included in statement of financial position	304,625

Notes to the Consolidated Financial Statements (continued)

Note 5: Claims paid (continued)

Insurance claims – net

Insurance claims net	2010	2011	2012	2013	2014	2015	2016	2017	2018
	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s
At end of reporting year	101,219	107,587	117,771	102,412	105,157	107,724	105,471	118,540	103,469
1 year later	106,569	110,497	114,259	91,986	91,383	102,382	98,323	101,968	–
2 years later	104,028	111,617	106,541	83,527	85,457	101,992	91,623	–	–
3 years later	94,549	101,386	99,846	80,218	87,672	96,631	–	–	–
4 years later	92,082	99,662	98,030	79,129	86,377	–	–	–	–
5 years later	94,609	98,973	96,743	75,918	–	–	–	–	–
6 years later	95,926	94,808	95,384	–	–	–	–	–	–
7 years later	91,755	94,610	–	–	–	–	–	–	–
8 years later	92,048	–	–	–	–	–	–	–	–
Estimate of ultimate claims	92,048	94,610	95,384	75,918	86,377	96,631	91,623	101,968	103,469
Cumulative payments to date	83,698	92,022	88,872	67,757	75,161	68,021	59,285	46,636	16,526
Liability recognised on statement of financial position	8,350	2,588	6,512	8,161	11,216	28,610	32,338	55,332	86,943

	Total US\$000s
Total liability relating to the 2010 to 2018 years	240,050
Other claims liabilities for prior years	9,124
Total technical provisions included in statement of financial position	<u>249,174</u>

Notes to the Consolidated Financial Statements (continued)

Note 6: Deferred acquisition costs

	2018 US\$000s	2017 US\$000s
On insurance contracts	7,123	6,860

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

	2018 US\$000s	2017 US\$000s
At 1 January 2018	6,860	6,093
Expenses for the acquisition of insurance contracts deferred during the year	263	767
At 31 December 2018	7,123	6,860

Note 7: Reconciliation of insurance balances

	2018 US\$000s	Gross 2017 US\$000s	Reinsurers' share 2018 US\$000s	2017 US\$000s
At 1 January 2018	70,367	64,597	19,042	9,734
Increase/(decrease) in provision	2,130	5,770	(225)	9,308
At 31 December 2018	72,497	70,367	18,817	19,042

Note 8: Segmental information

	2018 US\$000s	2017 US\$000s
Gross premiums written		
– Members located in other EU states	28,684	25,603
– Members located in UK	8,789	8,245
– Members located outside EU	159,640	153,714
	197,113	187,562

The Club writes only marine, aviation, and transport business.

Notes to the Consolidated Financial Statements (continued)

Note 8: Segmental information (continued)

Gross premiums written	2018	2018	2018	2018
	US\$000s	US\$000s	US\$000s	US\$000s
	Members	Members	Members	
	located	located	located	
	in other EU states	in UK	outside EU	Total
Cargo	1,273	700	6,444	8,417
Containers and Chassis	9,705	1,213	33,026	43,944
Logistics	8,423	3,101	51,866	63,390
Other	27	96	4,497	4,620
Ports and Terminals	6,216	2,478	42,100	50,794
Property	3,040	1,201	21,707	25,948
	28,684	8,789	159,640	197,113

Gross premiums written	2017	2017	2017	2017
	US\$000s	US\$000s	US\$000s	US\$000s
	Members	Members	Members	
	located	located	located	
	in other EU states	in UK	outside EU	Total
Cargo	1,774	738	4,217	6,729
Containers and Chassis	8,750	1,009	31,758	41,517
Logistics	7,587	2,732	44,635	54,954
Other	56	109	8,520	8,685
Ports and Terminals	5,338	2,369	44,167	51,874
Property	2,098	1,288	20,417	23,803
	25,603	8,245	153,714	187,562

Notes to the Consolidated Financial Statements (continued)**Note 9: Net operating expenses**

	2018 US\$000s	2017 US\$000s
Acquisition costs		
Brokerage and commission	22,842	21,582
Management fee in respect of underwriting	16,872	16,107
Change in deferred acquisition costs	(263)	(767)
	39,451	36,922
Management fee in respect of management and performance related fee	19,042	14,855
General expenses	4,007	3,755
Directors' fees	713	702
Directors' travelling costs	783	600
Auditors' remuneration		
– Parent company audit	114	141
– Subsidiary company audit	250	94
Non-audit services		
– Other services pursuant to legislation, including audit of regulatory returns	180	257
– Tax compliance services	–	–
– Other services	–	–
Total operating expenses before commission on reinsurance contracts	25,089	20,404
	64,540	57,326
Commission on reinsurance contracts	(10,972)	(3,369)
	53,568	53,957

Notes to the Consolidated Financial Statements (continued)

Note 10: Investment return

	2018 US\$000s	2017 US\$000s
Investment income		
Income from financial assets held at fair value through profit or loss	8,958	6,271
Net gains on the realisation of investments	1,549	2,444
Foreign exchange gains	–	1,552
	10,507	10,267
Investment expenses and charges		
Interest payable	(589)	(2,442)
Other investment management expenses	(1,246)	(1,271)
Foreign exchange losses	(985)	–
Net unrealised (losses)/gains on investments	(4,350)	793
	(7,170)	(2,920)
Total investment return	3,337	7,347
<i>Investment return is analysed between:</i>		
Allocated investment return transferred to the technical business account	1,813	4,245
Net investment return included in the non-technical account	1,524	3,102
Total investment return	3,337	7,347

Note 11: Tax on ordinary activities

	2018 US\$000s	2017 US\$000s
(i) Analysis of tax charge on ordinary activities		
UK tax for the current period	(96)	(125)
Foreign tax for the current period	119	–
Adjustments in respect of prior periods	(120)	492
	(97)	367

Notes to the Consolidated Financial Statements (continued)

Note 11: Tax on ordinary activities (continued)

	2018 US\$000s	2017 US\$000s
<p>The tax assessed for the year is the same as (2017: same as) than that resulting from applying the standard rate of corporation tax in Bermuda: 0% (2017: 0%) - the differences are explained below:</p>		
Surplus on ordinary activities before tax	16,564	6,927
Tax at 0% thereon	-	-
Effects of:		
Tax levied outside Bermuda:		
United Kingdom	(96)	(125)
Australia	119	-
Adjustments in respect of prior periods		
United Kingdom	10	-
United States	-	473
Italy	(2)	19
Australia	(128)	-
Current tax charge for year	(97)	367

The taxation charge comprises a charge for UK taxation based at a rate of 19% based on 10% of TT Club's investment return excluding that taxed within an overseas branch. The overseas tax charges relate to overseas income taxed at the prevailing rate in the respective jurisdictions.

Future tax charges are dependent on future investment return and prevailing tax rates.

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.

Notes to the Consolidated Financial Statements (continued)

Note 12: Acquisition of Scottish Boatowners' Mutual Insurance Association Ltd

On 7 September 2017 the TTI acquired SBO for nil consideration, which gives rise to negative goodwill. The following assets and liabilities were recognised at the acquisition date:

	£'000s	US\$'000s
Land and buildings	163	218
RI 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)
Retirement benefits and similar obligations	(47)	(63)
Total liabilities	(1,719)	(2,334)
Net assets	2,792	3,625
Fair value of consideration	–	–
Negative goodwill	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.

The negative goodwill will be written through the consolidated income statement when the assets and liabilities of SBO have been transferred to TTI. This is expected to occur in the second half of 2019 once a Part VII transfer of SBO's insurance liabilities to TTI has been completed.

Notes to the Consolidated Financial Statements (continued)

Note 13: Shares in subsidiary undertakings

Name of subsidiary	Country of incorporation	Class of shares held	Principal activity	Proportion of shares held and voting rights
TT Club Mutual Insurance Limited	United Kingdom	N/A	General insurance and reinsurance	75% of Members' votes
TT (Bermuda) Services Limited (incorporated 30 January 1998)	Bermuda	Ordinary	Holding company	90%
Scottish Boatowners' Mutual Insurance Association	United Kingdom	N/A	Run-off of claims	100% of Members' votes

The opening and closing value of the investments is \$12,000 at the statement of financial position date.

The Directors consider the value of these investments to be supported by their underlying assets. No impairment is considered to be required.

Notes to the Consolidated Financial Statements (continued)

Note 14: Other financial investments

The Club's financial investments are summarised below by measurement category:

Consolidated	Carrying value		Purchase price	
	2018	2017	2018	2017
	US\$000s	US\$000s	US\$000s	US\$000s
Held at fair value through profit and loss:				
– debt securities	380,564	345,692	379,888	346,169
– equities	41,809	32,626	42,839	28,126
– UCITS	10,127	13,585	10,127	13,584
Financial assets held at fair value through profit and loss	432,500	391,903	432,854	387,879

Parent Company	Carrying value		Purchase price	
	2018	2017	2018	2017
	US\$000s	US\$000s	US\$000s	US\$000s
Held at fair value through profit and loss:				
– debt securities	286,020	284,839	285,483	285,095
– equities	41,809	32,627	42,839	28,126
– UCITS	5,009	10,410	5,009	10,410
Financial assets held at fair value through profit and loss	332,838	327,876	333,331	323,631

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.

The debt securities with a maturity of less than one year total US\$169.6 million (2017: US\$113.4 million) with the remainder recoverable after more than one year.

As described in Note 2(h), the investments of US\$432.5 million (2017: US\$391.9 million) are valued in the financial statements at market value.

Notes to the Consolidated Financial Statements (continued)

Note 15: Derivative financial instruments

(a) Fair value hedge

The Club uses forward currency contracts to hedge the foreign exchange risks that it is exposed to as a result of future committed management fee payable in sterling.

The forward currency contracts taken out to hedge against the future management fee payments have been designated as fair value hedges. As a result, both the fair value of the contracts and the hedged item are shown on the statement of financial position, with the gain or loss shown in the income statement.

(b) Non hedge derivatives

Forward currency contracts are entered into in order to manage the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies which are matched by holdings of those currencies. The open contracts have been re-valued at year-end rates of exchange. The profit or loss on exchange on these contracts is included within exchange gains and losses. These are economic hedges, but do not meet the hedge accounting criteria.

	Contract/ notional amount US\$000s	Fair value asset US\$000s	Fair value liability US\$000s	Fair value per accounts US\$000s
2018				
Non hedge derivatives	17,239	96	–	96
Fair value hedge	64,030	4,388	(2,954)	1,434
Total	81,269	4,484	(2,954)	1,530
	Contract/ notional amount US\$000s	Fair value asset US\$000s	Fair value liability US\$000s	Fair value per accounts US\$000s
2017				
Non hedge derivatives	22,476	539	(156)	383
Fair value hedge	74,803	1,251	(1,305)	(53)
Total	97,279	1,790	(1,461)	330

Notes to the Consolidated Financial Statements (continued)

Note 16: Guarantees and commitments

Investments to the value of US\$ 39.1 million (2017: US\$ 38.4 million) have been charged as collateral in respect of letters of credit as security for holders of insurance policies in Canada and for regulatory purposes in Singapore and Hong Kong.

The Club has issued a guarantee, not to exceed 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 31st December 2018 amounted to nil (2017: nil).

Note 17: Related party transactions

The Club reinsures its subsidiary, TT Club Mutual Insurance Limited, under a 90% whole account quota share agreement. All operations and transactions of TT Club Mutual Insurance Limited (“TTB”) are included within the consolidated financial statements. 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.

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.

Through Transport Mutual Insurance Association Limited is managed by Thomas Miller (Bermuda) Limited. Under this arrangement, all day-to-day operations of the Club are outsourced to Thomas Miller (Bermuda) Limited. Total fees paid to Thomas Miller (Bermuda) Limited and related companies are disclosed in Notes 5 and 9. At 31 December 2018 the outstanding amount payable by the Club amounted to US\$ 6.9 million (2017: US\$3.2 million). Other than the management fees disclosed, no further payments were made to Thomas Miller (Bermuda) Limited, its related companies, or its Directors.

Note 18: Retirement benefits and similar obligations

SBO manages a defined benefit plan for its former employees.

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