TT CLUB
established expertise

Through Transport Mutual Insurance Association Limited

Annual Report & Financial Statements

for the year ended 31 December 2019

TT CLUB
IS MANAGED
BY **THOMAS MILLER**

Contents

THROUGH TRANSPORT MUTUAL INSURANCE ASSOCIATION LIMITED

Directors & Management

CHAIRMAN	
U Kranich [3,4]	Hamburg
DEPUTY CHAIRMAN	
J Callahan [4]	Nautilus International Holding Corporation, Long Beach
DIRECTORS	
A Abbott	Atlantic Container Line, New York
U Baum [1,2]	Röhlig Logistics GmbH & Co KG, Bremen
G Benelli [3]	Specialist Director - Investment
A Chang	Evergreen Group, Taipei
Chen Xiang	Cosco Container Line, Shanghai
M Engelstoft	A P Møller-Maersk, Copenhagen
T Faries	Appleby, Bermuda
A Fullbrook [3]	OEC Group, New York
J Küttel [4]	Ermewa, Paris
T Leggett [1]	Specialist Director – Finance
P Levesque (retired 31 January 2020)	Modern Terminals Ltd, Hong Kong
R Murchison	Murchison Group, Argentina
Y Narayan	DP World, Dubai
J Neal	Carrix, Seattle
J Nixon (appointed 27 June 2019)	Ocean Network Express, Singapore
M d'Orey	Orey Shipping SL, Lisbon
J Reinhart	Virginia Port Authority
D Robinson MBE [1,2]	PD Ports, Middlesbrough
N Smedegaard	DFDS, Copenhagen
CK Tan	Pacific International Lines (Pte) Ltd, Singapore
S Vernon	Triton International Ltd, London
T Yamauchi [4] (retired 27 June 2019)	Kawasaki Kisen Kaisha Ltd, Tokyo
E Yao [3]	Orient Overseas Container Line Ltd, Hong Kong
Registered Office	Victoria Place, 31 Victoria Street Hamilton HM10, Bermuda
Company Registration Number	1750
Managers	Thomas Miller (Bermuda) Ltd
Company Secretary	Thomas Miller (Bermuda) Limited Telephone +441624 645242
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors 7 More London Riverside, London, SE1 2RT

[1] **Through Transport Mutual Insurance Association Limited ("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**

Financial Highlights 2019

Results for the financial year	2019 US$000s	2018 US$000s
Gross earned premiums [1]	**206,178**	194,983
Brokerage [2]	**(24,285)**	(22,842)
Gross earned premiums, net of brokerage	**181,893**	172,141
Reinsurance earned premiums ceded [3]	**(59,519)**	(56,876)
Reversal of negative goodwill	**3,625**	–
Investment income and unrealised gains and losses	**22,870**	4,911
Interest payable and financing costs	**(502)**	(589)
Exchange losses	**(2,561)**	(985)
Net claims incurred	**(82,893)**	(71,354)
Expenses, including taxation [4]	**(55,395)**	(41,372)
Overriding commission on reinsurances	**8,503**	10,584
Surplus on ordinary activities after tax	**16,021**	16,460

Summary balance sheet	2019 US$000s	2018 US$000s
Total cash and investments	**487,815**	483,773
Other assets [5]	**145,961**	135,574
Total assets	**633,776**	619,347
Gross unearned premiums and claims reserves	**(382,249)**	(377,122)
Other liabilities [6]	**(25,986)**	(32,705)
Total surplus and reserves	**225,541**	209,520

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

5. Other assets include Land and buildings, Reinsurers' share if technical provisions, Debtors, Prepayments and accrued income, Retirement benefits and similar benefits and Other assets

6. Other Liabilities include Creditors, Accruals and deferred income and the Equity minority interest

Chairman's Review

I am very pleased to report to you on the progress your Club has made in 2019. This was a year in which losses for the insurance industry fell back into line with the long term average, after the high levels of losses in the previous two years.

This is an exciting time for the Club as it invests to exploit the opportunities presented by technology better to serve Members.

It was also a year in which some improvement was noticed in the general insurance rating environment largely as a result of action taken by insurers in the London market to correct adverse loss ratio experience.

The Club to an extent is set apart from these events and markets, focusing not on providing capacity for catastrophic losses nor on profitability, but rather on delivering stability of price and excellence in claims and loss prevention service to you as Members. The change in the environment has, however, benefited the Club, most noticeably in the new business performance in the year.

The Club is busy at this time preparing itself to meet Members' and brokers' needs in the developing digital world. Following the project undertaken with McKinsey to celebrate the Club's 50th anniversary, and the follow up work to analyse how the Club would need to adapt to meet Member needs, a programme of investments in technology is underway. The Club now has implemented robotics to undertake certain administrative tasks in the underwriting process and further similar projects are underway. Additionally the Club has launched a new platform from which Members and brokers can access real time premium and claims information, a successor to its acclaimed ClaimsTrac tool. Further, a project has commenced to replace the legacy claims and administration system at the heart of the insurance company. This is an exciting time for the Club as it invests to exploit the opportunities presented by technology better to serve Members.

Financial Performance

As you will read in the financial statements that follow this review, the net result for the year is a surplus of US$16 million. This result is the product of good premium growth in the year, which itself has a number of constituent elements. Volume increases reported by Members exceeded expectations, and were at very high levels compared to recent years and the long term average. The change in the premium rates charged to Members remained negative, which, at a time when other insurers have increased the premium requirements of their clients, is a positive comment on the Club's mutual approach to its relationship with its Members in only taking enough premium from Members to cover the Club's needs.

As I mentioned above, the Club has been particularly successful in attracting new business, in part due to a reduction in capacity in the commercial markets as insurers have left or reduced their involvement in the market as it did not deliver the required levels of profitability to their shareholders. Retention has been at the usual very high levels and I am always pleased to see this as it is an important indicator that the Club is meeting Members' needs. Recent Customer Satisfaction Surveys also suggest that the Club is doing a good job in this respect.

Turning to claims, the year started off with a number of large ship casualties, notably fires on board ships and other large claims. After this unwelcome start, however, large claims returned to the levels normally expected and overall claims on the 2019 year performed well and better than budget. The prior years have, as is typical, improved and the release of reserves held on these years has positively impacted the result for 2019. As a result of these factors, both the financial year and policy year combined ratios are better than expected. Another positive in the year was investment income. The Club maintains a conservative approach to investments, with only a small proportion in equities. The portfolio returned 5.46% in 2019 which is US$24 million.

Chairman's Review

(continued)

The net result for the year is a surplus of US$16 million. This result is the product of good premium growth in the year.

Loss prevention

The above average succession of maritime casualties due to fire during 2019 galvanised the maritime community, specifically focusing on the capability to detect, suppress and extinguish fires at sea. Considering the frequency and potential severity of these incidents, there have been increased calls to strengthen the firefighting protections and capability for cellular ships. While this Club participates in these ship-board debates, it sees its core contribution to seek significant improvements in cargo declaration and packing. The Club is unique in providing coverage through the entire freight supply chain and thus interacts with most of the actors involved, not just in relation to the movement of cargo, but also in relation to the broader impact of casualties, such as General Average and 'places of refuge'.

The Club sees a core contribution to seek significant improvements in cargo declaration and packing. As so often the case, fires and explosions are merely the 'tip of the iceberg' of problems, which are inherent throughout the supply chain. Errors in classification and declaration of the commodities to be transported are often amplified by poor decisions and practices relating to packaging, packing, segregation and securing. Such errors severely compromise safety in a variety of ways, but most critically when the goods should be rightly be described as dangerous in a regulated sense.

Through its 'Cargo Integrity' / #Fit4Freight campaign the Club has been for some time seeking to enhance awareness of these issues and to urge implementation of more rigorous practices relating to entering cargo into the supply chain. Activity over the last year has included participating with CINS[1] in developing a commonality of approach in the complex aspects of the ship stowage processes, as well as collaborating with others to lobby successfully at IMO[2] for changes to the inspection regime for containerised cargo and for a review process to be initiated of 'Special Provisions' (which allow less than full application of the maritime dangerous goods regulations).

Another major ongoing risk exposure through the industry is theft of cargo. The Club continues to work with BSI (the British Standards Institution) to highlight the dynamic cargo theft risks present across the globe and provide input into relevant risk management and loss prevention strategies. A number of related initiatives are underway, linking with relevant law and fiscal enforcement agencies, seeking to expose criminal activity and put in place measures that protect not simply assets but also society in general. Much of this work draws on and enhances the Club's strong relationships with industry associations both nationally and internationally.

The Club's success in its loss prevention activities has considerably raised its profile, not just in the market it serves but also with governments and inter-governmental agencies. As a consequence, I am pleased to advise that greater investment is being made in this important function, both in terms of enlarging the team directly involved and actively exploring means to gain insight from the available 'big data'. The intention is to expand the range and reach of high quality advice on the broad scope of established and emerging risk related topics that impact this industry and may compromise safety and security. Such advice will continue to be delivered in multiple media, including further developing the range of well-regarded industry and Member seminars around the world, and seeking to take advantage increasingly of today's digital opportunities.

[1] Cargo Incident Notification System, www.cinsnet.com

[2] International Maritime Organization, www.imo.org

Chairman's Review

(continued)

Regulatory

Navigating the changing regulatory environment has become an important part of the Board's work in recent years. Much time was spent in the first part of the decade in preparing the Club for the Solvency II regime that came into force in the EU on 1 January 2016. More recently efforts have focused on preparing the Club for the consequences of the UK decision to leave the EU. It is the case, however, that almost all the regimes that the Club is subject to around the world, notably Australia, Singapore and Bermuda, have either increased their regulatory requirements in recent times or are planning to.

In respect of Brexit, the Club has regularly issued Circulars to report to Members how it planned to continue to provide service to EU based Members in circumstances where the Club lost the right to trade in those territories. Now that it is clear that the UK will leave the EU, most likely following a transition period, on 1 January 2021, the Club is moving forward with the establishment of an insurance company as a subsidiary to TTI in the Netherlands. EU based Members will be provided with policies of insurance from that company which will be regulated by the Netherlands' regulator, De Nederlandsche Bank (DNB). Claims and underwriting service to Members and brokers will not be materially impacted by this change. Further Circulars will be issued during 2020 keeping Members updated on progress.

The Club has since 1971 been domiciled in Bermuda. The Government of Bermuda is also making changes to its regulatory environment which will require the Club to conduct more of its activities from the Island in order to support an agenda of establishing 'economic substance' on the Island. This will involve changing the way the Club operates on the Island, but arrangements are in hand in this respect.

Directors and Board Committee Membership

There were no changes to the Board and Committee structure in 2019. In terms of Directors, Tsuyoshi Yamauchi retired from the Board in June 2019 and Peter Levesque retired in January 2020. I would like to thank Mr Yamauchi and Mr Levesque for their contributions to the Club. During the year, the Board welcomed Jeremy Nixon (the CEO of ONE), and my Board colleagues and I look forward to working with him.

As you will be aware from the papers circulated in preparation for the AGM there was an increase to the fees payable to Directors in the year, following the usual two-year review. Directors are now paid US$2,800 per day for meetings they attend and an annual retainer of US$2,500.

This year the Club Board was planning to meet in Amsterdam in March, but the meeting could not go ahead owing to lockdown conditions imposed by various governments. The plan is still to meet in Hamburg in June, but there is some doubt around this meeting too, and it may become a telephone meeting, and New York in November. Events for local Members and their brokers will be held alongside all three meetings and I look forward to seeing some of you there. I do very much hope that the Coronavirus outbreak will not impact the Club or Member plans beyond how they are at the time of writing this message. This may be a rather forlorn hope, sadly.

Chairman's Review

(continued)

2020

2020 has started off well, albeit for reasons that differ to some extent from the factors leading to the performance in 2019. The strong Member volume growth reported by Members in 2019 appears to have reduced significantly, although it remains positive, while the rating environment in the commercial market continues to show signs of hardening. The Club will however maintain its approach of rating Members based on the exposures they bring to the Club and their long term claims record. New business performance at 1 January, still a major renewal point for many Members, was good. The general excess of loss reinsurance programme which helps the Club manage its gross exposures has been successfully placed, albeit in the face of harder reinsurance market conditions this year. No claims were made on this reinsurance in 2019 and the work undertaken to improve the underwriting book in recent years can now most clearly be seen in the reinsurance record. This programme has largely been placed with Lloyd's of London insurers and reinsurers; in the light of the hard market conditions work will be undertaken in 2020 by the Managers, working with the broker used to place the programme, to help the Club manage the cost of the programme in future years.

As the process for producing this report and the financial statements has been running, the impact of the spread of Covid-19 has started to manifest itself. All of us are now affected in some way or another. Some of us are in "locked down" conditions, and most of us are managing our businesses in highly volatile conditions where business volumes are at best unpredictable and in many cases significantly down on what was expected. The Club will of course be impacted too and the Board is paying a great deal of attention to the impact the pandemic is having on premium income, claims and investments. Of these the most difficult to forecast confidently is investment income, but the Club's conservative investment policy is limiting the extent of losses, even when equity markets have fallen to the levels seen in March. I can reassure members that the Club is extremely well capitalised and as such is well able to cope with the environment it finds itself in. The business model is extremely sound and the financial drivers of performance well understood, not least from extensive modelling. The Club came through the financial crisis of 2008/2009 well and some of the factors impacting the Club then are evident now. The Board has confidence in the business and sees it well placed to make the most of the bounce back in investment markets and in trading conditions more generally.

I would like to end this report by thanking all Members and their brokers for supporting the Club in the year. The Club is a purpose driven organisation, aimed at improving the safety and security in the industry, and will continue to work with other likeminded organisations to this end. I would like to thank the Managers for their efforts in 2019. They have done an excellent job in positioning the Club to weather the soft market conditions in recent years and now in starting the transformation of the Club to digital.

I wish you all the best for 2020. This will be a very challenging year for all Members and their brokers, both for their businesses and personally. I wish all of you, and your family and friends, good health.

U. Kranich
Chairman
22 April 2020

Strategic Report

Gross earned premiums amounted to US$ 206.2 million which was 5.7% higher than 2018 due to net new business and member volume growth.

The Directors present herewith their strategic report for the year ended 31 December 2019.

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$ 206.2 million which was 5.7% higher than 2018 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 2019 policy year was 25%.

The forecast ultimate loss ratio for the 2019 policy year is 77% which is lower than the 2018 policy year loss ratio of 81% 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$ 9.3 million (2018: US$ 25.4 million).

The technical result for 2019, after allowing for the attribution of investment income on the claims reserves, was a surplus of US$ 5.1 million (2018: surplus of US$ 15.0 million). The underlying investment return, excluding currency effects, was 5.5%. The non-technical account produced a surplus of US$ 11.0 million (2018: US$ 1.5 million), resulting in an overall net surplus after tax of US$ 16.0 million (2018: US$ 16.5 million).

Strategic Report

(continued)

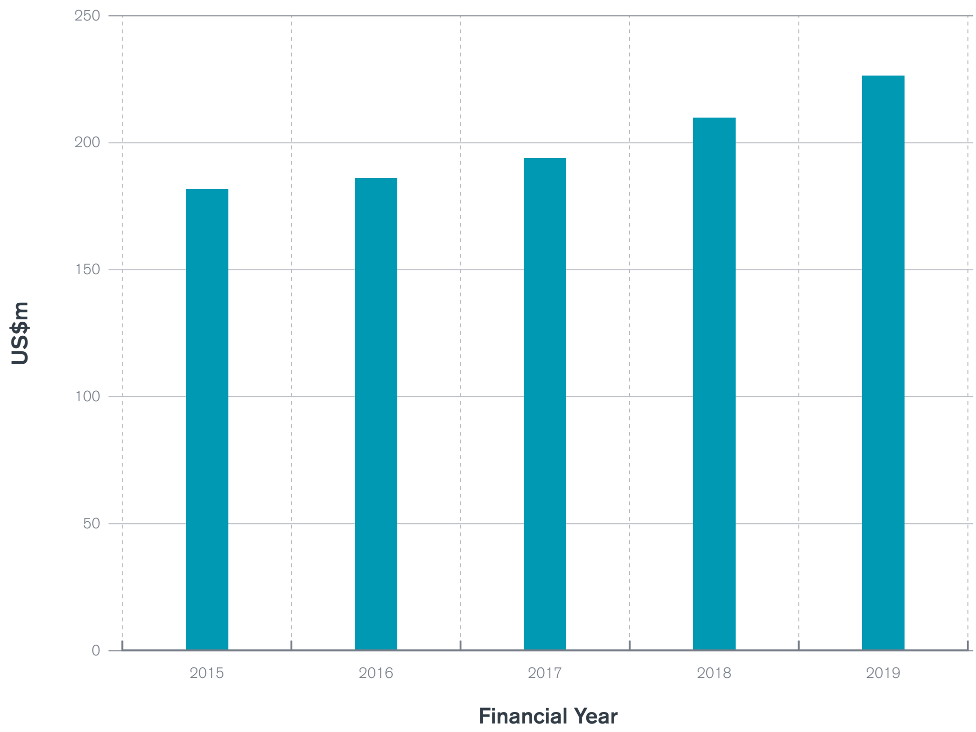
As a result TT Club's surplus, reserves now stand at US$ 225.5 million (2018: US$ 209.5 million).

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

1. **Financial strength –** AM Best rating

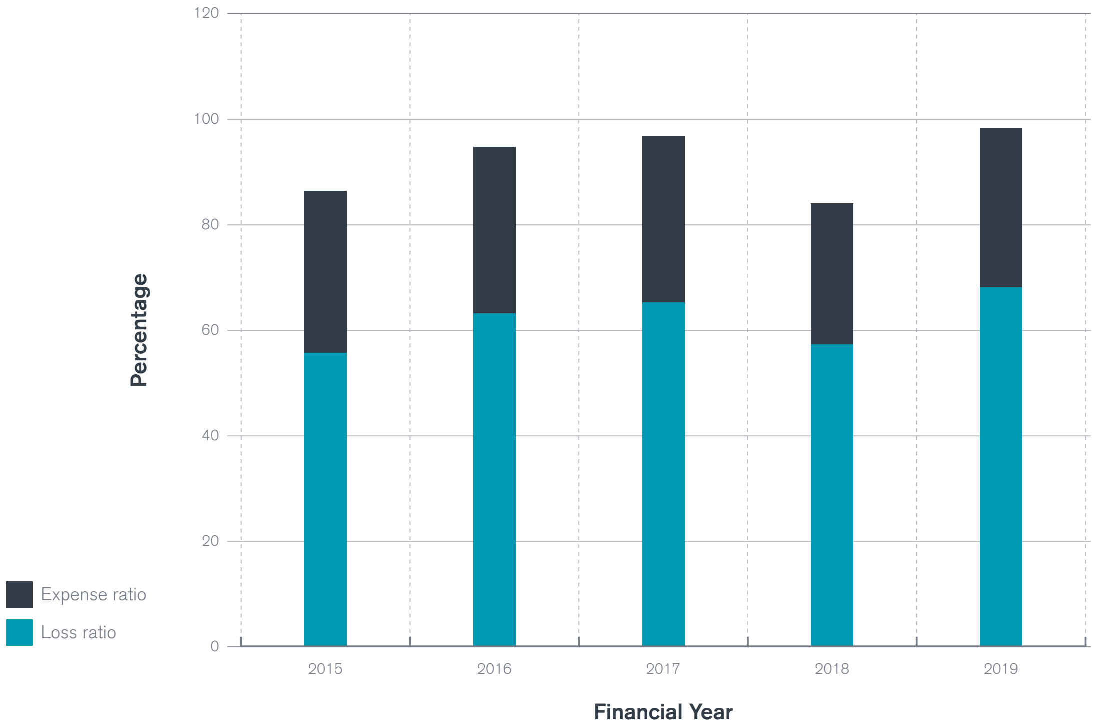
   TT Club has had a rating of A- (Excellent) since 2006.

2. **Capital –** surplus and reserves



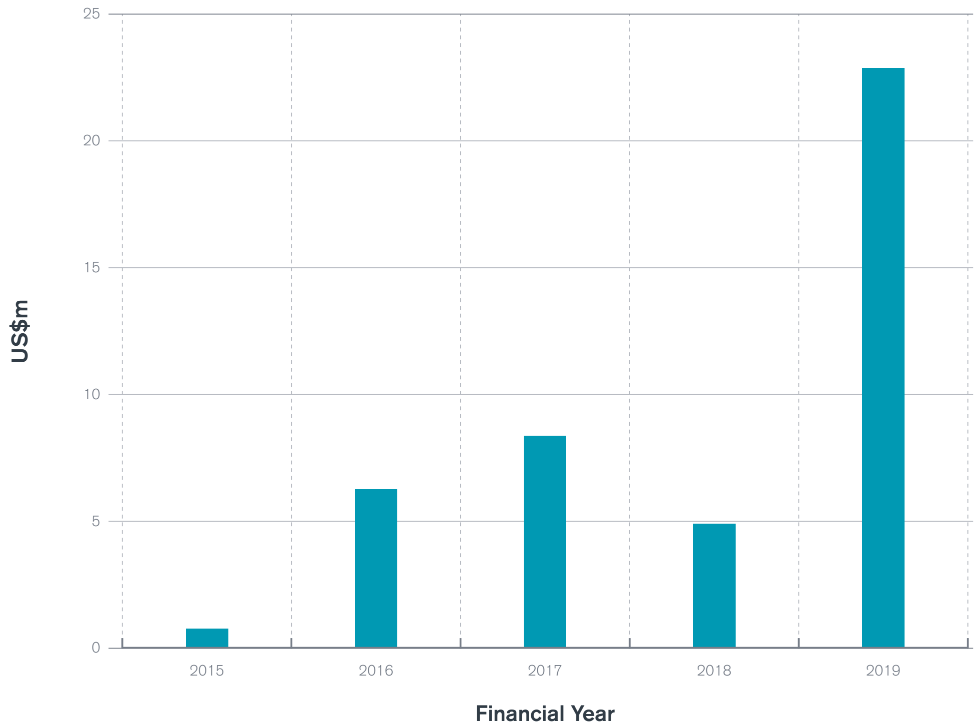
TT Club's financial strategy, approved by the Board, is to maintain within the business sufficient capital to meet regulatory requirements, and to maintain an AM Best rating of A- (Excellent) over the insurance market cycle, with a substantial margin in each case. The Directors are satisfied that both elements of this strategy have been maintained throughout 2019.

3. **Operating ratios –** Net loss ratio, expense ratio and combined ratio, excluding the effect of exchange movements on claims reserves



During the year the Club incurred some exceptional costs in relation to a significant IT project as well as a one-off pension cost (see note 9). Excluding these items the combined ratio falls from 98% to 87%

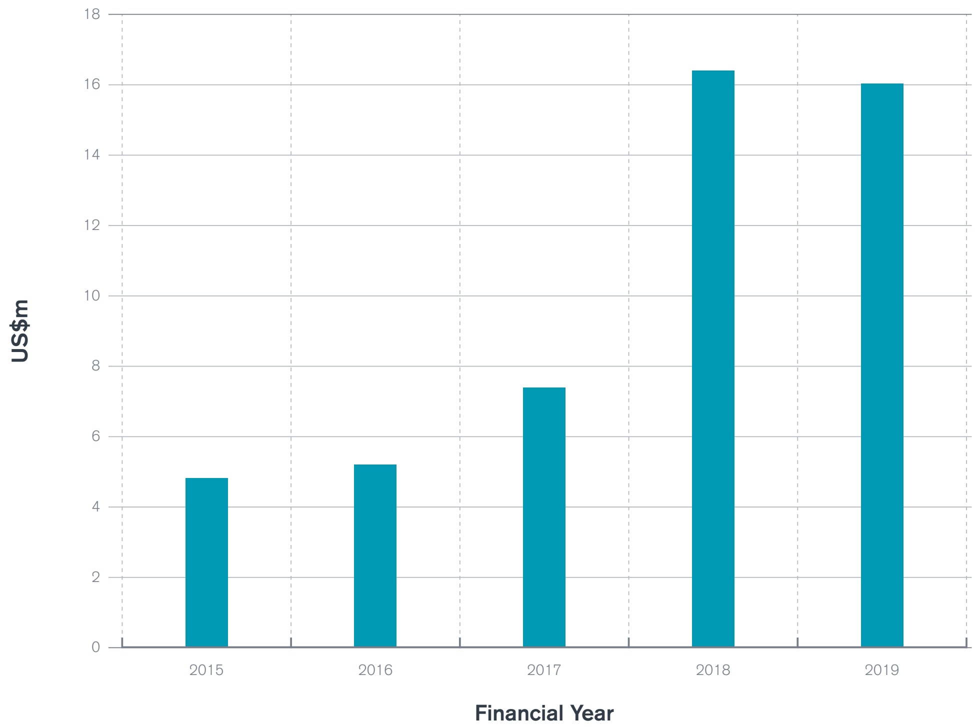
4. **Investment performance –** total investment return gross of tax and excluding exchange movements, interest payable and financing costs



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.

The Directors are in the process of developing an Environmental, Social and Governance policy for the Club as well as implementing the Club's Climate Change plan which was approved in 2019.

Directors duty to promote the success of the company

The Directors are fully aware of their responsibility to promote the success of the company in accordance with s172 of the Companies Act and have acted in accordance with these responsibilities during the year.

The Club's Business Plan approved by the Board in November 2019 states:

"The TT Club's mission is "To make the global transport and logistics industry safer and more secure".

To achieve this mission, the Club will be positioned as the preferred independent mutual specialist provider of insurance products and related risk management services to the industry.

Strategic Report

(continued)

Directors duty to promote the success of the company (continued)

A significant element of the value the Club provides to its Members is derived from the depth of expertise within the organisation. In discharging the mission, the Club will therefore use its specialist knowledge to assist Members by

- *creating best in class insurance solutions*
- *making the complex simple*
- *delivering an unparalleled customer experience for Members and their brokers."*

Other than its Members who are both the mutual policyholders and owners of the Club, the Club's key stakeholders are its brokers, reinsurers, Managers (Thomas Miller) and Network Partners (who provide claims handling services to supplement those provided by its Managers).

The delivery of the Club's mission is core to maintaining the success of the company. The Board has a strategic objective of maintaining the Club's financially stable platform, from which to provide risk management and loss prevention services to the industry. This continues to be achieved and is supported by the affirmation of the Club's A- (Excellent) financial strength rating by A M Best in 2019.

As part of its review of the Club's Business Plan, the Board modified the TT Club's core mission to make the industry "safer and more secure" during 2019. The Board also received reports at its meetings on the Club's loss prevention activities which benefit the Members, providing input and direction on key initiatives.

The Board has continued to own the Brave New World work that it commissioned as part of the 50th year celebrations. It engaged McKinsey in a further workshop on industry developments, whilst the Managers ran a series of workshops on the material with Members and industry groupings around the world.

As noted on page 4 of the Chairman's Review, following on from the work with McKinsey the Club has made some technology investments during 2019 including the use of robotics to improve the efficiency of certain underwriting processes and also the creation of a new platform for Members and their brokers to access premium and claims information. The Club has also started a major project to replace the Club's policy and claims administration system.

The Board has encouraged the development of the Cargo Integrity campaign, including particular focus on the worrying issue during 2019 of container ship fires. In this, the Club has engaged extensively with UN organisations, governments and industry associations to identify steps that can be taken to improve safety and to promote good operational practices. The Club is widely seen as a leader in such collaborative initiatives.

The Club continues to utilise data it collects, particularly in relation to claims, to assist its Members, as well as other industry stakeholders, in developing good operational practices, including embracing emerging technologies in a robust and considered manner. The Club utilises the data to interact with its membership to improve individual risk profiles and with the broader industry through frequent publications and conference presentations.

Strategic Report

(continued)

Directors duty to promote the success of the company (continued)

The Club has strong relationships with its brokers and reinsurers and through its Managers the Club maintains contact and high level engagement with the senior management of its key brokers and reinsurers. The Board received updates on the Club's key broker and reinsurer relationships during 2019. As noted in the Chairman's review, at the end of 2019 the Club's general reinsurance programme was successfully renewed for 2020.

During 2019 the Club's managers ran a three day Network Partner conference in London. Representatives from fifteen (out of a total of sixteen) of the Club's Network Partner's attended and received updates on the Club's developments and participated in workshops.

By approval of the Board.

Thomas Miller (Bermuda) Limited
Company Secretary
22 April 2020

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, compliance and pandemic.

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 ongoing 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' Report

(continued)

Covid-19

The Directors have carried out an initial assessment of the impact of Covid-19 on the Club, which is a non-adjusting post balance sheet event. At this stage the Club has experienced low levels of claims activity. Taking into consideration current laws and regulations, it is not expected that future claims activity will materially impact the Club's liquidity or solvency position. Premium volumes in certain classes will be impacted, however again, it is not expected that this will materially impact the Club's liquidity or solvency position. Covid-19 will likely have a short term impact on investment valuations due to increased volatility of the financial markets. However given the mix of the Club's investments and the relatively low level of equities held, as a result, to date there has not been a material impact on the Club's financial position and solvency.

The impact of Covid-19 on the Club's operations and its financial position continues to be monitored very closely by the Club's Board and its managers.

The Club's managers, Thomas Miller, have put in place remote working for all its offices serving the Club. This transition to remote working has gone smoothly with the Club maintaining its very high standards of service thoughout the organisation. The impact of Covid-19 on the Club's operations and its financial position continues to be monitored very closely by the Club's Board and its managers.

During periods of uncertainty like Covid-19 the Club increases the frequency of monitoring its capital and liquidity positions. The Club also carries out stress and scenario testing, and has run quantitative and qualitative scenarios to better understand the impacts of Covid-19 on the wider business as well as market, liquidity, operational, and capital risks.

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 four 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 23, 18, 20 and 3 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 2019 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 2019 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 2018 policy year and in addition, closed the 2016 policy year.

Directors' Report

(continued)

Board Committees

The Board has delegated specific authority to a number of committees. The Board is appraised 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 2019.

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 2019.

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 2019.

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 2019 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
22 April 2020

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 for TT Club 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
22 April 2020

Notice of Meeting

Notice is hereby given that the fifty-first Annual General Meeting of the Members of the Club will be held at the Canon's Court, 22 Victoria Street, Hamilton, Bermuda on the twenty-fifth day of June 2020 at 9.50 am for the following purposes:

- To receive the Directors' Report and Financial Statements for the year ended 31 December 2019 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 Annual General Meeting.
- To amend the current Bye-Laws.

By approval of the Board.

Thomas Miller (Bermuda) Limited
Company Secretary
22 April 2020

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 company 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 2019 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 2019; 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.

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.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group 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.

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.

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.

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 (continued)

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 18, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group 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
23 April 2020

(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 2019

Technical account	Note	US$000s	2019 US$000s	US$000s	2018 US$000s
Gross premiums written	8		**214,458**		197,113
Reinsurance premiums ceded			**(59,019)**		(56,650)
Premiums written, net of reinsurance			**155,439**		140,463
Change in provision for unearned premiums					
Gross	7	**(8,280)**		(2,130)	
Reinsurers' share	7	**(501)**		(225)	
			(8,781)		(2,355)
Earned premiums, net of reinsurance			**146,658**		138,108
Allocated investment return transferred from the non-technical account	2(i)		**12,089**		1,813
Other technical income			**30**		34
Claims paid					
Gross	5(i)	**(117,175)**		(95,028)	
Reinsurers' share	5(i)	**24,923**		15,718	
		(92,252)		(79,310)	
Change in the provision for claims					
Gross		**3,494**		(7,868)	
Reinsurers' share		**5,865**		15,824	
		9,359		7,956	
Claims incurred, net of reinsurance			**(82,893)**		(71,354)
Net operating expenses	9		**(70,823)**		(53,568)
Balance on the technical account			**5,061**		15,033

All activities derive from continuing operations.

Consolidated Income Statement

for the year ended 31 December 2019 (continued)

Non-technical account	Note	**2019 US$000s**	2018 US$000s
Balance on the technical account		**5,061**	15,033
Reversal of negative goodwill	12	**3,625**	–
Investment income		**12,662**	9,261
Unrealised gains/(losses) on investments		**10,208**	(4,350)
Exchange losses		**(2,561)**	(985)
Interest payable and financing costs	10	**(502)**	(589)
		19,807	3,337
Allocated investment return transferred to the technical account	10	**(12,089)**	(1,813)
Surplus on ordinary activities before tax		**16,404**	16,557
Tax on ordinary activities	11	**(383)**	(97)
Surplus on ordinary activities after tax		**16,021**	16,460
Surplus for the year		**16,021**	16,460

All activities derive from continuing operations and are attributable to members.
The notes on pages 28 to 52 form an integral part of these financial statements.

Consolidated and Parent Statement of Financial Position

as at 31 December 2019

		Consolidated		Parent Company	
Assets	Note	**2019 US$000s**	2018 US$000s	**2019 US$000s**	2018 US$000s
Goodwill	12	**–**	(3,625)	**–**	–
Investments					
Land and buildings		**215**	204	**–**	–
Shares in subsidiary undertakings	13	**–**	–	**12**	12
Other financial investments	14	**440,981**	432,500	**333,684**	332,838
Derivative financial instruments	15	**139**	96	**139**	96
Reinsurers' share of technical provisions					
Provision for unearned premiums		**18,316**	18,817	**–**	–
Claims outstanding		**61,403**	55,451	**2,431**	1,962
		79,719	74,268	**2,431**	1,962
Debtors					
Arising out of direct insurance operations - policyholders		**49,988**	46,607	**3,810**	2,803
Arising out of reinsurance operations		**4,468**	3,766	**44,904**	38,469
Amounts due from group undertakings		**–**	–	**41,324**	38,278
Other debtors		**631**	564	**29**	43
		55,087	50,937	**90,067**	79,593
Cash and cash equivalents		**46,695**	51,177	**7,412**	7,999
Other assets	15	**481**	4,388	**481**	4,388
Retirement benefits and similar obligations	18	**45**	27	**–**	–
Prepayments and accrued income					
Accrued interest		**1,926**	1,831	**1,433**	1,304
Deferred acquisition costs		**8,157**	7,123	**886**	829
Prepayments		**331**	421	**97**	180
		10,414	9,375	**2,416**	2,313
Total assets		**633,776**	619,347	**436,642**	429,201

Consolidated and Parent Statement of Financial Position

as at 31 December 2019 (continued)

		Consolidated		Parent Company	
Liabilities and reserves	Note	**2019 US$000s**	2018 US$000s	**2019 US$000s**	2018 US$000s
Reserves					
Statutory reserve		**240**	240	**240**	240
Surplus and reserves		**225,301**	209,280	**159,901**	147,085
		225,541	209,520	**160,141**	147,325
Technical provisions					
Provision for unearned premiums - gross		**80,777**	72,497	**50,303**	43,327
Claims outstanding – gross		**301,472**	304,625	**219,499**	227,541
		382,249	377,122	**269,802**	270,868
Creditors					
Arising out of reinsurance operations		**15,157**	18,872	**718**	718
Derivative financial instruments	15	**–**	2,954	**–**	2,954
Other creditors including taxation and social security		**1,299**	1,167	**218**	177
		16,456	22,993	**936**	3,849
Accruals and deferred income		**9,566**	9,748	**5,763**	7,159
		26,022	32,741	**6,699**	11,008
Equity minority interest		**(36)**	(36)	**–**	–
Total liabilities and reserves		**633,776**	619,347	**436,642**	429,201

The notes on pages 28 to 52 form an integral part of these financial statements.

The financial statements on pages 22 to 52 were approved by the Board of Directors and authorised for issue on 22 April 2020.

They were signed on its behalf by:

DIRECTORS

U Kranich

J Küttel

Company Registered Number: 1750

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Statutory Reserve US$000s	Surplus and reserves US$000s	Total US$000s
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**
Surplus for the year	–	16,021	16,021
At 31 December 2019	**240**	**225,301**	**225,541**

Parent Statement of Changes in Equity

for the year ended 31 December 2019

	Statutory Reserve US$000s	Surplus and reserves US$000s	Total US$000s
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**
Surplus for the year	–	12,816	12,816
At 31 December 2019	**240**	**159,901**	**160,141**

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

	Note	**2019 US$000s**	2018 US$000s
Cash flows from operating activities			
Premiums received from Members		**186,801**	175,342
Reinsurance premiums ceded paid		**(62,739)**	(58,615)
Claims paid		**(116,829)**	(94,920)
Reinsurance receipts in respect of claims		**24,214**	23,760
Investment income		**15,103**	9,261
Management fee paid		**(49,223)**	(35,924)
Expenses paid		**(5,377)**	(1,066)
Other operating cash movements		**(2,222)**	(2,024)
Overriding commissions on quota share reinsurance		**8,621**	10,971
Taxation (paid)/reclaimed		**(289)**	428
Net cash generated from operating activities		**(1,940)**	27,213
Cash flows from investment activities			
Net receipts/payments for sales/acquisitions of debt instruments, equities and forward contracts		**3,600**	(41,926)
Net cash flows from investing activities		**3,600**	(41,926)
Cash flows from financing activities			
Interest paid		**(502)**	(589)
Net cash flows from financing activities		**(502)**	(589)
Net increase/(decrease) in cash and cash equivalents		**1,158**	(15,302)
Cash and cash equivalents at the start of the year		**51,177**	76,765
Effect of exchange rate fluctuations on cash and cash equivalents		**(5,641)**	(10,286)
Cash and cash equivalents at the end of the year	4(d)	**46,694**	51,177

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. 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 Companies Act 2006 and where appropriate the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (The Regulations) relating to insurance companies. 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 following its acquisition by TT Club Mutual Insurance Limited ("TTI") on 7 September 2017. Negative goodwill of US$ 3.625 million was recognised on acquisition (see note 12).

Following completion of an "Insurance Business Transfer Scheme" or "Part VII transfer" SBO's assets and liabilities were transferred to TTI on 28 June 2019 which resulted in the negative goodwill being recognised in the Club's consolidated income statement during 2019.

(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.

(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.

Note 2:

Accounting policies (continued)

(h) Management Fee

TT Club's business model is to outsource the entire management function to companies within the Thomas Miller Holding Limited group of companies. The managers of the Association are Thomas Miller (Bermuda) Limited and the managers of TTI are Through Transport Mutual (Services) UK Limited. The management fee (which includes an element in relation to claims handling) payable to the managers is agreed an annual basis and covers the cost of managing the TT Club. In addition to this the managers receive a performance related fee. The management fee (excluding the claims handling element) and performance related fee are included within net operating expenses. The claims handling element of the management fee is included within paid claims. All fees payable to the managers are charged to the income statement in the period they relate to.

(i) 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.

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 initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. 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.

Notes to the Consolidated Financial Statements (continued)

Note 2:

Accounting policies (continued)

(i) Financial assets (continued)

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.

UCITS

The UCITS are Undertakings for Collective Investments of Transferable Securities, and are used as an alternative to short term cash deposits. These are short-term, highly liquid investments that can be readily converted to cash, with original maturities of three months or less

Cash and cash equivalents

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

(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.

Notes to the Consolidated Financial Statements (continued)

Note 2:

Accounting policies (continued)

(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.

(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/corporation tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

TT Club incurs current tax in the United Kingdom on 10% of the total of its investment income and net gains (less net losses) on its investments.

(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.

(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.

Notes to the Consolidated Financial Statements (continued)

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).

Pipeline premiums

TTI makes an estimate of premiums written during the year that have not been notified in the financial year based on historic patterns as detailed in note 2 (b). The amount recognised in 2019 was US$ 2.39 million (2018: US$ 2.38 million). Given the size of the amount the estimated uncertainty is limited.

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 14 - 16.

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.

Note 4:

Management of Financial Risk (continued)

(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$ 4.34 million decrease in market value of TT Club's investments (2018: US$ 5.10 million decrease). A decrease in 100 basis points in interest rates would result in a US$ 4.34 million increase in the market value of TT Club's investments (2018: US$ 5.10 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 (see also note 19).

(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)

2019	USD US$000s	GBP US$000s	EUR US$000s	Other US$000s	Total US$000s
Debt securities	366,623	13,319	3,365	–	383,307
Equity shares	25,661	12,257	8,818	–	46,736
Derivative financial instruments	(27,359)	(8,444)	35,942	–	139
UCITS	8,842	2,097	–	–	10,939
Assets arising from reinsurance contracts held	81,381	–	213	2,593	84,187
Debtors arising from insurance contracts	39,493	2,875	5,388	2,232	49,988
Other debtors	352	189	67	23	631
Cash and cash equivalents	20,156	2,566	1,048	22,924	46,694
Other	10,143	540	6	466	11,155
Total assets	**525,292**	**25,399**	**54,847**	**28,238**	**633,776**
Liabilities	(310,171)	(11,783)	(40,517)	(45,764)	(408,235)
Net assets	**215,121**	**13,616**	**14,330**	**(17,526)**	**225,541**

2018	USD US$000s	GBP US$000s	EUR US$000s	Other US$000s	Total 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
UCITS	7,309	2,818	–	–	10,127
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	20,553	5,031	1,975	23,618	51,177
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**

As at 31 December 2019 the currency split of TT Club's claims estimates was as follows: US$ 221.3 million in US dollars and currencies pegged to the US dollar, US$ 8.5 million in Pounds Sterling, US$ 40.2 million in Euros and US$ 31.5 million in other currencies.

At 31 December 2019, if the US dollar weakened by 5% against Sterling, with all other factors unchanged, Surplus and reserves would have increased by US$ 0.71 million (2018: US$ 0.45 million increase). If the US dollar strengthened by 5% against Sterling, with all other factors unchanged, Surplus and reserves would have decreased by US$ 0.71 million (2018: US$ 0.45 million decrease).

At 31 December 2019, if the US dollar weakened by 5% against the Euro, with all other factors unchanged, Surplus and reserves would have increased by US$ 0.53 million (2018: US$ 0.4 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$ 0.53 million (2018: US$ 0.4 million increase).

Note 4:

Management of Financial Risk (continued)

(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.

The following tables provide information regarding aggregated credit risk exposure, for financial assets with external credit ratings, as at 31 December 2019. The credit rating bands are provided by independent ratings agencies:

2019	AAA US$000s	AA US$000s	A US$000s	BBB+ or less or unrated US$000s	Total US$000s
Debt securities	20,922	334,424	27,961	–	383,307
Equity shares	–	–	–	46,736	46,736
Derivative financial instruments	–	–	–	139	139
UCITS	–	–	10,939	–	10,939
Assets arising from reinsurance contracts held	–	69,359	7,682	7,146	84,187
Debtors arising from insurance contracts	–	–	–	49,988	49,988
Other debtors	–	–	–	631	631
Cash and cash equivalents	6,719	13,168	26,703	104	46,694
Other	–	–	–	11,155	11,155
Total	**27,641**	**416,951**	**73,285**	**115,899**	**633,776**

2018	AAA US$000s	AA US$000s	A US$000s	BBB+ or less or unrated US$000s	Total US$000s
Debt securities	44,706	305,354	30,504	–	380,564
Equity Shares	–	–	–	41,809	41,809
Derivative financial instruments	–	–	–	96	96
UCITS	–	–	10,127	–	10,127
Assets arising from reinsurance contracts held	–	61,668	9,862	6,504	78,034
Debtors arising from direct insurance	–	–	–	46,607	46,607
Other debtors	–	–	–	564	564
Cash and cash equivalents	5,596	15,805	29,675	101	51,177
Other	–	–	–	10,369	10,369
Total	**50,302**	**382,827**	**80,168**	**106,050**	**619,347**

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 2019 TT Club's short term deposits (including cash and UCITs) amounted to US$ 57.6 million (2018: US$ 61.3 million).

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

		Past due but not impaired					
2019	**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**	**Financial assets that have been impaired US$000s**	**Statement of Financial Position US$000s**
Debt securities	383,307	–	–	–	–	–	383,307
Equity shares	46,736	–	–	–	–	–	46,736
Derivative financial instruments	139	–	–	–	–	–	139
UCITS	10,939	–	–	–	–	–	10,939
Assets arising from reinsurance contracts held	84,187	–	–	–	–	–	84,187
Debtors arising from direct insurance	34,135	10,699	5,154	–	–	–	49,988
Other debtors	631	–	–	–	–	–	631
Cash and cash equivalents	46,694	–	–	–	–	–	46,694
Other	11,155	–	–	–	–	–	11,155
Total	**617,923**	**10,699**	**5,154**	**-**	**–**	**–**	**633,776**

		Past due but not impaired					
2018	**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**	**Financial assets that have been impaired US$000s**	**Statement of Financial Position US$000s**
Debt securities	380,564	–	–	–	–	–	380,564
Equity shares	41,809	–	–	–	–	–	41,809
Derivative financial instruments	96	–	–	–	–	–	96
UCITS	10,127	–	–	–	–	–	10,127
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	51,177	–	–	–	–	–	51,177
Other	10,369	–	–	–	–	–	10,369
Total	**604,047**	**11,127**	**4,173**	**-**	**–**	**–**	**619,347**

Note 4:

Management of Financial Risk (continued)

(d) Liquidity and cash flow risk (continued)

The tables below provide a maturity analysis of the Club's financial assets and liabilities:

2019	< 6 months or on demand US$000s	Between 6 months and 1 year US$000s	Between 1 year and 2 years US$000s	Between 2 years and 5 years US$000s	> 5 years US$000s	Total US$000s
Debt securities	114,230	101,725	82,274	73,567	11,511	383,307
Equity shares	46,736	–	–	–	–	46,736
Derivative financial instruments	–	139	–	–	–	139
UCITS	10,939	–	–	–	–	10,939
Assets arising from reinsurance contracts held	3,683	3,683	4,333	5,965	2,444	20,108
Reinsurers' share of claims outstanding	11,716	11,742	13,814	19,016	7,791	64,079
Debtors arising from insurance contracts	49,988	–	–	–	–	49,988
Other debtors	631	–	–	–	–	631
Cash and cash equivalents	46,694	–	–	–	–	46,694
Other	11,155	–	–	–	–	11,155
Total assets	**295,772**	**117,289**	**100,421**	**98,548**	**21,746**	**633,776**
Creditors	(106,763)	–	–	–	–	(106,763)
Claims outstanding	(53,013)	(55,713)	(65,547)	(90,231)	(36,968)	(301,472)
Net assets	**135,996**	**61,576**	**34,874**	**8,317**	**(15,222)**	**225,541**

2018	< 6 months or on demand US$000s	Between 6 months and 1 year US$000s	Between 1 year and 2 years US$000s	Between 2 years 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
UCITS	10,127	–	–	–	–	10,127
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	51,177	–	–	–	–	51,177
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)

(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 2019 TT Club complied with Solvency II regulations. 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 2019 TT Club's total regulatory capital available amounted to US$ 225.5 million (2018: US$ 209.5 million).

As at 31 December 2019, TT Club held deposits and letters of credit totalling US$ 67.8 million to meet overseas regulatory requirements (2018: US$ 67.2 million). This includes collateralised letters of credit amounting to US$ 24.4 million (2018: US$ 24.3 million) in relation to Hong Kong and a trust fund deposit of US$ 43.4 million (2018: US$ 42.4 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 2019 and 31 December 2018 fall into the Level 1 category with the exception of the debt securities and forward currency contracts, which fall into Level 2.

Consolidated	**2019 Level 1 US$000s**	**2019 Level 2 US$000s**	**2019 Total US$000s**	2018 Level 1 US$000s	2018 Level 2 US$000s	2018 Total US$000s
Debt securities	**–**	**383,305**	**383,305**	–	380,564	380,564
Equity shares	**46,737**	**–**	**46,737**	41,809	–	41,809
Derivative financial instruments	**–**	**139**	**139**	–	96	96
UCITS	**10,939**	**–**	**10,939**	10,127	–	10,127
Financial assets held at fair value through profit and loss	**57,676**	**383,444**	**441,120**	51,936	380,660	432,596

Parent	**2019 Level 1 US$000s**	**2019 Level 2 US$000s**	**2019 Total US$000s**	2018 Level 1 US$000s	2018 Level 2 US$000s	2018 Total US$000s
Debt securities	**–**	**281,984**	**281,984**	–	286,020	286,020
Equity shares	**46,736**	**–**	**46,736**	41,809	–	41,809
Derivative financial instruments	**–**	**139**	**139**	–	96	96
UCITS	**4,964**	**–**	**4,964**	5,009	–	5,009
Financial assets held at fair value through profit and loss	**51,700**	**282,123**	**333,823**	46,818	286,116	332,934

Note 4:

Management of Financial Risk (continued)

(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. The impact of a change in a single factor is shown as a 1% increase in net reserves, with other assumptions unchanged.

	2019 US$000s	2018 US$000s
1% increase in net reserves reduces surplus before tax by:	**2,401**	2,492

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

(i) Underwriting process

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

Note 5:

Claims paid

(i) Claims paid

Claims paid include claims handling charges paid to the Managers totalling US$ 9.6 million (2018: US$ 9.3 million).

	2019 Gross US$000s	**2019 RI US$000s**	**2019 Net US$000s**	2018 Gross US$000s	2018 RI US$000s	2018 Net US$000s
Technical provisions at the beginning of the year	**304,625**	**(55,451)**	**249,174**	304,104	(40,464)	263,640
Claims (paid)/recovered	**(117,175)**	**24,923**	**(92,252)**	(95,028)	15,718	(79,310)
Claims incurred	**113,681**	**(30,788)**	**82,893**	102,896	(31,542)	71,354
Exchange differences	**341**	**(87)**	**254**	(7,347)	837	(6,510)
Technical provisions at the end of the year	**301,472**	**(61,403)**	**240,069**	304,625	(55,451)	249,174

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$ 11.2 million (2018: US$ 23.0 million released).

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.

Note 5:

Claims paid (continued)

(i) Claims paid (continued)

Insurance claims – gross

Estimate of ultimate claims costs attributable to policy years

	2010 US$000s	2011 US$000s	2012 US$000s	2013 US$000s	2014 US$000s	2015 US$000s	2016 US$000s	2017 US$000s	2018 US$000s	2019 US$000s
At end of reporting year	115,978	123,417	155,471	138,007	104,326	103,435	123,738	132,620	138,946	138,942
1 year later	123,417	122,414	140,720	118,652	119,166	140,464	119,149	114,054	122,196	
2 years later	120,558	155,471	138,007	104,326	103,435	123,738	117,031	109,590		
3 years later	109,737	152,172	127,693	94,008	98,057	122,370	112,326			
4 years later	107,836	122,718	129,305	91,789	100,776	113,221				
5 years later	110,276	117,942	125,939	90,422	99,670					
6 years later	110,436	117,257	125,877	85,614						
7 years later	109,626	112,100	122,442							
8 years later	107,916	111,466								
9 years later	102,885									
Estimate of ultimate claims	102,885	111,466	122,442	85,614	99,670	113,221	112,326	109,590	122,196	138,942
Cumulative payments to date	99,768	109,310	113,800	80,594	89,500	95,617	85,159	69,749	59,304	20,862
Liability recognised on SOFP	3,117	2,156	8,642	5,020	10,170	17,605	27,167	39,841	62,891	118,080
Total liability relating to years 2010-2019										294,690
Other claims liabilities for prior years										6,782
Total technical provisions included in statement of financial position										301,472

Insurance claims – net

	2010 US$000s	2011 US$000s	2012 US$000s	2013 US$000s	2014 US$000s	2015 US$000s	2016 US$000s	2017 US$000s	2018 US$000s	2019 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	105,076
1 year later	106,569	110,497	114,259	91,986	91,383	102,382	98,323	101,968	91,910	
2 years later	104,028	111,617	106,541	83,527	85,457	101,992	91,623	97,422		
3 years later	94,549	101,386	99,846	80,218	87,672	96,631	92,844			
4 years later	92,082	99,662	98,030	79,129	86,377	93,823				
5 years later	94,609	98,973	96,743	75,918	86,662					
6 years later	95,926	94,808	95,384	74,919						
7 years later	91,755	94,610	97,558							
8 years later	92,048	94,554								
9 years later	87,017									
Estimate of ultimate claims	87,017	94,610	97,558	74,919	86,662	93,823	92,844	97,422	91,910	105,076
Cumulative payments to date	83,902	92,511	91,980	70,512	77,770	78,369	70,465	61,539	44,854	15,620
Liability recognised on SOFP	3,115	2,099	5,578	4,406	8,892	15,454	22,379	35,883	47,056	89,456
Total liability relating to years 2010-2019										234,319
Other claims liabilities for prior years										5,750
Total technical provisions included in statement of financial position										240,069

Note 6:

Deferred acquisition costs

	2019 US$000s	2018 US$000s
On insurance contracts	**8,157**	7,123

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

	2019 US$000s	2018 US$000s
At 1 January	**7,123**	6,860
Expenses for the acquisition of insurance contracts deferred (net of amortisation) during the year	**1,034**	263
At 31 December	**8,157**	7,123

Note 7:

Reconciliation of insurance balances

	Gross		Reinsurers' share	
	2019 US$000s	2018 US$000s	**2019 US$000s**	2018 US$000s
At 1 January	**72,497**	70,367	**18,817**	19,042
Increase/(decrease) in provision	**8,280**	2,130	**(501)**	(225)
At 31 December	**80,777**	72,497	**18,316**	18,817

Notes to the Consolidated Financial Statements (continued)

Note 8:

Segmental information

Gross premiums written	**2019 US$000s**	2018 US$000s
– members located in other EU states	**32,025**	28,684
– members located in UK	**9,416**	8,789
– members located outside EU	**173,017**	159,640
	214,458	197,113

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

Gross premiums written – 2019	**Members located outside EU US$000s**	**Members located in UK US$000s**	**Members located in other EU states US$000s**	**Total US$000s**
Cargo	**8,122**	**581**	**1,460**	**10,163**
Containers and Chassis	**34,337**	**1,427**	**7,646**	**43,410**
Logistics	**58,235**	**3,546**	**9,133**	**70,914**
Other	**6,237**	**294**	**204**	**6,735**
Ports & Terminals	**45,138**	**2,510**	**9,880**	**57,528**
Property	**20,954**	**1,058**	**3,696**	**25,708**
	173,023	**9,416**	**32,019**	**214,458**

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

Note 9:

Net operating expenses

	2019 US$000s	2018 US$000s
Acquisition costs		
Brokerage and commission	**24,285**	22,842
Management fee in respect of underwriting	**16,829**	16,872
Change in deferred acquisition costs	**(1,034)**	(263)
	40,080	39,451
Management fee in respect of management and performance related fee (see note below)	**32,394**	19,042
General expenses	**5,161**	4,291
Directors' fee	**749**	713
Directors' travelling costs	**409**	499
Auditors' remuneration		
Parent company audit	**148**	114
Subsidiary company audit	**304**	250
Non-audit services		
Other services pursuant to legislation, including audit of regulatory returns	**192**	173
Other services	**7**	7
	39,364	25,089
Total operating expenses before commission on reinsurance contracts	**79,444**	64,540
Commission on reinsurance contracts	**(8,621)**	(10,972)
	70,823	53,568

Included within the management fee for 2019 are additional fees paid to the Thomas Miller Holdings Limited group of companies ("Thomas Miller"), totalling US$ 13.5 million. This is made up of a fee of US$ 3.8 million in relation to a project to modernise the Club's IT systems and a fee of US$ 9.7 million in relation to pension costs for current and past staff of Thomas Miller allocated to the Club.

Notes to the Consolidated Financial Statements (continued)

Note 10:

Investment return

	2019 US$000s	2018 US$000s
Investment income		
Income from financial assets held at fair value through profit or loss	**6,488**	8,958
Net gains on the realisation of investments	**7,518**	1,549
Net unrealised gains on investments	**10,208**	–
	24,214	10,507
Investment expenses and charges		
Interest payable	**(502)**	(589)
Other investment management expenses	**(1,344)**	(1,246)
Foreign exchange losses	**(2,561)**	(985)
Net unrealised losses on investments	**–**	(4,350)
	(4,407)	(7,170)
Total investment return	**19,807**	3,337

Investment return is analysed between:		
Allocated investment return transferred to the technical business account	**12,089**	1,813
Net investment return included in the non-technical account	**7,718**	1,524
Total investment return	**19,807**	3,337

Notes to the Consolidated Financial Statements (continued)

Note 11:

Tax on ordinary activities

	2019 US$000s	2018 US$000s
(i) Analysis of tax charge on ordinary activities		
UK tax for the current period	**(434)**	(96)
Foreign tax for the current period	**–**	119
Adjustments in respect of prior periods	**51**	(120)
	(383)	(97)

(ii) Factors affecting tax charge for the current year

The tax assessed for the year is the same as (2018: same as) that resulting from applying the standard rate of corporation tax in Bermuda: 0% (2018: 0%) – the differences are explained below:

	2019 US$000s	2018 US$000s
Surplus on ordinary activities before tax	**16,403**	16,564
Tax at 0% thereon	**–**	–
Effects of:		
Charge in the current year		
Tax levied outside Bermuda:		
United Kingdom	**(434)**	(96)
Australia	**–**	119
Adjustments in respect of prior periods		
United Kingdom	**86**	10
Italy	**(3)**	(2)
Australia	**(32)**	(128)
Current tax charge for year	**(383)**	(97)

The taxation charge comprises a charge for UK taxation 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.

Notes to the Consolidated Financial Statements (continued)

Note 12:

Acquisition of Scottish Boatowners' Mutual Insurance Association Ltd

In 2017 TTI acquired SBO for nil consideration. This gave rise to negative goodwill amounting to US$3.625 million.

Following completion of an "Insurance Business Transfer Scheme" or "Part VII transfer" SBO's assets and liabilities were transferred to TTI on 28 June 2019 which resulted in the negative goodwill of US$3.625 million being recognised in the Club's consolidated income statement during 2019.

The value of the assets and liabilities of SBO at the date of this transfer was as follows:

	£000s	**US$000s**
Land and buildings	159	202
RI share of claims outstanding	2,123	2,701
Cash at bank and in hand	2,204	2,805
Other prepayments and accrued income	15	20
Total assets	4,501	5,728
Claims outstanding	(2,123)	(2,701)
Other creditors	(10)	(12)
Accruals and deferred income	(67)	(86)
Corporate tax	(2)	(3)
Total liabilities	(2,202)	(2,802)
Net assets	**2,299**	**2,926**

An exchange rate of 1.2727 has been used to convert the Pounds Sterling assets and liabilities into their US Dollar equivalent balances.

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 Limited	United Kingdom	N/A	Dormant	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.

Scottish Boatowners' Mutual Insurance Association Limited was dissolved on the 28th of January 2020

Note 14:

Other financial investments

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

Consolidated	Carrying value 2019 US$000s	Carrying value 2018 US$000s	Purchase price 2019 US$000s	Purchase price 2018 US$000s
Held at fair value through profit and loss:				
- debt securities	**383,306**	380,564	**380,367**	379,888
- equities	**46,736**	41,809	**39,843**	42,839
- UCITS	**10,939**	10,127	**10,939**	10,127
Financial assets held at fair value through profit and loss	**440,981**	432,500	**431,149**	432,854

Parent Company	Carrying value 2019 US$000s	Carrying value 2018 US$000s	Purchase price 2019 US$000s	Purchase price 2018 US$000s
Held at fair value through profit and loss:				
- debt securities	**281,984**	286,020	**280,270**	285,483
- equities	**46,736**	41,809	**39,842**	42,839
- UCITS	**4,964**	5,009	**4,963**	5,009
Financial assets held at fair value through profit and loss	**333,684**	332,838	**325,075**	333,331

The UCITS are Undertakings for Collective Investments of Transferable Securities, and are used as an alternative to short term cash deposits. 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$216.0 million (2018: US$169.6 million) with the remainder recoverable after more than one year.

As described in note 2(h), the investments of US$441.2 million (2018: US$432.5 million) are valued in the financial statements at market value.

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.

2019	**Contract/ notional amount US$000s**	**Fair value asset US$000s**	**Fair value liability US$000s**	**Fair value per accounts US$000s**
Non hedge derivatives	**15,976**	**139**	**–**	**139**
Fair value hedge	**64,002**	**481**	**–**	**481**
Total	**79,978**	**620**	**–**	**620**

2018	Contract/ notional amount US$000s	Fair value asset US$000s	Fair value liability US$000s	Fair value per accounts US$000s
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

Note 16:

Guarantees and commitments

Investments to the value of US$ 40.0 million (2018: US$ 39.1 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 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 31 December 2019 amounted to nil (2018: nil).

Notes to the Consolidated Financial Statements (continued)

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 US$ 108.1 million (2018: US$ 97.9 million). The recoveries on paid claims was US$ 77.1 million (2018: US$ 66.8 million). A total of US$ 30.3 million 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$ 44.7 million (2018: US$ 38.2 million) in relation to the quota share with the parent company. Reinsurers' share of the provision for outstanding claims includes US$ 207.0 million (2018: US$ 212.3 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 2019 the outstanding amount payable by the Club amounted to US$ 6.9 million (2018: US$ 6.9 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

The Scottish Boatowners' Mutual Insurance Association Limited defined benefit pension scheme was transferred to TT Club Mutual Insurance Limited.

Note 19:

Events after the balance sheet date

The Covid-19 outbreak has led to increased financial market volatility which has impacted the valuation of the Club's investment portfolio. Whilst there is still a significant degree of uncertainty, based on investment valuations as at 6 April 2020 the overall investment loss since 31 December 2019 has been US$ 3.2 million (or 0.7%).The extent of the loss is mitigated by the Club's equity investment holding being only approximately 10% of its total investments - in line with the benchmark in the Club's investment mandate.

A more "extreme scenario" assuming a further 200 basis point widening of credit spreads and a further 20% fall in equity values would result in the Club's investment loss increasing to US$ 12.3 million (or 2.7%).

As at 31 December 2019 TT Club's consolidated capital adequacy ratio on a Solvency II basis was 227% (unaudited) with a surplus amount of capital in excess of solvency capital requirement of US$ 139.4 million. The current investment loss represents 2.3% of this surplus and the "extreme scenario" 8.8%.

As noted in the Directors report (at page 16) the Directors consider that Covid-19 is unlikely to have a material impact on the Club's underwriting or technical performance for 2020 and that it continues to be appropriate for the Club's financial statements to be prepared on a going concern basis.

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