TT CLUB
established expertise

Positive performance despite a year dominated by hurricanes

Annual Report & Financial Statements for
Through Transport Mutual Insurance Association Limited
For the year ended 31 December 2017

TT CLUB IS MANAGED BY **THOMAS MILLER**

Contents

Through Transport Mutual Insurance Association Limited

Directors and Management

Chairman

U Kranich 3 4
Hamburg

Deputy Chairman

J Callahan 4
Nautilus International Holding Corporation, Los Angeles

Directors

U Baum
Röhlig Logistics GmbH & Co KG

G Benelli 3 (appointed 22 June 2017)
Specialist Director - Investment

A Chang (appointed 23 March 2017)
Evergreen Group, Taipei

Chen Xiang
Cosco Container Line, Shanghai

M Engelstoft
A P Møller-Maersk, Copenhagen

T Faries
Appleby, Bermuda

A Firmin (resigned 22 June 2017)
Hapag-Lloyd AG, Hamburg

A Fullbrook 3
OEC Group, New York

G Gluck (retired 22 June 2017)
M&S Shipping Group Ltd, London

S Kelly (resigned 23 March 2017)
Modern Terminals Ltd, Hong Kong

J Küttel 1 2
Ermewa, Paris

C Larrañaga (resigned 22 June 2017)
Terminal de Contenidors de Barcelona, Barcelona

T Leggett 1
Specialist Director - Finance

P Levesque (appointed 22 June 2017)
Modern Terminals Ltd, Hong Kong

R Murchison
Murchison Group, Argentina

Y Narayan
DP World, Dubai

J Neal
Carrix, Seattle

K Pontoppidan (retired 22 June 2017)
Copenhagen

O Rakkenes
Atlantic Container Line AB, New Jersey

J Reinhart
Virginia Port Authority

D Robinson MBE 1 2
PD Ports, Middlesbrough

N Smedegaard 1 2
DFDS, Copenhagen

CK Tan
Pacific International Lines (Pte) Ltd, Singapore

J Thomson (retired 22 June 2017)
Specialist Director – Investments

T Yamauchi 4
Kawasaki Kisen Kaisha Ltd, Tokyo

E Yao 3
Orient Overseas Container Line Ltd, Hong Kong

Registered office

Canon's Court, 22 Victoria Street
Hamilton, Bermuda

Company registration number

1750

1 TT Bermuda Audit & Risk Committee Member

2 TTI Audit & Risk Committee Member

3 Investment Committee Member

4 Nominations Committee Member

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

Financial highlights 2017

	2017 US$000s	2016 US$000s
Results for financial year		
Gross earned premiums	**181,790**	177,831
Brokerage	**(20,816)**	(19,768)
Net earned premiums	**160,974**	158,063
Reinsurance premiums ceded	**(32,925)**	(34,385)
Investment income, gains and other income	**8,237**	5,628
Interest payable and financing costs	**(2,442)**	(1,815)
Exchange gains/(losses)	**1,552**	(257)
Net claims incurred	**(95,365)**	(90,310)
Expenses, taxation and minority interest	**(35,896)**	(35,962)
Overriding commission on quota share reinsurances	**3,159**	4,255
Surplus on ordinary activities after tax	**7,294**	5,217

	2017 US$000s	2016 US$000s
Summary balance sheet		
Total cash and investments	**469,206**	491,035
Other assets	**128,413**	122,015
Total assets	**597,619**	613,050
Gross unearned premiums and claims reserves	**(374,471)**	(361,320)
Other liabilities	**(30,088)**	(36,708)
Subordinated loan	**–**	(29,256)
Total surplus and reserves	**193,060**	185,766

Chairman's review

It gives me great pleasure to report to you on your Club's progress in 2017. In summary, this was a year in which the Club demonstrated its financial strength. As you will read below, the Club has taken in its stride claims from Hurricanes Harvey, Irma and Maria that impacted a number of Members' operations in the Caribbean and North America in August and September. To have done so in the context of the highest ever level of insured losses on record from natural catastrophe events is a notable achievement.

Your Club was founded in 1968 by some of the early adopters of the unitisation of cargo, and 2018 marks the year of the Club's 50th anniversary. The intention of the founders in starting a Member-owned insurer, was to position it at the heart of the industry and for its control to be in the hands of the industry. Paying claims, albeit fundamentally important for any insurer, was only one of the aims of this new organisation. The mission of the Club was to provide excellent service to Members not just in relation to claims they face, but also in respect of loss prevention. The early Members and directors were very keen that the Club should be a vehicle by which claims experiences of individual Members could be shared to make the industry safer and less risky, and to support Members in their efforts to lobby for change. The Club has stayed true to this calling in its half century, and continues to play a major role in supporting Member operations and working towards a safer industry.

Financial performance

The Board's key objective is to maintain at all times its A- (Excellent) financial strength rating awarded by AM Best. This rating was affirmed by Best in 2017 for the 12th successive year. The business plan adopted by the Board is set to drive the business forward, while ensuring the rating is maintained, and I can tell you that financial performance in 2017 was in line with the business plan. In particular, the financial year combined ratio, which, as I have said to you before, is the main measure of operating performance, was within the Board's target range, in spite of the claims from the three hurricanes noted above. As a mutual, the finances are managed to maintain a balance between Members' premiums and claims on the Club, together with the expenses of running it. A small surplus is targeted as required to ensure the Club's capital strength is maintained to support on-going growth.

The premium rating environment in 2017 largely continued in the same way as in recent years. There was an expectation, following the hurricane experience, that it might improve, with the exposure across the industry being better matched by premium income. In practice, however, there was little evidence of such an improvement other than in those classes of risk which were directly impacted by losses. The Club's approach to rating Member risk has continued to be primarily to focus on claims records and understanding of operational risk profile, whilst seeking to achieve the lowest rate that is sustainable in the long term. This has proved to be a good basis on which to underwrite for most Members, giving them relative stability in the cost of insurance.

New business performance was positive in the year, and net new business was slightly higher than budget, which is in part a result of the strong retention levels achieved by the Club in 2017 (as has been the case in recent years). The Managers are prudent in writing new business in the current, very competitive market conditions, as it is very important to prioritise managing the Club's loss ratio.

Chairman's review (continued)

Attritional claims performance in 2017 was as expected. The Club's book of business is now a healthy mix of Member sizes, sectors and geographies, and the impact of this is that in respect of attritional claims the loss ratio fluctuates within a very small range each year. Large claims performance in the year was, however, dominated by claims from the three North Atlantic hurricanes, Harvey, Irma and Maria. Aon Benfield have estimated the industry's insured losses from these hurricanes to be around US$ 80 billion, and the total insured losses from natural disasters in 2017 at US$ 134 billion. Set in this context, the Club's estimated losses from the three hurricanes, at less than US$ 10 million, are testament to the success in ensuring the Club is managing its gross and net exposure successfully. It is worth noting at this time that each of the last three years has seen at least one major claim. In 2015 claims arose from the explosion in Tianjin. In 2016 from the demise of Hanjin Shipping and in 2017 from the three hurricanes. In spite of this, the Club has delivered its business plan in each of those years.

In terms of the investment performance, the Club benefited from the strong performance in equities in the year. That said, the benchmark for equities is set at 7.5% of the investment portfolio, with the majority of the Club's assets invested in government and good quality corporate bonds and cash. An overall return of 2.1% was achieved, equating to US$ 8.3 million. The Board is closely following developments in equity markets as particularly that in the United States tends towards being overvalued.

Overall, the Club's surplus and reserves grew in the year by US$ 7.3 million. Regulatory and solvency capital remain very strong and is forecast to continue as such into 2018. The Club is highly likely, therefore, to retain its AM Best A– rating in 2018.

Subordinated debt

In 2006 and in light of the uncertainty and future risk faced by the Club as assessed by the Board at that time, the decision was taken to enhance the Club's capital strength by taking out long term subordinated debt. Accordingly, US$ 30m of loan notes maturing in 2036 were issued and placed with financial institutions in the United States. This capital was fully admissible for both regulatory and rating purposes and has given the Club valuable financial flexibility in the period since 2006. As the Club's capital base has strengthened in recent years, and as the credit allowed for the debt by the rating agencies reduces as time passes, the opportunity was taken in 2017 to repay the debt. This of course will lead to a saving in interest payable on the debt of US$ 1.2 million per annum. Throughout this period, the Club has had quota share arrangements in place, and a new quota share reinsurance contract was placed on 1 January 2018, which has mitigated to a significant extent the impact of repayment of the debt on the Club's solvency and rating agency capital.

Loss prevention

Entering its second half century, it is valuable to take stock of loss prevention in the context of the Club's core mission, to which I alluded at the outset of this report. The Club has always sought to remain close to its membership, not only in terms of understanding the risks faced through the entire supply chain, but also as a trusted champion in providing thought leadership and influencing change for the industry as much as with individual Members.

While it is easy to demonstrate this in recent history, and project it into the future, the Club has long been a keen and valued participant in a range of safety, security and trade practice issues. For example, the Club's model bill of lading conditions for NVOC entities was birthed in the amendment of Incoterms in 1980, and the Club has been present for numerous international safety and security debates over the decades.

Chairman's review (continued)

Data gathered by the Club, primarily as a result of underwriting risk analysis and claims incidents, but also broad involvement in industry settings, have been synthesised in order to understand risk trends, and identify and promote good practice. This has led – and continues into the future – to the publication of a range of well-regarded materials providing in-depth advice, pithier briefings and regular topical advice.

As with so many aspects of life, relationships and collaboration have continued to prove key to all the Club's initiatives. The Club's 'Cargo Integrity' (or '#Fit4Freight') campaign, collaborating with Global Shippers Forum, ICHCA and World Shipping Council, to promote the IMO/ILO/UNECE Code of Practice for Packing Cargo Transport Units (CTU Code), has continued and appears to be gaining traction through the industry. During 2017, the four organisations delivered presentations at the European Shipping Week, the International Maritime Organization (during the London International Shipping Week), in addition to a number of industry conferences. Through these, it has already been possible to engage with all sectors of stakeholder interest and drive forward the issues of cargo packing and securing.

This collaboration is one of a number. The Club is working with the Thomas Miller managed UK P&I Club in a number of areas, including in relation to dangerous goods (DG) and advice concerning cybercrime. For the former, an important initiative is promoting the Exis Technologies' 'Hazcheck Restrictions Portal', which seeks to streamline fundamental disruptions to DG shipment processes. The activity in relation to cyber picks up the continuing major risk area through the industry of theft/fraud, more specifically than the high profile cyber events during 2017, recognising that all supply chain operations are heavily reliant on inter-connectivity.

Thus, some initiatives have been driven by the Club itself, while others are necessarily more collaborative. Key, however, has been the core value of independence; the Club's non-partisan standing continues to enable it to be involved without fetter in many debates. The industry insured by the Club is highly complex, hugely engaging and constantly developing; the Club applies its depth of expertise and spread of global influence to deliver value and assurance to the membership.

Brexit

The impact on the Club of the UK electorate's decision in the referendum in June 2016 to leave the EU is still unclear. It continues to be the case, however, that your Board is committed to putting in place the necessary arrangements to be able to provide the Club's product and service to affected Members. To this end, the Board's planning has been based on the assumption that arrangements will need to be in place by the end of 2018 to be prepared for the end of the notice period on 29 March 2019. It seems likely, but not guaranteed at the time of writing, that transitional arrangements will be put in place to extend the period which companies such as the Club have in order to put in place their arrangements for a post-Brexit world. To that extent, the Club's planning is being undertaken on a basis that gives it as much flexibility as possible in its preparations depending on decisions arrived at between the United Kingdom and European Union negotiators. I can give all Members the reassurance, as I did last year, that the Club will make sure that it is in a position to continue to look after the interests of Members and their brokers in the affected European market.

Chairman's review (continued)

Directors and Board Committee membership

The governance arrangements for financial services companies have been the subject of a significant amount of scrutiny in recent times. I am pleased to tell you that the Club's governance has been considered on a number of occasions and considered fit for purpose.

There were no changes to the Board and Committee structure in 2017. Six directors retired from the Board in 2017 with over 60 years' service between them: Anthony Firmin, George Gluck, Sean Kelly, Carlos Larrañaga, Knud Pontoppidan and John Thomson. I would like to thank them all for their contribution during their time as directors of the Club. I must though, in particular, single out two directors for their contributions. Mr Pontoppidan joined the Board in October 1998 and served as Chairman from June 2008 to June 2017. He also served as a member of the Investment Committee and Nominations Committee. Mr Gluck retired after 24 years as a director, and had served most recently as Chairman of the Audit & Risk Committee. The Board and membership owe both these individuals a deep debt of gratitude for their commitment to the Club over many years. Losing this amount of experience from the Board is a challenge for any organisation. The departures were, however, known and planned for many years in advance, and the succession plan put in place by the Board has now been successfully implemented.

During the year, we welcomed Giuseppe Benelli, Anchor Chang and Peter Levesque to the Board; my Board colleagues and I look forward to working with them in the interests of the Members. I am delighted that we continue to be able to attract high quality individuals to represent Members' interests. I am pleased to tell you that your Club Board is made up of a strong group of individuals who are representative of the membership by region and category of operator, and who between them bring a broad range of experience and skills to the governance of the Club.

This year, the Club Board will meet in Hong Kong (March), Bermuda (June) and Los Angeles (November). Member events will be held alongside the meetings in March and November.

50th anniversary celebrations

To mark the 50th anniversary of the founding of the Club, and in the spirit in which the Club was started of helping the membership, the Club has teamed up with the global management consultancy McKinsey to produce a study on how the global container transport industry might change on a 25 year time horizon. This study has been based on interviews with the Club's directors and with those in companies shaping the industry. The aim of the work is to identify a number of scenarios that illustrate how factors that are already seen to be changing the industry, such as digitalisation and automation, will drive change. The intention in producing the document is for Member organisations to use it as part of their own preparations for whatever change is coming. The study is not intended to be a definitive guide to the future state, but rather in the nature of a thought-provoking piece of work. It was launched at the market event adjacent to the Club Board meeting in Hong Kong on 21 March 2018 and it will be sent to all Members.

Various events will be hosted around the world to celebrate the anniversary, and I hope to see many of you during that period.

Chairman's review (continued)

Customer satisfaction survey

The biennial customer satisfaction survey is being run this year, and I would encourage you all to use it to feedback your experience of the Club's product and services. The feedback is very helpful to the Managers and to the Club Board in targeting areas for improvement or development, and as an online survey it is relatively quick to complete. The survey also produces a score based on Member and broker feedback, which the Board uses to assess the performance of the Club against a pre-determined KPI. The Board are grateful to all Members and brokers that take the short amount of time to complete the survey.

Finally, thank you all for placing your insurances with the Club. Neither the Board nor the Managers are in any way complacent about the product and services provided by the Club, and are keen to continue to develop it to meet Member needs. Can I also take this opportunity to thank the management team for their work throughout the year on all our behalf.

I hope to see as many of you as I can in 2018 to celebrate the Club's birthday.

U Kranich, *Chairman*
22 March 2018

Strategic Report

The directors present herewith their Strategic Report for the year ended 31 December 2017.

Business review

The principal activities of the Through Transports Mutual Insurance Association ("the Association") 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.

On 7 September 2017, TTI acquired Scottish Boatowners' Mutual Insurance Association Limited ("SBO"). SBO is a small mutual that insured fishing boats and was placed into run-off at the end of 2016.

Strategy and values

The Group'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. The Group maintains a conservative investment policy.

The Group'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$ 181.9 million which was 2.2% higher than 2016 due to net new business and organic growth.

The forecast ultimate loss ratio for the 2017 policy year is 83% which is 5 percentage points higher than the 2016 year at the same stage due to an increase in the number of large claims during the year, including losses from Hurricane Harvey, Irma and Maria, as well as the impact of premium rate decreases. 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$ 11.3 million (2016: US$ 5.8 million).

The technical result for 2017, after allowing for the attribution of investment income on the claims reserves, was a surplus of US$ 3.8 million (2016: surplus of US$ 4.1 million). The underlying investment return, excluding currency effects, was 2.1%. The non-technical account produced a surplus of US$ 3.1 million (2016: US$ 1.1 million), resulting in an overall net surplus after tax of US$ 7.3 million (2016: US$ 5.2 million).

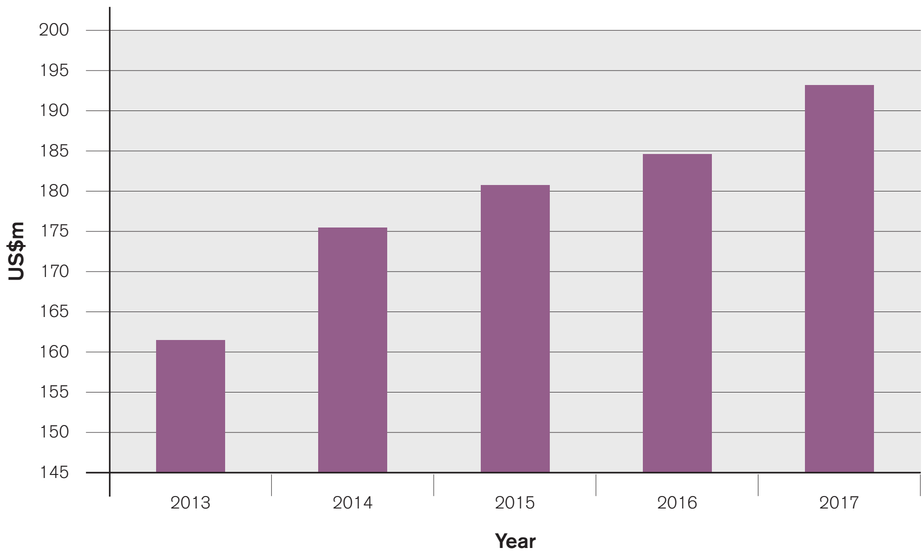
Strategic Report (continued)

As a result the Group's surplus, reserves now stand at US$ 193.1 million (2016: US$ 185.8 million). The subordinated loan that contributed to the Group's regulatory capital was repaid during the year. The amount of additional regulatory capital it provided for at the end of 2016 was US$ 29.3 million.

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

1. **Financial strength –** AM Best rating
   The Group has had a rating of A- (Excellent) since 2006.

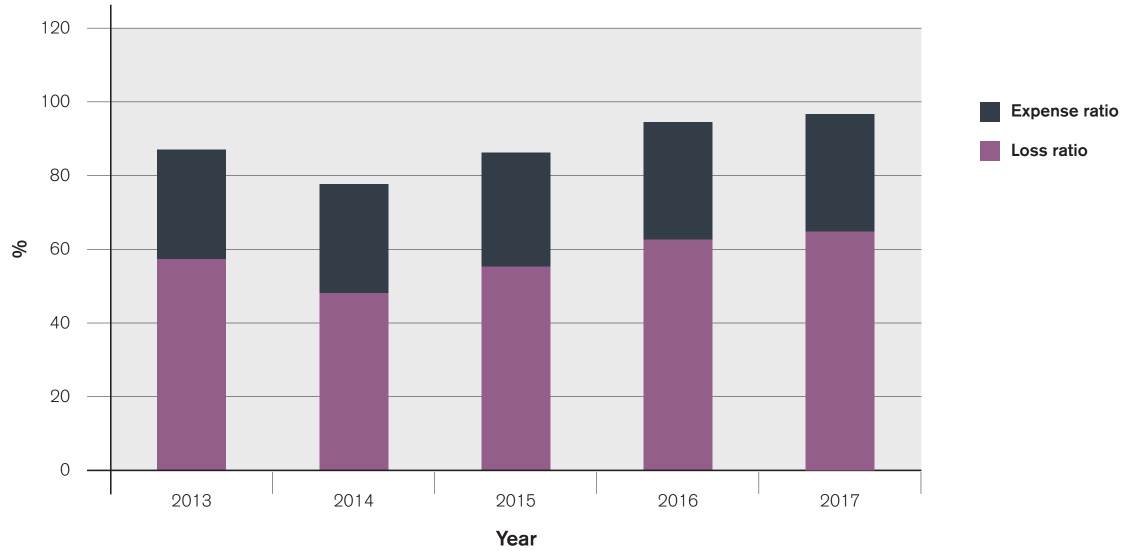
2. **Capital –** surplus and reserves



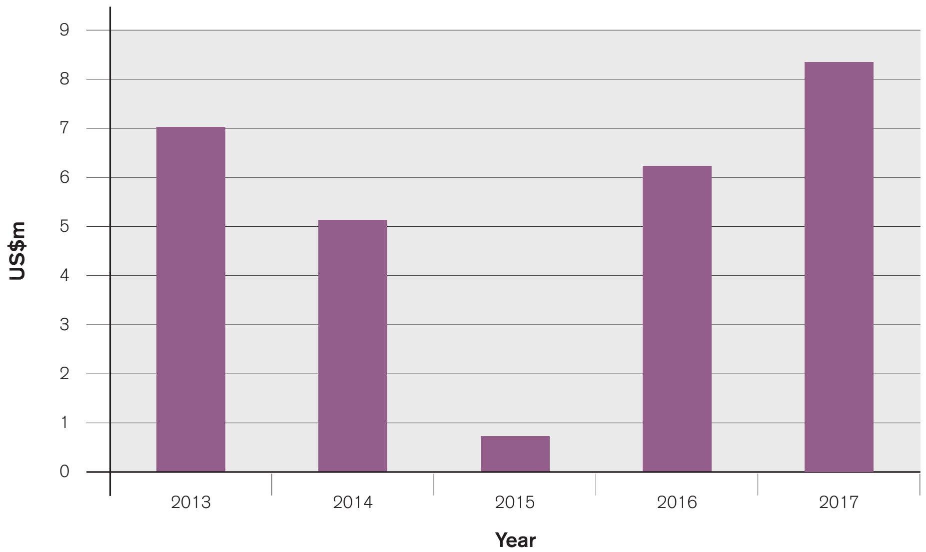
The Group's financial strategy, approved by the Board, is to maintain within the business sufficient capital to meet regulatory requirements, and to maintain an AM Best rating of A- (Excellent) over the insurance market cycle, with a substantial margin in each case. The directors are satisfied that both elements of this strategy have been maintained throughout 2017.

Strategic Report (continued)

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

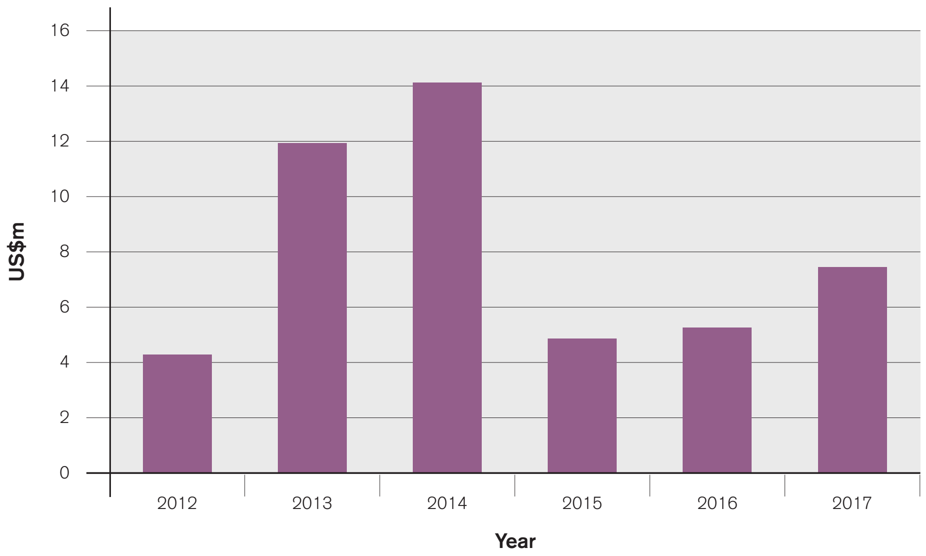


4. Investment performance – return gross of tax and excluding exchange movements



Strategic Report (continued)

5. Net result – income and expenditure surplus after tax



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.

Corporate and social

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

As the Group's executive function is performed by independent professional managers there are no employee matters to report.

By approval of the Board

Thomas Miller (Bermuda) Limited, *Company Secretary*
22 March 2018

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 the Group from occurrences that hinder sustainable achievement of our objectives and financial performance and to ensure that the Group complies with regulatory requirements in the jurisdictions in which it operates.

The following key principles outline the Group'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 on-going basis and at least annually. 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 the Group 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 the Group and its management of financial risks is disclosed in note 4 to the Financial Statements.

Operational risk

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

Directors' Report (continued)

Operational risk (continued)

The Group's IT systems are established and stable; any development follows standard project methodologies. Appropriate operational policies and procedures covering all aspects of the business have been embedded through the organisation. Management information supports the control framework and is subject to on-going validation and enhancement to ensure that it is appropriate to business requirements.

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

Directors and Officers

The names of the directors of the Association 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 Association met formally on three occasions during the year to carry out the general and specific responsibilities entrusted to it by the Members under the Bye-Laws of the Association. The number of directors present at these meetings was 20, 20, and 14 respectively.

Amongst the matters considered, the directors received and discussed written reports from the Managers on the Group'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 2017 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 2016 were approved by the Board for submission to the Members of the Association at the Annual General Meeting. The directors confirmed their intention not to levy any supplementary premium for the 2016 policy year and in addition, closed the 2014 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 2017.

The Audit & Risk Committee assists the Board in discharging its responsibilities for the integrity of the Group'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 2017.

The Investment Committee makes recommendations to the Board in respect of investment policy and reviews in detail the performance of the Group's investments. The Investment Committee met on three occasions during 2017.

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 Association's Financial Statements for the year ended 31 December 2017 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 Association's auditors are aware of that information.

In accordance with the EU Statutory Audit Regulation and Directive that came into effect on 17 June 2016 TTI, being an EU Public Interest Entity, was required to conduct a tender for the appointment of its Independent Auditors. During the first half of 2017 the TT Club Boards ran a tender process which was overseen by the Group Audit & Risk Committee. The outcome of this process was the reappointment of PricewaterhouseCoopers LLP as Independent Auditors of the Association and TTI.

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 March 2018

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 the Group and Parent Company and of the profit or loss of the Group and Parent Company for that year.

In preparing those Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group 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 the Group 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 March 2018

Notice of meeting

Notice is hereby given that the forty-ninth Annual General Meeting of the Members of the Association will be held at the Fairmont Southampton Hotel, on the twenty-first day of June 2018 at 8.00 am for the following purposes

- To receive the Directors' Report and Financial Statements for the year ended 31 December 2017 and, if they are approved, to adopt them.
- To elect directors.
- To appoint auditors and to authorise the directors to fix their remuneration.
- To transact any other business of an Ordinary General Meeting.

By approval of the Board

Thomas Miller (Bermuda) Limited, *Company Secretary*
22 March 2018

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

Report on the Group and parent company financial statements

Our 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 2017 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 (the "Annual Report"), which comprise: the Consolidated and Parent Statement of Financial Position as at 31 December 2017; the Consolidated Income Statement for the year ended 31 December 2017, the Consolidated Statement of Changes in Equity for the year ended 31 December 2017; the Parent Statement of Changes in Equity for the year ended 31 December 2017; the Consolidated Statement of Cash Flows for the year ended 31 December 2017 and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

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

Independence

We remained independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements

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

Conclusions relating to going concern

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.

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 17, 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.

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

Responsibilities for the financial statements and the audit *(continued)*

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

A further description of our responsibilities for the audit of the financial statements is located on the 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, United Kingdom
22 March 2018

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 2017

Technical account

	Note	US$000s	2017 US$000s	US$000s	2016 US$000s
Gross premiums written	8		**187,562**		180,475
Reinsurance premiums ceded			**(42,233)**		(34,188)
Premiums written, net of reinsurance			**145,329**		146,287
Change in provision for unearned premiums					
Gross	7	**(5,770)**		(2,644)	
Reinsurers' share		**9,308**		(196)	
			3,538		(2,840)
Earned premiums, net of reinsurance			**148,867**		143,447
Allocated investment return transferred from the non-technical account	2(i)		**4,245**		2,068
Other technical income			**35**		39
Claims paid					
Gross	5(i)	**(113,666)**		(108,617)	
Reinsurers' share	5(i)	**20,607**		18,795	
		(93,059)		(89,822)	
Change in the provision for claims					
Gross		**5,227**		20,100	
Reinsurers' share		**(7,533)**		(20,588)	
		(2,306)		(488)	
Claims incurred, net of reinsurance			**(95,365)**		(90,310)
Net operating expenses	9		**(53,957)**		(51,167)
Balance on the technical account			**3,825**		4,077

All activities derive from continuing operations.

Consolidated Income Statement for the year ended 31 December 2017 (continued)

Non-technical account

	Note	2017 US$000s	2016 US$000s
Balance on the technical account		**3,825**	4,077
Investment income		**7,444**	3,686
Unrealised gains on investments		**793**	1,942
Exchange gains/(losses)		**1,552**	(257)
Interest payable and financing costs	*10*	**(2,442)**	(1,815)
		7,347	3,556
Allocated investment return transferred to the technical account	*10*	**(4,245)**	(2,068)
Surplus on ordinary activities before tax		**6,927**	5,565
Tax on ordinary activities	*11*	**367**	(348)
Surplus on ordinary activities after tax		**7,294**	5,217
Surplus for the year		**7,294**	5,217
Other comprehensive income:			
Losses arising on cash flow hedges during the period		**–**	(704)
Less: reclassification to profit and loss		**–**	3,112
Surplus for the year		**7,294**	7,625

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

The notes on pages 29 to 60 form an integral part of these Financial Statements.

Consolidated Statement of Financial Position as at 31 December 2017

	Note	Consolidated 2017 US$000s	Consolidated 2016 US$000s	Parent Company 2017 US$000s	Parent Company 2016 US$000s
Assets					
Goodwill		**(3,625)**	–	**–**	–
Investments					
Land and buildings		**220**	–	**–**	–
Shares in subsidiary undertakings	12	**–**	–	**12**	12
Other financial investments	14	**391,903**	432,335	**327,876**	348,565
Derivative financial instruments	15	**539**	55	**539**	55
Reinsurers' share of technical provisions					
Provision for unearned premiums		**19,042**	9,734	**–**	–
Claims outstanding		**40,464**	44,816	**1,200**	2,146
		59,506	54,550	**1,200**	2,146
Debtors					
Arising out of direct insurance operations - policyholders		**48,478**	42,088	**3,127**	1,597
Arising out of reinsurance operations		**11,781**	4,481	**36,977**	38,695
Amounts due from Group undertakings		**–**	–	**23,897**	26,517
Other debtors		**2,101**	1,157	**56**	5,177
		62,360	47,726	**64,057**	71,986
Cash and cash equivalents		**76,765**	58,645	**20,586**	9,582
Other assets	15	**1,251**	12,251	**1,251**	12,251
Prepayments and accrued income					
Accrued interest		**1,381**	949	**1,060**	635
Deferred acquisition costs		**6,860**	6,093	**768**	727
Prepayments		**459**	446	**195**	171
		8,700	7,488	**2,023**	1,533
Total assets		**597,619**	613,050	**417,544**	446,130

Consolidated Statement of Financial Position as at 31 December 2017 (continued)

	Note	Consolidated 2017 US$000s	Consolidated 2016 US$000s	Parent Company 2017 US$000s	Parent Company 2016 US$000s
Liabilities and reserves					
Reserves					
Statutory reserve		**240**	240	**240**	240
Surplus and reserves		**192,820**	185,526	**129,147**	123,816
		193,060	185,766	**129,387**	124,056
Subordinated liabilities	*16*	**–**	29,256	**–**	29,256
Technical provisions					
Provision for unearned premiums – gross		**70,367**	64,597	**41,343**	45,313
Claims outstanding – gross		**304,104**	296,723	**239,836**	230,347
		374,471	361,320	**281,179**	275,660
Creditors					
Arising out of direct insurance operations		**–**	–	**–**	–
Arising out of reinsurance operations		**20,846**	17,199	**1,192**	–
Derivative financial instruments	*15*	**1,461**	12,946	**1,461**	12,946
Other creditors including taxation and social security		**2,724**	3,034	**1,604**	1,484
		25,031	33,179	**4,257**	14,430
Accruals and deferred income		**5,029**	3,565	**2,721**	2,728
Retirement benefits and similar obligations	*13,19*	**64**	–	**–**	–
		30,124	36,744	**6,978**	2,742
Equity minority interest		**(36)**	(36)	**–**	–
Total liabilities and reserves		**597,619**	613,050	**417,544**	446,130

The notes on pages 29 to 60 form an integral part of these Financial Statements.

The Financial Statements on pages 22 to 60 were approved by the Board of directors on 22 March 2018 and were signed on its behalf by:

U Kranich, *Director*

J Callahan, *Director*

Company Registered Number
1750

Consolidated Statement of Changes in Equity for the year ended 31 December 2017

	Statutory reserve US$000s	Surplus and reserve US$000s	Hedging reserve US$000s	Total US$000s
At 31 December 2015:	**240**	**180,309**	**(2,408)**	**178,141**
Surplus for the year	–	5,217	–	5,217
Other comprehensive income	–	–	2,408	2,408
At 31 December 2016:	**240**	**185,526**	**–**	**185,766**
Surplus for the year	–	7,294	–	7,294
Other comprehensive income	–	–	–	–
At 31 December 2017:	**240**	**192,820**	**–**	**193,060**

Parent Statement of Changes in Equity for the year ended 31 December 2017

	Statutory reserve US$000s	Surplus and reserve US$000s	Hedging reserve US$000s	Total US$000s
At 31 December 2015:	**240**	**128,731**	**(2,408)**	**126,563**
Surplus for the year	–	5,085	–	5,085
Other comprehensive income	–	–	2,408	2,408
Capital transfer to subsidiary entity	–	(10,000)	–	(10,000)
At 31 December 2016:	**240**	**123,816**	**–**	**124,056**
Surplus for the year	–	5,331	–	5,331
Other comprehensive income	–	–	–	–
At 31 December 2017:	**240**	**129,147**	**–**	**129,387**

Consolidated Statement of Cash Flows
for the year ended 31 December 2017

	Note	**2017 US$000s**	2016 US$000s
Cash flows from operating activities			
Premiums received from Members		**160,561**	155,903
Reinsurance premiums ceded paid		**(38,608)**	(39,609)
Claims paid		**(114,042)**	(108,165)
Reinsurance receipts in respect of claims		**13,249**	18,051
Investment income		**7,444**	3,392
Management fee paid		**(31,008)**	(31,055)
Expenses paid		**(3,478)**	(4,984)
Other operating cash movements		**(843)**	240
Overriding commissions on quota share reinsurance		**3,369**	3,683
Taxation (paid)/reclaimed		**(926)**	642
Net cash generated from operating activities		**(4,282)**	(1,902)
Cash flows from investment activities			
Net payments for acquisition of debt instruments		**16,434**	(3,798)
Net cash flows from investing activities		**16,434**	(3,798)
Cash flows from financing activities			
Interest paid		**(2,442)**	(1,781)
Net cash flows from financing activities		**(2,442)**	(1,781)
Net decrease in cash and cash equivalents		**9,710**	(7,481)
Cash and cash equivalents at the start of the year		**76,309**	80,362
Effect of exchange rate fluctuations on cash and cash equivalents		**4,331**	3,428
Cash and cash equivalents at the end of the year (UCITS and cash at bank and in hand)	*13,4(b)*	**90,350**	76,309

Notes to the consolidated Financial Statements

Note 1: Constitution and ownership

The Association 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 Association (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 Association and its subsidiary undertakings have been prepared under the Bermuda Companies Act 1981, and also under the UK Companies Act 2006. The Association and its subsidiary undertakings have applied uniform accounting policies and on consolidation all intra-group transactions, profits, and losses have been eliminated. The Financial Statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Companies Act 2006. The Group 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 Association is considered to be United States Dollar because that is the currency of the primary economic environment in which the Association 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 Association. Goodwill has been recognised

(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 the Group's general reinsurance programme and on insurance arranged by the Group 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 Association, where more information is generally available.

The Association 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 the Group are reinsured above certain levels and for certain specific risks.

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

Notes to the consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(g) Acquisition costs

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

(h) Financial assets

The Association 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 the Group, are classified as fair value through profit and loss and are designated as such by management to minimise any measurement or recognition inconsistency with the associated liabilities.

Investments are included in the statement of financial position at market value translated at year-end rates of exchange. Fair values of investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors such as independent valuation reports.

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

The costs of investments denominated in currencies other than the US dollars are translated into US dollars on the date of purchase. Any subsequent changes in value, whether arising from market value or exchange rate movements, are charged or credited to the income statement. The movement in unrealised investment gains and losses includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current period.

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

Notes to the consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(h) Financial assets (continued)

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

Derivative financial instruments
The Group 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
The Group 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 5.

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

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

Notes to the consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(i) Investment return

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

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

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

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

(j) Foreign currencies

Revenue transactions are translated into US dollars at the rate applicable for the month in which the transaction took place. Monetary assets and liabilities have been translated at the closing US dollar exchange rate. The resulting differences are shown separately in the Consolidated Income Statement. Non-monetary assets and liabilities are carried at the exchange rate prevailing at the date of the transaction.

Exchange gains or losses arising on non-US dollar cash holdings are treated as realised and are included in the statement of comprehensive income.

(k) Policy year accounting

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

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

Notes to the consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(l) Closure of policy years

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

For closed policy years, the Group 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 the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts. Insurance contracts entered into by the Group 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 the Group's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the Consolidated Income Statement, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due.

Notes to the consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(o) Taxation

Deferred tax

Deferred taxation is provided in full on timing differences that result in an obligation at the statement of financial position to pay more tax, or a right to pay less tax, at a future date. The rates used in these calculations are those which are expected to apply when the timing differences crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the Financial Statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax balances are not discounted.

Current tax

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

The Group incurs current tax on investment income at 10% of any net gain.

(p) Subordinated liabilities

In accordance with FRS 102 Section 11, the subordinated loan liability was recognised at amortised cost with the transaction costs directly attributable to the issue being amortised through the income statement over the expected duration of the liability.

(q) Investments in subsidiary undertakings

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

(r) Related parties

The Group discloses transactions with related parties which are not wholly owned within the same Group. Further details can be found in note 18.

(s) Business combination

The business combination 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 income statement.

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

Notes to the consolidated Financial Statements (continued)

Note 2: Accounting policies (continued)

(t) Goodwill

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

Note 3: Critical accounting estimates and judgments and estimation uncertainty

The Group 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 the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group 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, the Group uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. This is further explained in note 2 (e).

(a) Pipeline premiums

The Group makes an estimate of premiums written during the year that have not been notified in the financial year ('pipeline premiums') as detailed in note 2 (b). 2017: US$ 2.3 million (2016: US$2.4 million).

(b) Fair value hedge

The fair value hedge of the foreign currency risk of the Association's unrecognised firm commitments is accounted for as the lower of the cumulative gain or loss on the hedging instrument plus the cumulative change in fair value on the hedged item in accordance with FRS102 Section 12.

Note 4: Management of financial risk

Financial risk management objectives

The Group 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.

Notes to the consolidated Financial Statements (continued)

Note 4: Management of financial risk (continued)

The Group 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 page 13 - 16.

The Boards of the Associations 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 the Group which are analysed as part of the Own Risk and Solvency Assessment ("ORSA") process.

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

(a) Market risk

(i) Interest rate risk

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

The Group'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$ 3.21 million decrease in market value of the Group's investments (2016: US$ 5.84 million decrease). A decrease in 100 basis points in interest rates would result in a US$ 3.21 million increase in the market value of the Group's investments (2016: US$ 5.84 million increase).

(ii) Investment price risk

The Group is exposed to price risk as a result of its equity investments. The Group's investment policy sets limits on the Group's exposure to equities.

(b) Currency risk

The Group 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 the Group is exposed to are Pounds Sterling and the Euro. From time to time the Group uses forward currency contracts or options to protect against adverse in year exchange movements.

The table on the following page shows the Group's assets by currency. The Group 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)

2017	USD US$000s	GBP US$000s	EUR US$000s	Other US$000s	Total US$000s
Debt securities	330,188	9,441	6,063	–	345,693
Equity shares	13,532	8,998	10,096	–	32,626
Derivative financial instruments	(24,935)	(4,026)	29,500	–	539
Assets arising from reinsurance contracts held	64,653	1,893	968	3,773	71,287
Debtors arising from insurance contracts	39,882	3,371	4,094	1,131	48,478
Other debtors	2,101	–	–	–	2,101
Cash and cash equivalents	40,636	8,262	14,457	26,995	90,350
Other	5,654	461	2	428	6,545
Total assets	**471,711**	**28,400**	**65,181**	**32,327**	**597,619**
Liabilities	(273,749)	(22,288)	(65,680)	(42,842)	(404,559)
Net assets	**197,962**	**6,112**	**(499)**	**(10,515)**	**193,060**

2016	USD US$000s	GBP US$000s	EUR US$000s	Other US$000s	Total US$000s
Debt securities	365,254	10,619	10,080	–	385,953
Equity shares	14,465	7,022	7,232	–	28,719
Derivative financial instruments	(16,039)	(5,511)	21,605	–	55
Assets arising from reinsurance contracts held	55,454	849	1,595	1,134	59,031
Debtors arising from insurance contracts	35,698	1,937	3,287	1,165	42,088
Other debtors	311	800	44	2	1,157
Cash and cash equivalents	44,712	3,927	6,654	21,015	76,308
Other	19,152	213	4	370	19,739
Total assets	**519,007**	**19,859**	**50,501**	**23,686**	**613,050**
Liabilities	(284,859)	(17,077)	(61,308)	(64,321)	(427,565)
Net assets	**234,148**	**2,779**	**(10,807)**	**(40,635)**	**185,485**

Notes to the consolidated Financial Statements (continued)

Note 4: Management of financial risk (continued)

(b) Currency risk (continued)

As at 31st December 2017 the currency split of the Group's claims estimates was as follows: US$ 176.3 million in US dollars and currencies pegged to the US dollar, US$ 22.8 million in Pounds Sterling, US$ 64.4 million in Euros and US$ 45.7 million in other currencies.

At 31 December 2017, if the US dollar weakened by 5% against Sterling, with all other factors unchanged, the surplus for the year would have increased by US$ 0.01 million (2016: US$ 0.05 million). If the US dollar strengthened by 5% against Sterling, with all other factors unchanged, the surplus for the year would have decreased by US$ 0.01 million (2016: US$ 0.05 million).

At 31 December 2017, if the US dollar weakened by 5% against the Euro, with all other factors unchanged, the surplus for the year would have increased by US$ 1.9 million (2016: US$ 2.0 million). If the US dollar strengthened by 5% against the Euro, with all other factors unchanged, the surplus for the year would have decreased by US$ 1.9 million (2016: US$ 2.0 million).

(c) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The main areas where the Group 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 the Group's liability as primary insurer. If a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder. The creditworthiness of a reinsurer is considered before it is used and strict criteria are applied (including the financial strength of the reinsurer) before a reinsurer is approved.

Notes to the consolidated Financial Statements (continued)

Note 4: Management of financial risk (continued)

(c) Credit risk (continued)

The following tables provide information regarding aggregated credit risk exposure, for financial assets with external credit ratings, as at 31st December 2017. The credit rating bands are provided by independent ratings agencies:

2017	**AAA**	**AA**	**A**	**BBB+ or less or not rated**	**Total**
	US$000s	**US$000s**	**US$000s**	**US$000s**	**US$000s**
Debt securities	55,232	252,625	32,805	5,032	345,693
Equity Shares	–	–	–	32,626	32,626
Derivative financial instruments	–	–	–	539	539
Assets arising from reinsurance contracts held	–	47,586	18,174	5,527	71,287
Debtors arising out of direct insurance	–	–	–	48,478	48,478
Other debtors	–	–	–	2,101	2,101
Cash and cash equivalents	26,058	17,376	46,807	109	90,350
Other	–	–	–	6,544	6,544
Total	**81,290**	**317,587**	**97,786**	**100,956**	**597,619**

2016	**AAA**	**AA**	**A**	**BBB+ or less or not rated**	**Total**
	US$000s	**US$000s**	**US$000s**	**US$000s**	**US$000s**
Debt securities	70,657	277,794	32,278	5,224	385,953
Equity Shares	–	–	–	28,719	28,719
Derivative financial instruments	–	–	–	55	55
Assets arising from reinsurance contracts held	–	37,980	15,829	5,222	59,031
Debtors arising out of direct insurance	–	–	–	42,088	42,088
Other debtors	–	–	–	1,157	1,157
Cash and cash equivalents	15,518	12,833	47,890	67	76,308
Other	–	–	–	19,739	19,739
Total	**86,175**	**328,607**	**95,997**	**102,271**	**613,050**

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. The Group 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 2017 the Group's short term deposits (including cash and UCITs) amounted to US$ 90.4 million (2016: US$ 76.3 million).

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

2017		**Past due but not impaired**					
	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**	**Carrying value in the balance sheet US$000s**
Debt securities	345,693	–	–	–	–	–	345,693
Equity shares	32,626	–	–	–	–	–	32,626
Derivative financial instruments	539	–	–	–	–	–	539
Assets arising from reinsurance contracts held	71,287	–	–	–	–	–	71,287
Debtors arising from direct insurance	31,871	10,595	6,012	–	–	–	48,478
Other debtors	2,101	–	–	–	–	–	2,101
Cash and cash equivalents	90,350	–	–	–	–	–	90,350
Other	6,545	–	–	–	–	–	6,545
Total	**581,012**	**10,595**	**6,012**	**–**	**–**	**–**	**597,619**

2016		**Past due but not impaired**					
	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**	**Carrying value in the balance sheet US$000s**
Debt securities	385,953	–	–	–	–	–	385,953
Equity shares	28,719	–	–	–	–	–	28,719
Derivative financial instruments	55	–	–	–	–	–	55
Assets arising from reinsurance contracts held	59,031	–	–	–	–	–	59,031
Debtors arising from direct insurance	28,305	7,308	6,149	326	–		42,088
Other debtors	1,157	–	–	–	–	–	1,157
Cash and cash equivalents	76,308	–	–	–	–	–	76,308
Other	19,739	–	–	–	–	–	19,739
Total	**599,267**	**7,308**	**6,149**	**326**	**–**	**–**	**613,050**

Notes to the consolidated Financial Statements (continued)

Note 4: Management of financial risk (continued)

(d) Liquidity and cash flow risk (continued)

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

2017	< 6 months or on demand US$000s	Between 6 months & 1 year US$000s	Between 1 and 2 years US$000s	Between 2 and 5 years US$000s	> 5 years US$000s	Total US$000s
Debt securities	106,417	7,000	125,588	101,657	5,030	345,693
Equity shares	32,627	–	–	–	–	32,627
Derivative financial instruments	–	539	–	–	–	539
Assets arising from reinsurance contracts held	5,701	5,701	6,917	9,286	3,218	30,823
Reinsurers' share of claims outstanding	7,492	7,492	9,025	12,239	4,215	40,463
Debtors arising from insurance contracts	48,009	471	–	–	–	48,480
Other debtors	2,101	–	–	–	–	2,101
Cash and cash equivalents	90,350	–	–	–	–	90,350
Other	6,544	–	–	–	–	6,544
Total assets	**299,241**	**21,203**	**141,530**	**123,182**	**12,463**	**597,619**
Creditors	(100,455)	–	–	–	–	(100,455)
Claims outstanding	(56,246)	(56,246)	(68,247)	(91,621)	(31,744)	(304,104)
Net assets	**142,540**	**(35,043)**	**73,283**	**31,561**	**(19,281)**	**193,060**

Notes to the consolidated Financial Statements (continued)

Note 4: Management of financial risk (continued)

(d) Liquidity and cash flow risk (continued)

2016	< 6 months or on demand US$000s	Between 6 months & 1 year US$000s	Between 1 and 2 years US$000s	Between 2 and 5 years US$000s	> 5 years US$000s	Total US$000s
Debt securities	153,213	62,243	28,795	117,976	23,726	385,953
Equity shares	28,719	-	-	-	-	28,719
Derivative financial instruments	-	55	-	-	-	55
Assets arising from reinsurance contracts held	14,215	-	-	-	-	14,215
Reinsurers' share of claims outstanding	4,631	4,631	12,856	13,221	9,477	44,816
Debtors arising from insurance contracts	38,449	3,578	61	-	-	42,088
Other debtors	1,157	-	-	-	-	1,157
Cash and cash equivalents	76,308	-	-	-	-	76,308
Other	19,739	-	-	-	-	19,739
Total assets	**336,461**	**70,507**	**41,712**	**131,197**	**33,203**	**613,050**
Creditors	(130,561)	-	-	-	-	(130,561)
Claims outstanding	(30,664)	(30,664)	(85,121)	(87,532)	(62,742)	(296,723)
Net assets	**175,206**	**39,843**	**(43,409)**	**43,665**	**(29,539)**	**185,766**

(e) Capital management

The Group maintains an efficient capital structure from a combination of policyholders' funds (surplus and reserves) and long term borrowings (subordinated debt), consistent with the Group's risk profile. The Group'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.

The Group continues to be regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). During the year to 31 December 2017 the Group complied with Solvency II regulation. The Association 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 2017 the Group's total regulatory capital available amounted to US$ 193.1 million (2016: US$ 215.2 million) which is made up of surplus and reserves only following the repayment of the subordinated loan. At the end of 2016 the total regulatory capital was made up of surplus and reserves of US$ 185.9 million and subordinated debt of US$ 29.3 million.

Notes to the consolidated Financial Statements (continued)

Note 4: Management of financial risk (continued)

(e) Capital management (continued)

As at 31 December 2017, the Group held deposits and letters of credit totalling US$ 66.5 million to meet overseas regulatory requirements (2016: US$ 66.3 million). This includes collateralised letters of credit amounting to US$ 24.3 million (2016: US$ 24.5 million) in relation to Hong Kong and a trust fund deposit of US$ 41.7 million (2016: US$ 41.3 million) in relation to the US.

(f) Fair value estimations

In accordance with section 34 of FRS 102, as a financial institution, the Group 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 the Group's financial assets that are measured at fair value at both 31 December 2017 and 31 December 2016 fall into the Level 1 category with the exception of the debt securities and forward currency contracts, which fall into Level 2.

Consolidated	**2017 Level 1 US$000s**	**2017 Level 2 US$000s**	**2017 Total US$000s**	2016 Level 1 US$000s	2016 Level 2 US$000s	2016 Total US$000s
Debt securities	**–**	**345,692**	**345,692**	–	385,953	385,953
Equity shares	**32,627**	**–**	**32,627**	28,719	–	28,719
Derivative financial instruments	**–**	**539**	**539**	–	55	55
UCITS	**13,584**	**–**	**13,584**	17,664	–	17,664
Financial assets held at fair value through profit and loss	**46,211**	**346,231**	**392,662**	46,383	386,008	432,391

Notes to the consolidated Financial Statements (continued)

Note 4: Management of financial risk (continued)

(f) Fair value estimations (continued)

Parent	2017 Level 1 US$000s	2017 Level 2 US$000s	2017 Total US$000s	2016 Level 1 US$000s	2016 Level 2 US$000s	2016 Total US$000s
Debt securities	–	284,838	284,838	–	307,071	307,071
Equity shares	32,627	–	32,627	28,719	–	28,719
Derivative financial instruments	–	539	539	–	55	55
UCITS	10,410	–	10,410	12,776	–	12,776
Financial assets held at fair value through profit and loss	43,037	285,378	328,415	41,495	307,126	348,621

(g) Insurance risk

The Group'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 the Group from a policyholder. The risk is managed through the underwriting process, the purchase of reinsurance cover, the management of claims costs and the reserving process.

Sensitivity to insurance risk

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

	2017 US$000s	2016 US$000s
1% increase in net reserves reduces surplus before tax and equity by:	2,519	2,519

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

Notes to the consolidated Financial Statements (continued)

Note 4: Management of financial risk (continued)

(i) Underwriting process

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

(ii) Reinsurance

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

The Group 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.

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

Notes to the consolidated Financial Statements (continued)

Note 5: Claims paid

(i) Claims paid

Claims paid include claims handling charges paid to the Managers totalling US$ 10.0 million (2016: US$ 10.9 million).

	2017 Gross US$000s	**2017 RI US$000s**	**2017 Net US$000s**	2016 Gross US$000s	2016 RI US$000s	2016 Net US$000s
Technical provisions at the beginning of the year	**296,723**	**(44,816)**	**251,907**	321,185	(65,837)	255,348
Claims (recovered)/paid	**(113,666)**	**20,607**	**(93,059)**	(108,617)	18,795	(89,822)
Claims incurred	**108,439**	**(13,037)**	**95,365**	88,517	1,793	90,310
Exchange differences	**12,609**	**(3,181)**	**9,428**	(4,362)	433	(3,929)
Technical provisions at the end of the year	**304,104**	**(40,464)**	**263,640**	296,723	(44,816)	251,907

Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Group'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$ 10.7 million (2016: US$ 6.2 million released).

Notes to the consolidated Financial Statements (continued)

Note 5: Claims paid (continued)

Assumptions underlying insurance balances

Reserving process

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

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

Significant delays are experienced in the notification and settlement of certain types of insurance claims, the ultimate cost of which may vary from the original assessment. Adjustments to claims provisions established in previous years are reflected in the consolidated Financial Statements for the period in which the adjustments are made.

There have been no changes in these assumptions since the previous year end.

Notes to the consolidated Financial Statements (continued)

Note 5: Claims paid (continued)

Insurance claims – gross

Estimate of ultimate claims costs attributable to policy years

Insurance claims gross	2012 US$000s	2013 US$000s	2014 US$000s	2015 US$000s	2016 US$000s	2017 US$000s
At end of reporting year	140,467	118,652	119,166	140,464	119,149	132,620
1 year later	138,007	104,326	103,435	123,738	117,031	–
2 years later	127,693	94,008	98,057	122,370	–	–
3 years later	129,305	91,789	100,776	–	–	–
4 years later	125,939	90,422	–	–	–	–
5 years later	125,877	–	–	–	–	–
Estimate of ultimate claims	125,877	90,422	100,776	122,370	117,031	132,620
Cumulative payments to date	109,535	75,190	78,400	74,071	57,145	18,080
Liability recognised on statement of financial position	16,342	15,233	22,375	48,298	59,886	114,540

	Total US$000s
Total liability relating the 2012 to 2017 years	276,674
Other claims liabilities for prior years	27,430
Total technical provisions included in statement of financial position	304,104

Notes to the consolidated Financial Statements (continued)

Note 5: Claims paid (continued)

Insurance claims – net

Insurance claims net	2012 US$000s	2013 US$000s	2014 US$000s	2015 US$000s	2016 US$000s	2017 US$000s
At end of reporting year	117,993	102,412	105,157	107,724	105,471	118,540
1 year later	114,530	91,986	91,383	102,382	98,323	–
2 years later	106,889	83,527	85,457	101,992	–	–
3 years later	100,283	80,218	87,672	–	–	–
4 years later	98,030	79,129	–	–	–	–
5 years later	96,743	–	–	–	–	–
Estimate of ultimate claims	96,743	79,129	87,672	101,992	98,323	118,540
Cumulative payments to date	88,443	65,657	68,121	59,200	47,738	15,578
Liability recognised on statement of financial position	8,300	13,472	19,551	42,792	50,585	102,962

	Total US$000s
Total liability relating to the 2012 to 2017 years	237,662
Other claims liabilities for prior years	25,979
Total technical provisions included in statement of financial position	263,640

Notes to the consolidated Financial Statements (continued)

Note 6: Deferred acquisition costs

	2017 US$000s	2016 US$000s
On insurance contracts	**6,860**	6,093

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

	2017 US$000s	2016 US$000s
At 1 January 2017	**6,093**	6,427
Expenses for the acquisition of insurance contracts deferred during the year	**767**	(334)
At 31 December 2017	**6,860**	6,093

Note 7: Reconciliation of insurance balances

	Gross		Reinsurers' share	
	2017 US$000s	2016 US$000s	2017 US$000s	2016 US$000s
At 1 January 2017	**64,597**	61,953	**9,734**	9,930
Increase/(decrease) in provision	**5,772**	2,644	**9,308**	(196)
At 31 December 2017	**70,367**	64,597	**19,042**	9,734

Note 8: Segmental information

	2017 US$000s	2016 US$000s
Gross premiums written		
– Members located in other EU states	**25,603**	29,367
– Members located in UK	**8,245**	8,879
– Members located outside EU	**153,714**	142,229
	187,562	180,475

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

Notes to the consolidated Financial Statements (continued)

Note 8: Segmental information (continued)

Gross premiums written	**2017 US$000s Members located in other EU states**	**2017 US$000s Members located in UK**	**2017 US$000s Members located outside EU**	**2017 US$000s Total**
Cargo	**1,774**	**738**	**4,217**	**6,729**
Containers and Chassis	**8,750**	**1,009**	**31,758**	**41,517**
Logistics	**7,236**	**2,732**	**44,430**	**54,398**
Other	**56**	**109**	**8,520**	**8,684**
Ports and Terminals	**5,338**	**2,369**	**44,167**	**51,874**
Property	**2,066**	**1,288**	**19,208**	**22,562**
Scheme	**383**	**–**	**1,414**	**1,797**
	25,603	**8,245**	**153,714**	**187,562**

Gross premiums written	2016 US$000s Members located in other EU states	2016 US$000s Members located in UK	2016 US$000s Members located outside EU	2016 US$000s Total
Cargo	1,016	642	3,865	5,523
Containers and Chassis	10,285	1,136	32,502	43,923
Logistics	7,456	2,241	41,696	51,393
Other	16	171	1,791	1,978
Ports and Terminals	5,554	2,994	41,610	50,158
Property	3,622	1,690	17,687	22,999
Scheme	1,418	5	3,078	4,501
	29,367	**8,879**	**142,229**	**180,475**

Notes to the consolidated Financial Statements (continued)

Note 9: Net operating expenses

	2017 US$000s	2016 US$000s
Acquisition costs		
Brokerage and commission	**21,582**	19,433
Management fee in respect of underwriting	**16,107**	16,809
Change in deferred acquisition costs	**(767)**	334
	36,922	36,576
Management fee in respect of management and performance related fee	**14,855**	14,246
General expenses	**3,755**	2,574
Directors' fees	**702**	719
Directors' travelling costs	**600**	707
Auditors' remuneration		
Parent company audit	**141**	130
Subsidiary company audit	**94**	86
Non-audit services		
– Other services pursuant to legislation, including audit of regulatory returns	**257**	276
– Tax compliance services	**–**	108
– Other services	**–**	–
	20,404	18,846
Total operating expenses before commission on reinsurance contracts	**57,326**	55,422
Commission on reinsurance contracts	**(3,369)**	(4,255)
	53,957	51,167

Notes to the consolidated Financial Statements (continued)

Note 10: Investment return

	2017 US$000s	2016 US$000s
Investment income		
Income from financial assets held at fair value through profit or loss	**6,271**	4,581
Net gains on the realisation of investments	**2,443**	411
Unrealised gains on investments	**1,312**	2,480
Foreign exchange gains	**1,553**	–
	11,579	7,472
Investment expenses and charges		
Interest payable	**(2,442)**	(1,815)
Other investment management expenses	**(1,271)**	(1,306)
Foreign exchange losses	**–**	(257)
Unrealised losses on investments	**(519)**	(538)
	(4,232)	(3,916)
Total investment return	**7,347**	3,556
Investment return is analysed between:		
Allocated investment return transferred to the technical business account	**4,245**	2,068
Net investment return included in the non-technical account	**3,101**	1,488
Total investment return	**7,347**	3,556

Note 11: Tax on ordinary activities

	2017 US$000s	2016 US$000s
(i) Analysis of tax charge on ordinary activities		
UK tax for the current period	**125**	96
Foreign tax for the current period	**–**	500
Adjustments in respect of prior periods	**(492)**	(248)
	(367)	348

Notes to the consolidated Financial Statements (continued)

Note 11: Tax on ordinary activities (continued)

	2017 US$000s	2016 US$000s
The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in Bermuda: 0% (2016: 0%) - the differences are explained below:		
Surplus on ordinary activities before tax	**7,294**	5,565
Tax at 0% thereon	**–**	–
Effects of:		
Tax levied outside Bermuda:		
United Kingdom	**125**	96
United States	**–**	500
Singapore	**–**	–
Australia	**–**	–
Adjustments in respect of prior periods		
United Kingdom	**–**	2
United States	**(473)**	(250)
Italy	**(19)**	–
Singapore	**–**	–
Australia	**–**	–
Current tax charge for year	**(367)**	348

The taxation charge comprises a charge for UK taxation based at a rate of 20% based on 10% of the Group'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: Shares in subsidiary undertakings

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

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

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

Note 13: Acquisition of Scottish Boatowners' Mutual Insurance Association Ltd

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

	£'000s	US$'000s
Land and buildings	163	218
RI share of claims outstanding	1,630	2,186
Debtors arising out of reinsurance operations	106	143
Other debtors	48	64
Cash at bank and in hand	2,544	3,320
Other prepayments and accrued income	20	27
Total assets	4,511	5,959
Claims outstanding	(1,630)	(2,186)
Other creditors	(25)	(33)
Accruals and deferred income	(17)	(52)
Retirement benefits and similar obligations	(47)	(63)
Total liabilities	(1,719)	(2,334)
Net assets	**2,792**	**3,625**
Fair value of consideration	–	–
Negative goodwill	**2,792**	**3,625**

Notes to the consolidated Financial Statements (continued)

Note 13: Acquisition of Scottish Boatowners' Mutual Insurance Association Ltd (continued)

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

The negative goodwill will be written through the Consolidated Income Statement when the assets and liabilities of SBO have been transferred to TTI. This is expected to occur in the fourth quarter of 2018 once a Part VII transfer of SBO's insurance liabilities to TTI has been completed.

Note 14: Other financial investments

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

	Carrying value		Purchase price	
Consolidated	**2017 US$000s**	2016 US$000s	**2017 US$000s**	2016 US$000s
Held at fair value through profit and loss:				
– debt securities	**345,692**	385,953	**346,169**	385,886
– equities	**32,627**	28,719	**28,126**	25,634
– UCITS	**13,584**	17,663	**13,584**	17,664
Financial assets held at fair value through profit and loss	**391,903**	432,335	**387,879**	429,184

	Carrying value		Purchase price	
Parent Company	**2017 US$000s**	2016 US$000s	**2017 US$000s**	2016 US$000s
Held at fair value through profit and loss:				
– debt securities	**284,838**	307,071	**285,094**	306,772
– equities	**32,627**	28,719	**28,126**	25,634
– UCITS	**10,410**	12,775	**10,410**	12,776
Financial assets held at fair value through profit and loss	**327,876**	348,565	**323,631**	345,182

Notes to the consolidated Financial Statements (continued)

Note 14: Other financial investments (continued)

The UCITS are Undertakings for Collective Investments of Transferable Securities, and are used as an alternative to short term cash deposits. They are classified as cash equivalents as they are short term, highly liquid investments that can be readily converted to cash.

The debt securities with a maturity of less than one year total US$113.4 million (2016: US$215.4 million) with the remainder recoverable after more than one year.

As described in note 2(h), the investments of US$391.9 million (2016: US$432.3 million) are valued in the Financial Statements at market value.

Note 15: Derivative financial instruments

(a) Fair value hedge
The Association 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.

2017	**Contract/ notional amount US$000s**	**Fair value asset US$000s**	**Fair value liability US$000s**	**Fair value per accounts US$000s**
Non hedge derivatives	**22,476**	**539**	**(156)**	**383**
Fair value/cash flow hedge	**74,803**	**1,251**	**(1,305)**	**(54)**
Total	**74,803**	**1,791**	**(1,461)**	**330**
2016				
Non hedge derivatives	36,097	55	(156)	(101)
Fair value/cash flow hedge	89,354	12,251	(12,790)	(539)
Total	125,451	12,306	(12,946)	(640)

Notes to the consolidated Financial Statements (continued)

Note 16: Subordinated loan

On 10th October 2006, the Association issued US$ 30 million of subordinated loan notes. Interest was payable on the loan notes at a rate of 2.95% plus three months USD LIBOR. The loan notes had a maturity date of 9th October 2036 and were repayable, in whole or in part at the Association's option, subject only to regulatory approval.

The Association had an obligation to deliver cash or, for interest settled under the alternative settlement mechanism, equivalent financial assets at maturity in 2036 or earlier as permitted by the terms of the loan notes and to pay interest up until the loan notes are repaid. Hence, despite qualifying as regulatory capital, the loan notes were included in subordinated liabilities.

In December 2017 the subordinated loan notes were repaid in their entirety.

Note 17: Guarantees and commitments

Investments to the value of US$ 38.41 million (2016: US$ 38.14 million) have been charged as collateral in respect of letters of credit as security for holders of insurance policies in Canada and for regulatory purposes in Singapore and Hong Kong.

The Association has issued a guarantee, not to exceed US$ 2.5 million, to TT Club Mutual Insurance Limited to enable it to comply with the solvency margin requirements of the Financial Services and Markets Act 2000. The amount withdrawn as 31st December 2017 amounted to nil (2016: nil).

Note 18: Related party transactions

The Association 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 are included within the consolidated Financial Statements. The premiums written on this agreement amounted to $104.3m (2016: $107.8m). The recoveries on paid claims was $81.0m (2016: $77.3m). A total of $23.6m 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$36.4 million (2016: US$40.3 million) in relation to the quota share with the parent company. Reinsurers' share of the provision for outstanding claims includes US$225.0 million (2016: US$213.4 million) in relation to the quota share with the parent company.

Notes to the consolidated Financial Statements (continued)

Note 18: Related party transactions (continued)

Through Transport Mutual Insurance Association Limited is managed by Thomas Miller (Bermuda) Limited. Under this arrangement, all day-to-day operations of the Association are outsourced to Thomas Miller (Bermuda) Limited. Total fees paid to Thomas Miller (Bermuda) Limited and related companies are disclosed in notes 4 and 6. At 31 December 2017 the outstanding amount payable by the Association amounted to US$ 3.2 million (2016: US$1.8 million). Other than the management fees disclosed, no further payments were made to Thomas Miller (Bermuda) Limited, its related companies, or its directors.

Note 19: Retirement benefits and similar obligations

SBO manages a defined benefit plan for its former employees. All information regarding the defined benefit plan can be found in the publicly available Financial Statements for SBO under note 26: Commitments to Pension Fund

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