TT CLUB

established expertise

Financial Highlights

for the year ended 31 December 2019

TT CLUB IS MANAGED BY **THOMAS MILLER**

Contents

Chairman's Review

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

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

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

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

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

Financial Performance

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

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

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

Chairman's Review

(continued)

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

Loss prevention

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

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

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

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

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

1 Cargo Incident Notification System, www.cinsnet.com

2 International Maritime Organization, www.imo.org

Chairman's Review

(continued)

Regulatory

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

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

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

Directors and Board Committee Membership

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

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

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

Chairman's Review

(continued)

2020

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

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

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

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

U. Kranich
Chairman
22 April 2020

Financial Highlights

for the year ended 31 December 2019

A- (excellent)

AM Best financial strength rating
Balance sheet strength at "very strong" as measured by the AM Best capital adequacy model

89%

Financial year combined ratio / %
(2018 = 87) Total claims and expenses divided by net earned premiums, excluding exchange movements, quota share reinsurance and exceptional items

117.2

Gross paid claims / US$ million
(2018 = 95.0)

206.2

Gross earned premiums / US$ million
(2018 = 195.0)

5.5%

Underlying investment return / %
(2018 = 1.3)

16.0

Net result / US$ million
(2018 = 16.5)

225.5

Total surplus and reserves / US$ million
(2018 = 209.5)

96%

Member retention / %
(2018 = 96) Based on premium

Five-year Summary

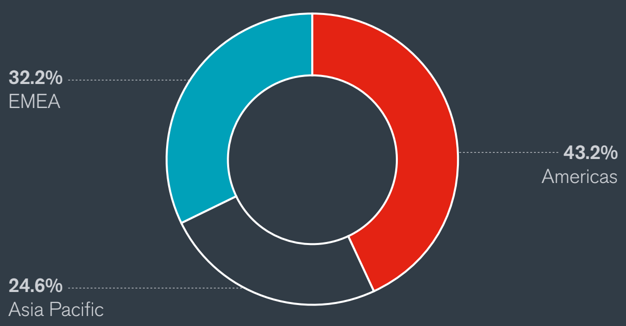
	2015 US$000s	2016 US$000s	2017 US$000s	2018 US$000s	**2019 US$000s**
Gross earned premiums	171,985	177,831	181,790	194,983	**206,178**
Brokerage and commission	(18,415)	(19,767)	(20,816)	(22,842)	**(24,285)**
Gross earned premiums, net of brokerage and commission	153,570	158,064	160,974	172,141	**181,893**
Reinsurance premiums ceded	(34,054)	(34,384)	(32,925)	(56,876)	**(59,519)**
Net claims incurred	(84,599)	(90,310)	(95,365)	(71,354)	**(82,893)**
Net operating expenses	(30,091)	(31,361)	(33,104)	(30,691)	**(46,509)**
Investment return	1,665	5,628	8,237	4,911	**22,870**
Reversal of negative goodwill	0	0	0	0	**3,625**
Exchange gains / (losses)	100	(257)	1,552	(985)	**(2,561)**
Interest payable	(1,887)	(1,815)	(2,442)	(589)	**(502)**
Taxation	96	(348)	367	(97)	**(383)**
Surplus for the year	**4,800**	**5,217**	**7,294**	**16,460**	**16,021**

Summary balance sheets

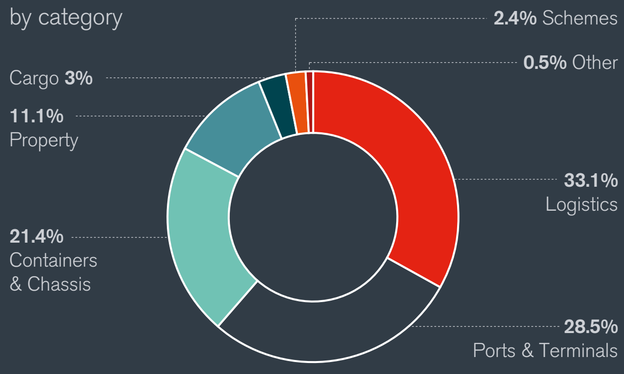
	2015 US$000s	2016 US$000s	2017 US$000s	2018 US$000s	**2019 US$000s**
Total cash and investments	494,858	490,980	469,206	483,773	**487,815**
Other assets	123,248	122,071	128,413	135,574	**145,961**
Total assets	**618,106**	**613,050**	**597,619**	**619,347**	**633,776**
Gross unearned premiums and claims reserves	(383,140)	(361,320)	(374,471)	(377,122)	**(382,249)**
Other liabilities	(27,607)	(36,708)	(30,088)	(32,705)	**(25,986)**
Subordinated loan	(29,218)	(29,256)	0	0	**0**
Total surplus and reserves	**178,141**	**185,766**	**193,060**	**209,520**	**225,541**

Comparative Figures

Gross written premiums
by region



Gross written premiums
by category



206.2 **Gross earned premiums**
US $ millions

2015	172.0
2016	177.8
2017	181.8
2018	195.0
2019	**206.2**

89% **Combined ratio / %**
(excluding exceptional items)

2015	94
2016	95
2017	97
2018	87
2019	**89**

5.5% **Investment return / %**
(before investment management fees)

2015	0.4
2016	1.6
2017	2.1
2018	1.3
2019	**5.5**

16.0 **Net result**
US $ millions

2015	4.8
2016	5.2
2017	7.3
2018	16.5
2019	**16.0**

225.5 **Surplus and reserves**
US $ millions

2015	178.1
2016	185.8
2017	193.1
2018	209.5
2019	**225.5**

96% **Member retention / %**
(based on gross written premium)

2015	95
2016	93
2017	93
2018	96
2019	**96**

Board of Directors

As of 30 April 2020

CHAIRMAN

U Kranich*#
Hamburg

DEPUTY CHAIRMAN (TTB)

J Callahan*
Nautilus International Holding Corporation, Long Beach

DEPUTY CHAIRMAN (TTI)

J Küttel*#
Ermewa, Paris

A Abbott*
Atlantic Container Line, New York

U Baum*#
Röhlig Logistics GmbH & Co KG, Bremen

G Benelli*
Specialist Director (Investment)

A Chang*
Evergreen Group, Taipei

Chen Xiang*
Cosco Container Line, Shanghai

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

M Engelstoft*
A P Møller-Maersk, Copenhagen

T Faries*
Appleby, Bermuda

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

A Fullbrook*
OEC Group, New York

T Leggett*
Specialist Director (Finance)

R Murchison*
Murchison Group, Argentina

Y Narayan*
DP World, Dubai

J Neal*
Carrix, Seattle

J Nixon*
Ocean Network Express, Singapore

M Onslow#
Specialist Director (Insurance)

M d'Orey*
Orey Shipping SL, Lisbon

J Reinhart*
Virginia Port Authority

D Robinson MBE*#
PD Ports, Middlesbrough

N Smedegaard*#
DFDS, Copenhagen

CK Tan*
Pacific International Lines (Pte) Ltd, Singapore

S Vernon*
Triton International Ltd, London

E Yao*
Orient Overseas Container Line Ltd, Hong Kong

* Directors of Through Transport Mutual Insurance Association Ltd (TTB)
\# Directors of TT Club Mutual Insurance Ltd (TTI)

ttclub.com