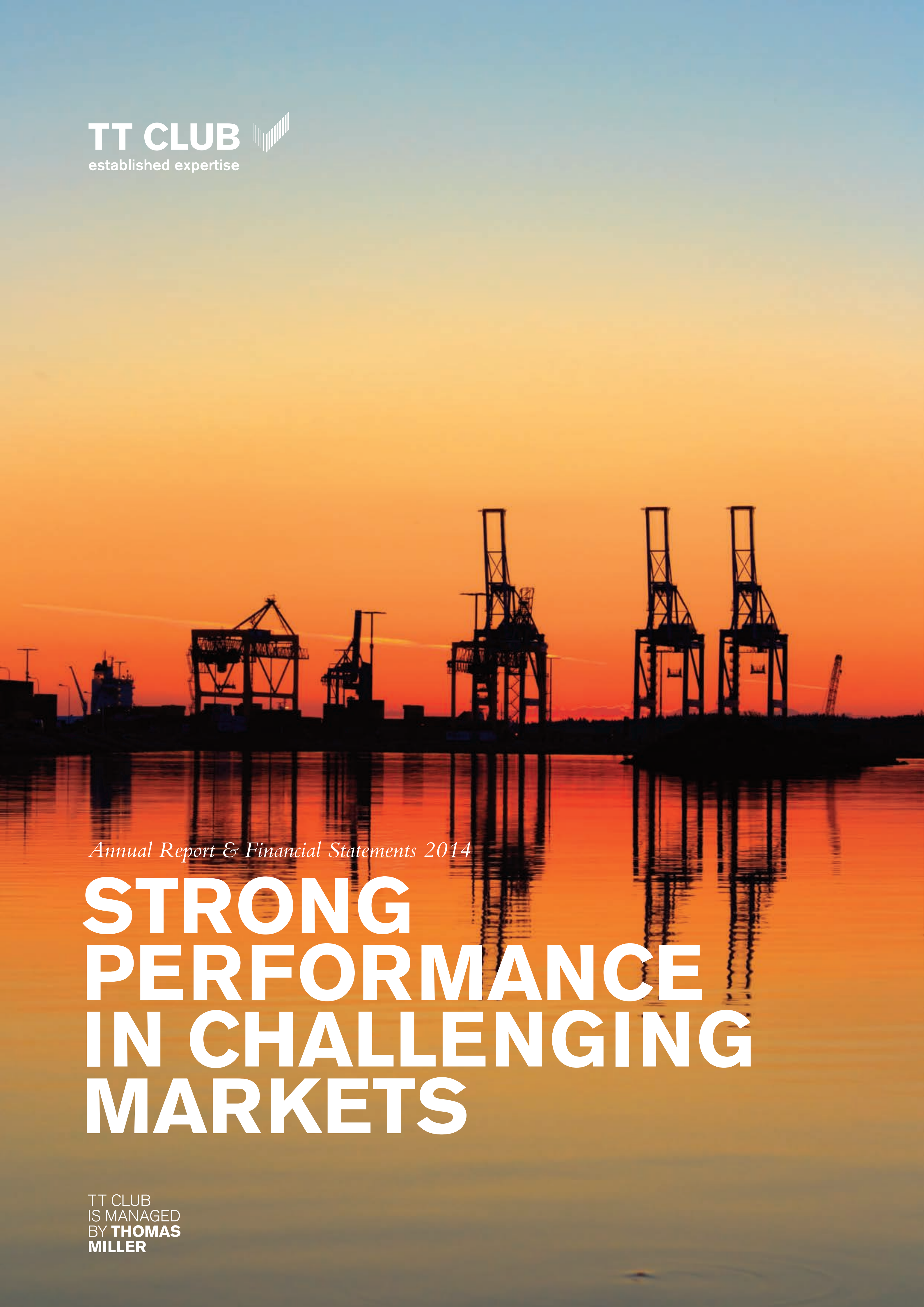


TT CLUB
established expertise

*Annual Report & Financial Statements 2014*

# STRONG PERFORMANCE IN CHALLENGING MARKETS

TT CLUB
IS MANAGED
BY **THOMAS**
**MILLER**

# Contents

## Through Transport Mutual Insurance Association Limited



## TT Club Mutual Insurance Limited

# Directors and Management

## Chairman

**K Pontoppidan** 2 3
Copenhagen

## Deputy Chairman

**J Callahan** 3 (appointed 26 June 2014)
Nautilus International Holding Corporation, Los Angeles

**J A Dorto** 3 (retired 26 June 2014)
Virginia International Terminals Inc, Norfolk

## Directors

**S Bradford** (retired 20 March 2014)
Formerly Port of Melbourne Corporation, Melbourne

**M Engelstoft**
A P Møller-Maersk, Copenhagen

**T Faries**
Appleby, Bermuda

**A Fullbrook**
OEC Group, New York

**G Gluck**
M&S Shipping Group Plc, London

**K Hellmann**
Hellmann Worldwide Logistics GmbH & Co KG, Osnabrück

**B Hsieh**
Evergreen Group, Taipei

**D Jürgensen** (resigned 17 December 2014)
The Bertling Group, Hamburg

**S Kelly**
Modern Terminals Ltd, Hong Kong

**U Kranich** 1
Hapag-Lloyd AG, Hamburg

**J Küttel** 1
Ermewa, Geneva

**C Larrañaga**
Terminal de Contenidors de Barcelona, Barcelona

**T J Leggett** 1
Specialist Director - Finance

**H Maekawa** 3
Kawasaki Kisen Kaisha Ltd, Tokyo

**R Murchison**
Murchison Group, Argentina

**Y Narayan**
DP World, Dubai

**E O'Toole**
International Port Holdings Ltd, London

**O Rakkenes**
Atlantic Container Line AB, New Jersey

**D Rennie** (deceased 12 September 2014)
Grindrod Ltd, South Africa

**C Sadoski** 2
Carrix Inc, Seattle

**G Sjöholm** 1 (retired 20 March 2014)
Formerly Port of Gothenburg, Gothenburg

**N Smedegaard** (appointed 26 June 2014)
DFDS, Copenhagen

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

**J Thomson** 2
Specialist Director – Investments

**E Yao** 2
Orient Overseas Container Line Ltd, Hong Kong

**Zhou Hu** (resigned 4 December 2014)
Cosco Container Lines Co Ltd, Shanghai

## Registered Office

Canon's Court, 22 Victoria Street
Hamilton, Bermuda

## Company Registration number

1750

**1 Audit & Risk Committee member**
**2 Investment Committee member**
**3 Nominations Committee member**

## Managers

Thomas Miller (Bermuda) Ltd

## Company Secretary

Thomas Miller (Bermuda) Limited
Telephone 01624 645242

## Independent Auditors

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

# Financial Highlights 2014

| | **2014 US$000s** | 2013 US$000s |
|---|---|---|
| **Results for financial year** | | |
| Gross earned premiums | **182,215** | 181,823 |
| Brokerage | **(20,414)** | (19,707) |
| Net earned premiums | **161,801** | 162,116 |
| Reinsurance premiums ceded | **(42,712)** | (44,407) |
| Investment income, gains and losses, and other income | **4,208** | 6,052 |
| Exchange losses | **(10,832)** | (1,843) |
| Net claims incurred | **(65,078)** | (79,982) |
| Expenses, taxation and minority interest | **(39,646)** | (34,725) |
| Overriding commission on quota share reinsurances | **6,381** | 4,759 |
| Surplus on ordinary activities after tax | **14,122** | 11,970 |

| | **2014 US$000s** | 2013 US$000s |
|---|---|---|
| **Summary balance sheet** | | |
| Total cash and investments | **507,891** | 494,927 |
| Other assets | **101,186** | 146,433 |
| Total assets | **609,077** | 641,360 |
| Gross unearned premiums and claims reserves | **(361,229)** | (401,291) |
| Other liabilities | **(42,920)** | (49,301) |
| Subordinated loan | **(29,181)** | (29,143) |
| Total surplus and reserves | **175,747** | 161,625 |

## Chairman's Review

The global economy continues to be challenging for Members of the Club. While growth in the United States is predicted to increase in 2015, the outlook for many other countries is weak and the drop in the oil price over the last six months has added to the volatility experienced since 2008. In the insurance market the low level of natural catastrophe losses of recent years continued in 2014, and this coupled with a widely reported benign claims environment has led to already soft premium rating conditions becoming softer still, particularly in respect of reinsurance. Such conditions have been compounded by capital not historically employed in the insurance sector seeking an insurance home, as recent year returns in the insurance sector have generally been better than in other investment markets.

While every insurer will to some extent be impacted by these factors, the Club is less affected than most. As a primary mutual insurer, the Club works closely with each Member to adapt its approach to each Member's needs and to deliver services to help Members more effectively manage their operations. By doing this the Club's finances are more significantly impacted by Members' claims fortunes than by the supply of insurance capital. The Club's strong performance in recent years has in part, therefore, been due to the value delivered through the Club's claims and loss prevention services.

**Trading Position**

The Club performed well in 2014 producing a surplus after tax of just over US$14 million. That result increases the Club's total surplus and reserves to US$176 million. This is a record level for the Club and further strengthens the Club's capital position. The benign large claims experience in 2013 continued in 2014. That factor, which was compounded by a smaller than expected development of prior year claims, was a major contributor to the operating result. In respect of claims under US$ 1 million, the very good performance in 2013 was not repeated, with the more significant claims in that band returning to long term trend levels. Claims above US$ 1million, however, were some way below expectations.

For the Club, Members' records are the major driver of premium levels. The aim of the Club's underwriters is to assess Members at the necessary rates to cover their risk exposures. Beyond the requirement to meet the needs of the Club's regulators and ratings agencies, there is no particular need for the Club to deliver a specified return on capital, unlike non-mutual insurers. This means that if claims levels are low, premium levels will also be subdued as Members will not be asked to pay more than their collective risk exposures. The Club is also impacted, but to a lesser extent, by insurance market forces and the strong supply of capital has led to a weak pricing environment as widely reported.

At the renewals of the Club's general reinsurance programmes for the 2014 and 2015 years good price reductions were achieved. The reductions follow from an improving loss record with the Club's long standing reinsurance partners, together with the inclusion in the main programme of an element of reinsurance that has historically been run separately, but which over the last two renewals has become increasingly integrated. That change aside, the structure of the main general excess of loss programme remains essentially the same. The Club continues to have in place a whole account quota share and stop loss policy to provide further balance sheet protection.

## Chairman's Review (continued)

In respect of investment matters, 2014 did not see quite the same performance in US investment markets as 2013 had. The instability of recent years continued and as a result, the Club maintained its approach of holding its investible assets mostly in cash and short dated government and corporate bonds. A small holding in US and UK equities was maintained to boost the overall return and this approach was successful with an ex-currency return of 1.3% in the year.

Maintaining the Club's financial strength rating with AM Best is a main aim when the Board plans the Club's finances. For what is now the ninth successive year the A- (Excellent) rating has been maintained and our expectation is that it will continue to be in 2015.

Solvency II comes in to force across Europe on 1 January 2016. In the lead in to this date the Club has worked hard to put in place the necessary preparations. Notably in 2014 the Club submitted its interim Own Risks and Solvency Assessment (ORSA) overview document to the United Kingdom's financial services regulator. More generally, the Club is well placed to fully meet the requirements of Solvency II.

### Customer Satisfaction Survey

As I commented last year in this Review, customer feedback is very important to the Club Board. The Club continuously strives to maintain the high standards that Members and their brokers have become accustomed to and the Customer Satisfaction Survey plays an important role in capturing that feedback, measuring it over time and identifying areas on which to focus service improvements. In March 2014 the Club ran what will now be a bi-annual survey of Members and their brokers. The survey, undertaken by an independent research organisation, sought feedback on the overall level of satisfaction with the Club's service and how that compares relative to the experience of its competitors.

I am delighted to tell you that the overall satisfaction scores from Members and brokers exceeded the Club's KPI target score and in fact were the highest scores recorded since the survey process began. It was also very pleasing to note that there have been positive improvements in the scores across all of the regions in which the Club operates, and very high levels of satisfaction with claims and underwriting service delivery.

There were no areas of significant service improvement identified in the survey. We recognise, however that there is no room to be complacent if we are to continue to adapt and meet the needs of our customers and to deliver on what is at the heart of the Club's brand, 'Established Expertise'. We continue, therefore to work hard to meet, and where possible, exceed the standards we have set in the Club's Service Commitment.

I would like to take this opportunity to personally thank all of those Members and brokers who participated in the survey and to encourage you to continue to give us feedback on the Club's service in your day to day dealings with the Club.

## **Chairman's Review** (continued)

### Loss Prevention

The Club continues to focus its loss prevention activities at two levels; working with the industry to deliver improvements and helping Members improve their operational performance. The Club's risk management function has continued to be actively engaged in the international debates concerning the SOLAS verification of gross mass of containers and the finalisation of the IMO/ILO/UNECE CTU Code. Both these matters entered implementation phase before the end of 2014. These initiatives, spanning all modes, are seen as significant in advancing safety in the industry, not only having the potential to reduce attritional cargo loss and damage claims, but also preclude a portion of injury claims and major casualties. As a result, energy is being put into collaborating with a number of different organisations through the supply chain, including those representing shipper interests.

These international legal developments will undoubtedly, if adequately and consistently implemented, bring about some improvements through the supply chain. However, to the extent that they are apparent, the benefits may accrue more to landside operations. The Club is therefore active amongst the maritime community in promoting action in relation to the remaining elements of the MARIN 'Lashing@Sea' investigation.

Apart from day-to-day interactions between underwriters and claims handlers with Members and their brokers, there are scores of specific loss prevention meetings each year at Members' premises around the world. During these interactions the Club continues to push hard on improving safety practices for landside operations. In too many instances pedestrians are particularly exposed to injury because of inadequate traffic flow management and separation. Improving general safety has been shown to improve all aspects of operational performance, not restricted to costs related to liabilities or assets.

All the valuable information and lessons learned collected by the Club in its activities continues to be highlighted through the Club's publications and particularly its monthly e-newsletter, TT Talk. The topics covered range from cargo and equipment management issues, through general safety matters and regulatory developments to explanation of shipping and trade practices.

### Directors and Officers

The Club Board said goodbye in the year to two long serving Directors, Joe Dorto and Gerd Sjöholm. Mr Dorto joined the Club Board in 1989, had been Deputy Chairman of TT Bermuda since 2009 and served on the Nominations Committee since 1992. Mrs Sjöholm joined the TT Bermuda Board in 2003. She also served on the TTI Board and since 2008 was Chairman of the Audit and Risk Committee. The role of Chairman of that important Committee has been taken by Ulrich Kranich. In addition, Messrs Zhou Hu and Dirk Jürgensen resigned from the Board in the year and very sadly, Dave Rennie passed away. My thanks and those of my fellow Directors go to all of them for their wise counsel during their time in office.

## Chairman's Review (continued)

Mr Dorto's departure from the Board created a vacancy for the position of Deputy Chairman of TT Bermuda which was taken by James Callahan. Similarly the departure of Mrs Sjöholm created a vacancy for the position of Deputy Chairman of TTI and that position was taken by Josef Küttel.

I can tell you that your Club Board continues to be made up of a strong group of individuals who are representative of the membership by region and category of operator. The Board continues to attract high quality individuals to represent Members' interests.

I would like especially this year to thank the Managers of the Club. The Club's results over last two years, 2013 and 2014, clearly show the benefits of the strategy that they recommended to the Board in 2009 and subsequently implemented under the Board's oversight. An improved and more stable financial performance coupled with very good feedback on service to members should not pass without comment.

This year the Club Board will meet in Auckland, Southampton (Bermuda) and Seattle. Member events will be held alongside these meetings. The Directors and I look forward to discussing the Club with you and any suggestions you may have for improvements.

**K Pontoppidan,** *Chairman*
26 March 2015

# Strategic Report

The Directors present herewith their strategic report for the year ended 31 December 2014.

## Business review

The principal activities of the 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.

**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 has outsourced 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$ 182.2 million which was 0.2% higher than 2013.

The forecast ultimate loss ratio for the 2014 policy year is 78% which is the same as the 2013 year at the same stage, Prior policy years claims have been lower than expected, resulting in a release of prior year best estimate claims reserves, excluding currency effects, of US$ 16.6 million (2013: US$ 7.4 million).

The technical result for 2014, after allowing for the attribution of investment income on the claims reserves, was a surplus of US$ 18.6 million (2013: surplus of US$ 11.2 million). The underlying investment return, excluding currency effects, was 1.30%. The non-technical account produced a deficit of US$ 4.5 million (2013: surplus of US$ 0.8 million), resulting in an overall net surplus after tax of US$ 14.1 million (2013: surplus of US$ 12.0 million).

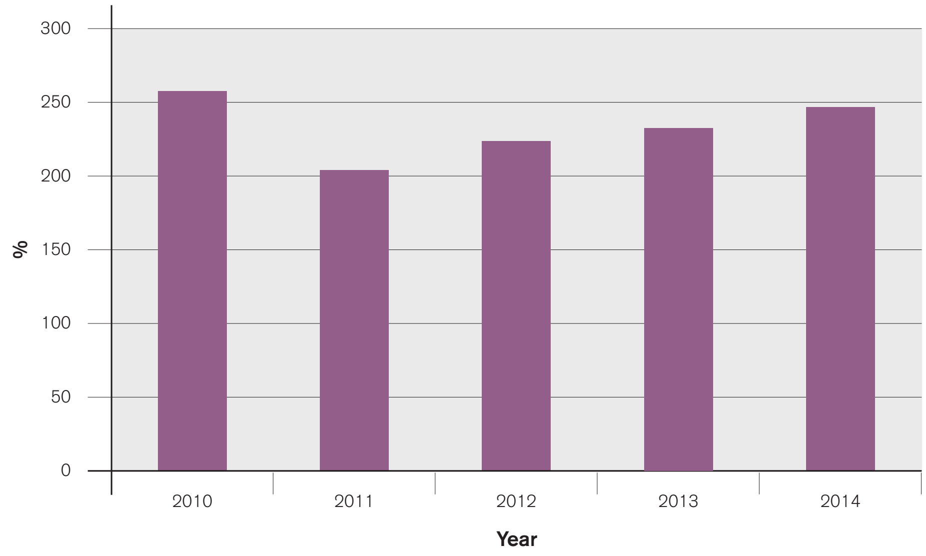
As a result the Group's surplus and reserves now stand at US$ 175.5 million (2013: US$ 161.4 million). In addition to this, the Group's regulatory capital includes US$ 30 million in subordinated loan notes issued by the parent company in October 2006. The notes mature in 2036 and are repayable at the company's option from October 2011, subject to regulatory approval. They are fully admissible for regulatory (PRA) purposes under the current Solvency I regime until 2034 and credit rating (AM Best) purposes until 2016, after which the level of admissibility will gradually decline.

## **Strategic Report** (continued)

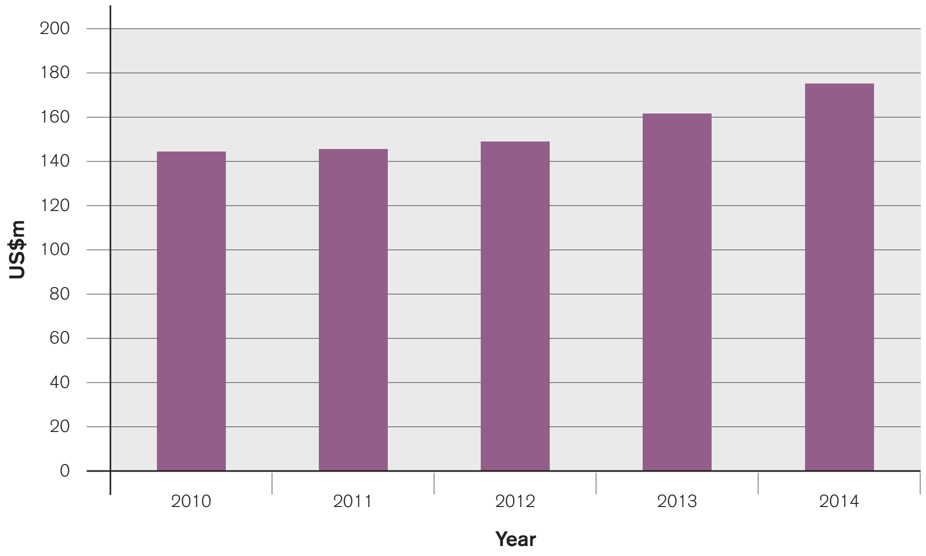
The principal KPIs by which performance is monitored by the Board are detailed below.

1. **Financial strength –** AM Best rating
   The Group has had a rating of A- (Excellent) since 2007.

2. **Solvency –** capital as a percentage of PRA Enhanced Capital Requirement (ECR)




3. **Capital –** surplus and reserves

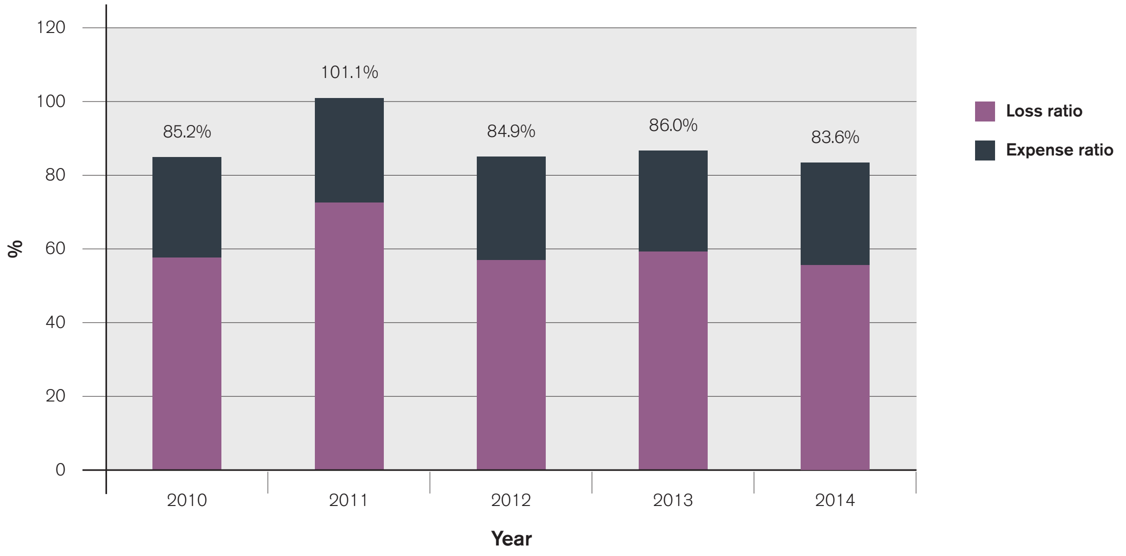



The Group's financial strategy, approved by the Board, is to maintain within the business sufficient capital to meet regulatory requirements, and to maintain an AM Best rating of A- (Excellent) over the insurance market cycle, with a substantial margin in each case. The Directors are satisfied that both elements of this strategy have been maintained throughout 2014.

## **Strategic Report** (continued)

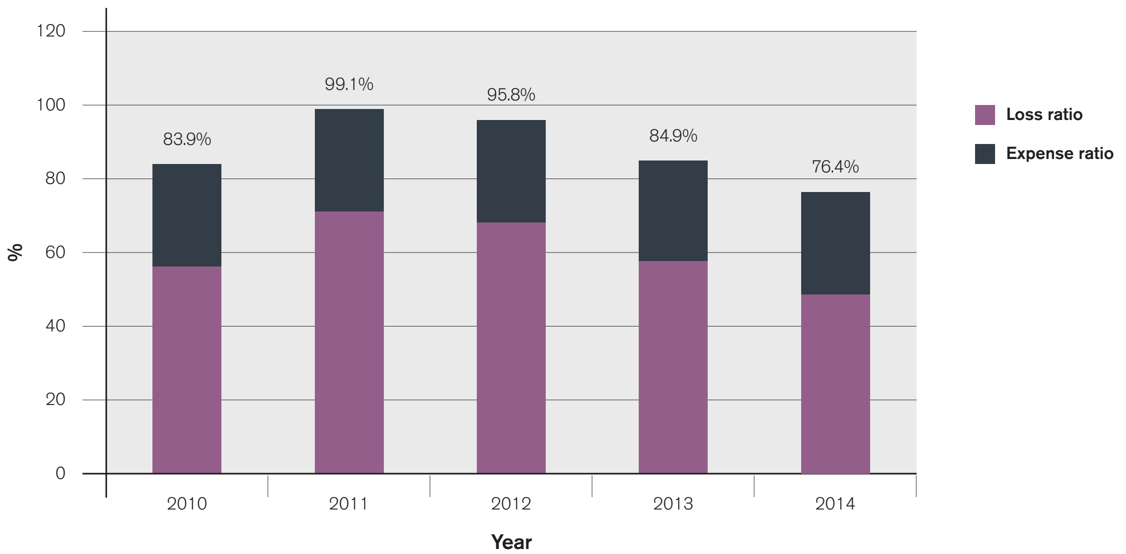
**4(a). Operating ratios** – loss ratio, expense ratio and combined ratio, restated to exclude the estimated effect of exchange movements on claims reserves

### Combined ratio




**4(b). Operating ratios** – loss ratio, expense ratio and combined ratio as a percentage of net earned premiums, including prior year claims reserves movements and exchange movements on claims reserves

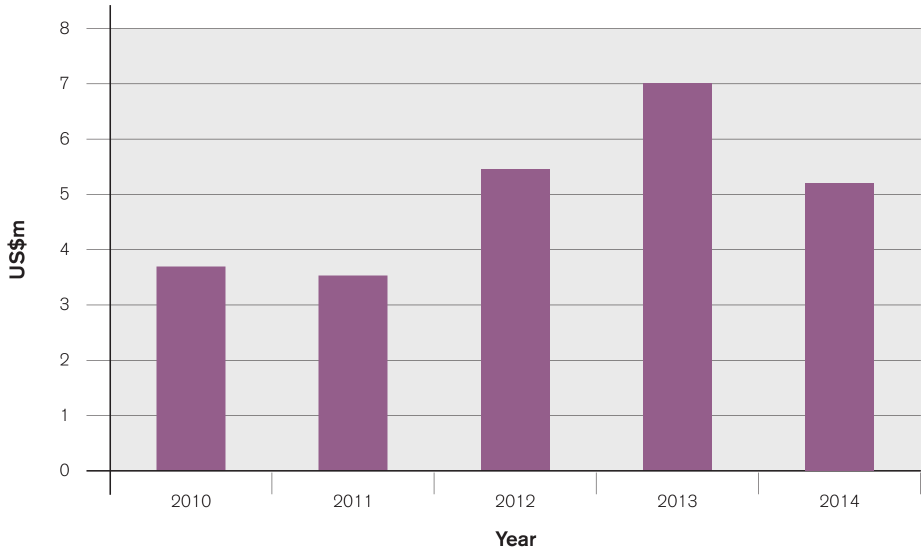
### Combined ratio



## **Strategic Report** (continued)

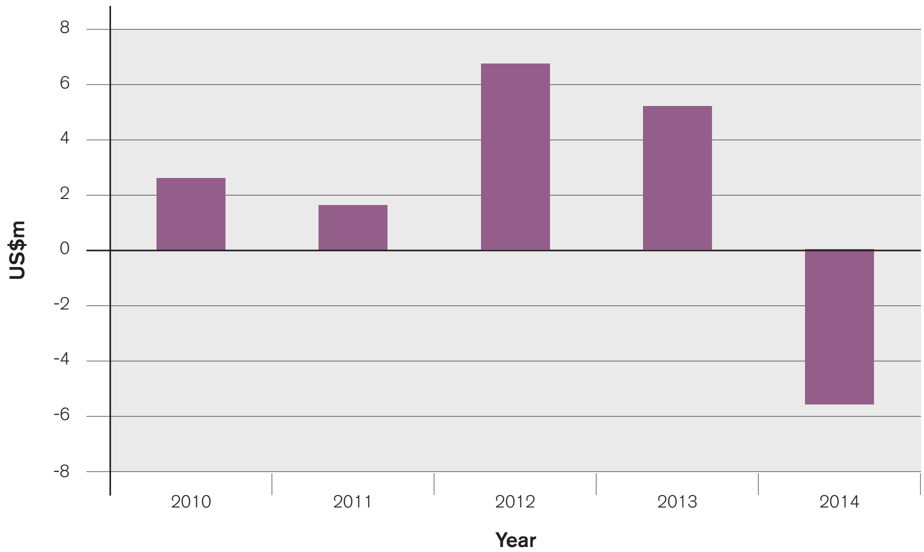
### **5(a). Investment performance** – return gross of tax and excluding exchange movements

**Investment return**




### **5(b). Investment performance** – return gross of tax and excluding exchange movements

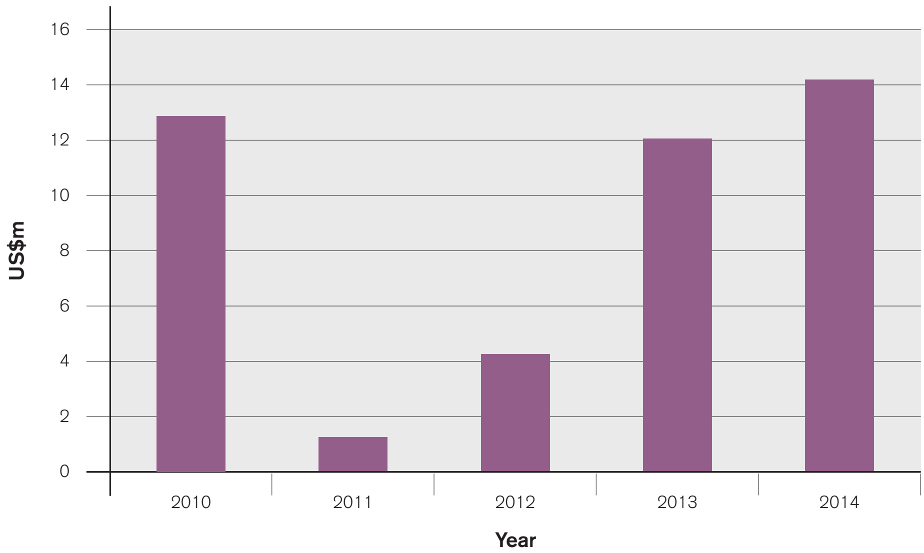
**Investment return**



## **Strategic Report** (continued)

**6. Net result –** income and expenditure surplus after tax

**Net result**




**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*
26 March 2015

## Directors' Report

The Directors present herewith their Report and the audited consolidated financial statements of Through Transport Mutual Insurance Association Limited ("the Association" or "Company"). The Association and its subsidiary, TT Club Mutual Insurance Limited, trade collectively as the "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.

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

## 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

**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 Association and its management of financial risks is disclosed in Note 3 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, 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 & 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. At the meeting of the Directors following the Annual General Meeting in June 2014, K Pontoppidan was re-appointed as Chairman of the Board. J Callahan was appointed as a Deputy Chairman. 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 22, 16 and 17 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 2014 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 2013 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 2013 policy year and in addition, closed the 2011 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 2014.

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 three occasions during 2014.

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 2014.

**Statement of disclosure of information to auditors**

Each of the persons 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 2014 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.

By approval of the Board

**Thomas Miller (Bermuda) Limited,** *Company Secretary*
26 March 2015

## 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*
26 March 2015

## Notice of Meeting

Notice is hereby given that the forty-sixth Annual General Meeting of the Members of the Association will be held at the Fairmont Southampton Hotel, Bermuda on the eighteenth day of June 2015 at 8.45 am for the following purposes:

To receive the Directors' Report and Financial Statements for the year ended 31 December 2014 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*
26 March 2015

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

We have audited the Group and parent company financial statements (the "financial statements") of Through Transport Mutual Insurance Association Limited for the year ended 31 December 2014 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law in Bermuda and United Kingdom Accounting Standards as issued by the UK Accounting Standards Board.

**Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 17 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law in Bermuda and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, 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 the opinion, 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.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2014 and of the group's and parent company's profit and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

**PricewaterhouseCoopers LLP**
Chartered Accountants, London, United Kingdom
26 March 2015

# Consolidated Income and Expenditure Account
# for the year ended 31 December 2014

## Technical Account

| | Note | 2014 US$000s | 2014 US$000s | 2013 US$000s | 2013 US$000s |
|---|---|---|---|---|---|
| Gross premiums written | 13 | | **179,946** | | 186,307 |
| Reinsurance premiums ceded | | | **(40,377)** | | (44,465) |
| Premiums written, net of reinsurance | | | **139,569** | | 141,842 |
| Change in provision for unearned premiums | | | | | |
| Gross | | **2,269** | | (4,484) | |
| Reinsurers' share | | **(2,539)** | | (139) | |
| | | | **(270)** | | (4,623) |
| Earned premiums, net of reinsurance | | | **139,299** | | 137,219 |
| Allocated investment return transferred from the non-technical account | 2(j) | | **(4,569)** | | 2,248 |
| Other technical income | | | **19** | | 35 |
| Claims paid | | | | | |
| Gross | 4 | **(89,971)** | | (114,262) | |
| Reinsurers' share | 5 | **20,443** | | 20,279 | |
| | | **(69,528)** | | (93,983) | |
| Change in the provision for claims | | | | | |
| Gross | | **37,793** | | 39,928 | |
| Reinsurers' share | | **(33,343)** | | (25,927) | |
| | | **4,450** | | 14,001 | |
| Claims incurred, net of reinsurance | | | **(65,078)** | | (79,982) |
| Net operating expenses | 6 | | **(51,097)** | | (48,343) |
| Balance on the technical account | | | **18,574** | | 11,177 |

All activities derive from continuing operations.

## Consolidated Income and Expenditure Account for the year ended 31 December 2014 (continued)

### Non-technical Account

| | Note | 2014 US$000s | 2013 US$000s |
|---|---|---|---|
| Balance on the technical account | | **18,574** | 11,177 |
| Investment income | | **4,541** | 3,739 |
| Unrealised gains on investments | | **656** | 3,298 |
| Interest payable | | **(1,891)** | (1,650) |
| Exchange losses | | **(10,832)** | (1,842) |
| Total investment return | *7* | **(7,526)** | 3,545 |
| Allocated investment return transferred to the technical account | *2(j) & 7* | **4,569** | (2,248) |
| Surplus on ordinary activities before tax | | **15,617** | 12,474 |
| Tax on ordinary activities | *8* | **(1,495)** | (504) |
| Surplus on ordinary activities after tax | | **14,122** | 11,970 |
| Surplus for the financial year | *11* | **14,122** | 11,970 |

All activities derive from continuing operations.

Neither gains nor losses arising on the holding or disposal of investments; nor the effect of fair value accounting for financial instruments are required to be included in a note of historical profits and losses. There are no other differences between the profit on ordinary activities before tax or the profit for the financial year stated above and their historical cost equivalents.

Note 11 details the movements on the Reserve Fund during the year. There are no recognised gains or losses other than those shown in the Consolidated Income and Expenditure Account. Accordingly, no statement of total recognised gains and losses has been prepared.

The notes on pages 25 to 47 form an integral part of these financial statements.

# Balance Sheets
# as at 31 December 2014

| | Note | Consolidated 2014 US$000s | Consolidated 2013 US$000s | Parent Company 2014 US$000s | Parent Company 2013 US$000s |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investments | | | | | |
| Shares in subsidiary undertakings | *9* | **–** | – | **12** | 12 |
| Other financial investments | *10* | **468,055** | 458,928 | **377,734** | 375,383 |
| Reinsurers' share of technical provisions | | | | | |
| Provision for unearned premiums | | **9,643** | 12,182 | **–** | – |
| Claims outstanding | | **42,955** | 76,298 | **1,350** | 2,114 |
| | | **52,598** | 88,480 | **1,350** | 2,114 |
| Debtors | | | | | |
| Arising out of direct insurance operations - policyholders | | **35,956** | 35,406 | **1,736** | 965 |
| Arising from reinsurance ceded | | **3,469** | 12,883 | **37,385** | 37,966 |
| Amounts due from group undertakings | | **–** | – | **9,773** | 1,831 |
| Corporation tax debtor | | **871** | 200 | **–** | 200 |
| Other debtors | | **1,201** | 2,381 | **55** | 179 |
| | | **41,497** | 50,870 | **48,949** | 41,141 |
| Cash at bank and in hand | | **39,836** | 35,999 | **5,108** | 3,116 |
| Prepayments and accrued income | | | | | |
| Accrued interest | | **619** | 680 | **617** | 668 |
| Deferred acquisition costs | | **6,241** | 6,211 | **519** | 414 |
| Prepayments | | **231** | 192 | **186** | 142 |
| | | **7,091** | 7,083 | **1,322** | 1,224 |
| **Total assets** | | **609,077** | 641,360 | **434,475** | 422,990 |

# Balance Sheets
## as at 31 December 2014 (continued)

| | Note | Consolidated 2014 US$000s | Consolidated 2013 US$000s | Parent Company 2014 US$000s | Parent Company 2013 US$000s |
|---|---|---|---|---|---|
| **Liabilities and reserves** | | | | | |
| Reserves | | | | | |
| Statutory reserve | | **240** | 240 | **240** | 240 |
| Surplus and reserves | 11 | **175,507** | 161,385 | **120,598** | 106,088 |
| | | **175,747** | 161,625 | **120,838** | 106,328 |
| Subordinated liabilities | 12 | **29,181** | 29,143 | **29,181** | 29,143 |
| **Technical provisions** | | | | | |
| Provision for unearned premiums – gross | | **60,248** | 62,517 | **40,758** | 40,343 |
| Claims outstanding – gross | | **300,981** | 338,774 | **234,836** | 239,437 |
| | | **361,229** | 401,291 | **275,594** | 279,780 |
| **Creditors** | | | | | |
| Arising out of direct insurance operations | | **85** | 16 | **–** | – |
| Arising from reinsurance ceded | | **30,439** | 27,576 | **727** | – |
| Provision for taxation | | **507** | 579 | **509** | 211 |
| Accrued expenses and sundry creditors | | **11,925** | 21,166 | **7,626** | 7,528 |
| | | **42,956** | 49,337 | **8,862** | 7,739 |
| Equity minority interest | | **(36)** | (36) | **–** | – |
| **Total liabilities and reserves** | | **609,077** | 641,360 | **434,475** | 422,990 |

The notes on pages 25 to 47 form an integral part of these financial statements.

The financial statements on pages 20 to 47 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf by:

**K Pontoppidan,** *Director*
**J Callahan,** *Director*

**Company Registered Number**
1750

# Consolidated Cash Flow Statement for the year ended 31 December 2014

| | Note | **2014 US$000s** | 2013 US$000s |
|---|---|---|---|
| **Operating activities** | | | |
| Premiums received from Members | | **158,055** | 162,227 |
| Reinsurance premiums paid | | **(37,507)** | (37,184) |
| Claims paid | | **(101,232)** | (104,508) |
| Reinsurance receipts in respect of claims | | **29,822** | 12,106 |
| Investment income | | **4,665** | 3,499 |
| Management fee paid | | **(32,193)** | (28,518) |
| Expenses paid | | **(1,877)** | (2,973) |
| Other operating cash movements | | **1** | 292 |
| Overriding commissions on quota share reinsurance | | **5,802** | 5,282 |
| Net cash inflow from operating activities | *14* | **25,536** | 10,223 |
| Interest payable | | **(1,853)** | (1,612) |
| Taxation paid | | **(2,378)** | (341) |
| | | **(4,231)** | (1,953) |
| Net cash inflow | | **21,305** | 8,270 |
| **Cash flows were invested as follows:** | | | |
| Increase/(Decrease) in cash holdings | *15* | **6,407** | (7,469) |
| Net portfolio investments | *16* | | |
| Net (Sale)/Purchase of UCITS | | **(35,475)** | 18,873 |
| Purchase of bonds and other fixed interest securities | | **429,737** | 496,699 |
| Sale of bonds and other fixed interest securities | | **(375,799)** | (509,990) |
| Net (Sale)/Purchase of equities | | **(5,209)** | 10,626 |
| Net settlement of forward currency contracts | | **1,689** | (538) |
| Net (Sale)/Purchase of options | | **(45)** | 69 |
| | | **14,898** | 15,739 |
| Net investment of cash flows | | **21,305** | 8,270 |

# Notes to the Financial Statements
# 31 December 2014

## 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

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 undertaking 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 accordance with applicable accounting standards in the United Kingdom and the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers. The financial statements of all group companies are made up to 31 December. The Association has not prepared a Parent company income and expenditure account under the exemption in Section 408 of the UK Companies Act 2006. The financial statements are prepared on a going concern basis and under the historical cost convention as modified by revaluation on certain financial instruments

The financial statements have been prepared under the provisions of the UK Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups.

### (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 Balance Sheets.

## Notes to the Financial Statements
## 31 December 2014 (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 includes claims management costs and an allowance for estimated costs expected to be incurred in the future in the management of claims.

Estimated claims stated in currencies other than the functional currency are converted at year end rates of exchange and any exchange difference is included within claims incurred in the Income and Expenditure account.

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 Company, where more information is generally available.

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 and Expenditure Account 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 Financial Statements
**31 December 2014** (continued)

**Note 2: Accounting policies** (continued)

**(g) Acquisition costs**

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

**(h) Financial assets**

Financial assets are classified between the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired and is determined at initial recognition and this is re-evaluated at every reporting date.

**Fair value through profit and loss**

Assets, including all of the investments of the Group, which are classified as fair value through the 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 Balance Sheet at market value translated at year end rates of exchange. The market value of listed investments is based on current bid prices as at the balance sheet date.

The costs of investments denominated in currencies other than 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 and Expenditure Account and are then accumulated within the Investment Revaluation Reserve until realised. The movement in unrealised investment gains and losses includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current period.

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

**Loans and receivables**

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

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 2: Accounting policies (continued)

**(h) Financial assets** (continued)

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

**Derivative financial instruments**
Derivative financial instruments include open foreign currency contracts. They are classified as held for trading. 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 Income and Expenditure Account. 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.

**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.

**(i) Impairment**
At each balance sheet date, an assessment is made as to whether there is objective evidence that an asset is impaired. An asset or group of assets is impaired only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and it is expected that the event will have an impact on estimated future cash flows of the asset or group of assets. The Group must be able to reliably estimate the impact on future cash flows.

If the carrying value of an asset is greater than its recoverable amount, the carrying value is reduced through a charge to the Income and Expenditure account in the period of impairment.

**(j) Investment return**
Investment income 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.

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 2: Accounting policies (continued)

**(j) Investment return** (continued)

The movement in unrealised gains and losses on investments represents the difference between the fair value at the balance sheet date and their purchase price (if purchased in the financial year) or the fair value at the last balance sheet 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.

**(k) 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, apart from those relating to estimated future claims or investments, are shown separately in the Income and Expenditure Account.

Exchange gains or losses arising on non-US dollar cash holdings are treated as realised and are included in the Income and Expenditure Account.

**(l) 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 Financial Statements
## 31 December 2014 (continued)

### Note 2: Accounting policies (continued)

**(m) Closure of policy years**

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

For closed policy years, 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.

**(n) Unexpired risk reserve**

Full provision is made for unexpired risks when it is anticipated that unearned premiums, net of associated acquisition costs, will be insufficient to meet the expected claims and expenses of business as at the year end after taking account future investment income.

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

**(o) Deferred taxation**

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date 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.

**(p) Subordinated liabilities**

In accordance with Financial Reporting Standard 26 Financial Instruments: Recognition and Measurement, the subordinated loan liability is recognised at amortised cost with the transaction costs directly attributable to the issue being amortised through the Income and Expenditure account over the expected duration of the liability.

**(q) Investments in subsidiary undertakings**

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

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 3: 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.

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 15.

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 Individual Capital Assessment ("ICA") 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$ 5.37 million fall in market value of the Group's investments (2013: US$ 3.59 million fall). A decrease in 100 basis points in interest rates would result in a US$ 5.37 million increase in the market value of the Group's investments (2013: US$ 3.59 million increase).

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 3: Management of Financial Risk (continued)

**(a) Market risk** (continued)

**(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 following table 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.

**As at 31 December 2014:**

| | USD US$000s | GBP US$000s | EUR US$000s | Other US$000s | Total US$000s |
|---|---|---|---|---|---|
| Debt securities | 306,658 | 12,830 | 20,259 | – | 339,747 |
| Equity shares | 23,778 | 3,373 | – | – | 27,151 |
| Assets arising from reinsurance contracts held | 53,833 | 14 | 931 | 1,289 | 56,067 |
| Debtors arising from insurance contracts | 29,859 | 2,683 | 1,900 | 1,514 | 35,956 |
| Other debtors | 856 | 23 | – | 322 | 1,201 |
| Cash and cash equivalents | 104,388 | 12,838 | 2,198 | 21,569 | 140,993 |
| Other | 3,910 | 2,292 | 126 | 1,634 | 7,962 |
| **Total** | **523,282** | **34,053** | **25,414** | **26,328** | **609,077** |

As at 31 December 2014 the currency split of the Club's claims estimates was as follows: US$ 175.5 million in US dollars and currencies pegged to the US dollar, US$ 23.02 million in Pounds Sterling, US$ 51.16 million in Euros and US$ 53.19 million in other currencies.

# Notes to the Financial Statements
## 31 December 2014 (continued)

**Note 3: Management of Financial Risk** (continued)

**(b) Currency risk** (continued)

### As at 31 December 2013:

| | USD US$000s | GBP US$000s | EUR US$000s | Other US$000s | Total US$000s |
|---|---|---|---|---|---|
| Debt securities | 249,378 | 16,276 | 24,235 | – | 289,889 |
| Equity shares | 24,878 | 7,051 | – | – | 31,929 |
| Assets arising from reinsurance contracts held | 96,108 | 434 | 1,844 | 2,977 | 101,363 |
| Debtors arising from insurance contracts | 29,364 | 2,735 | 1,808 | 1,499 | 35,406 |
| Other debtors | 1,106 | 816 | – | 459 | 2,381 |
| Cash and cash equivalents | 140,980 | 4,923 | 1,468 | 25,380 | 172,751 |
| Other | (12,763) | (7,305) | 26,987 | 722 | 7,641 |
| **Total** | **529,051** | **24,930** | **56,342** | **31,037** | **641,360** |

At 31 December 2014, if the US dollar weakened/strengthened by 5% against Sterling, with all other factors unchanged, the surplus for the year would have increased/decreased by US$ 0.86 million (2013: US$ 0.59 million). At 31 December 2014, if the US dollar weakened/strengthened by 5% against the Euro, with all other factors unchanged, the surplus for the year would have increased/decreased by US$ 0.24 million (2013: US$ 0.50 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 Financial Statements
## 31 December 2014 (continued)

### Note 3: 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 31 December 2014. The credit rating bands are provided by independent ratings agencies:

| 2014 | AAA | AA | A | BBB+ or less or not rated | Total |
|---|---|---|---|---|---|
| | US$000s | US$000s | US$000s | US$000s | US$000s |
| Debt securities | 44,672 | 263,368 | 26,669 | 5,038 | 339,747 |
| Equity Shares | – | – | – | 27,151 | 27,151 |
| Assets arising from reinsurance contracts held | – | 40,936 | 10,457 | 4,674 | 56,067 |
| Debtors arising out of direct insurance | – | – | – | 35,956 | 35,956 |
| Other debtors | – | – | – | 1,201 | 1,201 |
| Cash and cash equivalents | 101,157 | 6,074 | 33,637 | 125 | 140,993 |
| Other | – | – | – | 7,962 | 7,962 |
| **Total** | **145,829** | **310,378** | **70,763** | **82,107** | **609,077** |
| **2013** | | | | | |
| Debt securities | 68,208 | 210,422 | 6,221 | 5,038 | 289,889 |
| Equity Shares | – | – | – | 31,929 | 31,929 |
| Assets arising from reinsurance contracts held | | 61,122 | 34,376 | 5,865 | 101,363 |
| Debtors arising out of direct insurance | – | – | – | 35,406 | 35,406 |
| Other debtors | – | – | – | 2,381 | 2,381 |
| Cash and cash equivalents | 136,752 | 2,571 | 33,428 | – | 172,751 |
| Other | – | – | – | 7,641 | 7,641 |
| **Total** | **204,960** | **274,115** | **74,025** | **88,260** | **641,360** |

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

After assessing all other financial assets at the end of the year, no objective evidence was found to suggest that any were impaired (2013: no impairments).

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 3: 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 2014, the Group's short term deposits (including cash and UCITs) amounted to US$ 141.0 million (2013: US$ 172.8 million).

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

| **2014** | | 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 and equity shares | 366,898 | – | – | – | – | – | 366,898 |
| Assets arising from reinsurance contracts held | 55,732 | (3) | 13 | 289 | 36 | – | 56,067 |
| Debtors arising out of direct insurance | 26,429 | 8,693 | 858 | (24) | – | – | 35,956 |
| Other debtors | 1,201 | – | – | – | – | – | 1,201 |
| Cash and cash equivalents | 140,993 | – | – | – | – | – | 140,993 |
| Other | 7,962 | – | – | – | – | – | 7,962 |
| **Total** | **599,215** | **8,690** | **871** | **265** | **36** | **–** | **609,077** |
| **2013** | | | | | | | |
| Debt securities and equity shares | 321,818 | – | – | – | – | – | 321,818 |
| Assets arising from reinsurance contracts held | 101,211 | 1 | 25 | 123 | 3 | – | 101,363 |
| Debtors arising out of direct insurance | 27,827 | 7,042 | 479 | 58 | – | – | 35,406 |
| Other debtors | 2,381 | – | – | – | – | – | 2,381 |
| Cash and cash equivalents | 172,751 | – | – | – | – | – | 172,751 |
| Other | 7,641 | – | – | – | – | – | 7,641 |
| **Total** | **633,629** | **7,043** | **504** | **181** | **3** | **–** | **641,360** |

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 3: Management of Financial Risk (continued)

#### (d) Liquidity and cash flow risk (continued)

The tables below show a maturity analysis of the Group's derivative contracts:

| 2014 | 0-3 months US$000s | 3-6 months US$000s | 6 months –1 year US$000s | > 1year US$000s | Total US$000s |
|---|---|---|---|---|---|
| Forward currency contracts | (755) | – | – | – | (755) |
| **Total** | **(755)** | **–** | **–** | **–** | **(755)** |
| **2013** | | | | | |
| Equity put options | 26 | – | – | – | 26 |
| Forward currency contracts | 332 | – | – | – | 332 |
| **Total** | **358** | **–** | **–** | **–** | **358** |

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

| 2014 | < 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 and equity shares | 176,037 | 14,744 | 38,767 | 132,312 | 5,038 | 366,898 |
| Debtors arising out of direct insurance | 30,438 | 5,454 | 64 | – | – | 35,956 |
| Other debtors | 1,201 | – | – | – | – | 1,201 |
| Cash and cash equivalents | 140,993 | – | – | – | – | 140,993 |
| Subordinated loan | – | – | – | – | (29,181) | (29,181) |
| Creditors | (42,956) | – | – | – | – | (42,956) |
| **Total** | **305,713** | **20,198** | **38,831** | **132,312** | **(24,143)** | **472,911** |
| **2013** | | | | | | |
| Debt securities and equity shares | 153,736 | 9,806 | 110,522 | 35,528 | 12,226 | 321,818 |
| Debtors arising out of direct insurance | 30,790 | 4,616 | – | – | – | 35,406 |
| Other debtors | 2,381 | – | – | – | – | 2,381 |
| Cash and cash equivalents | 172,751 | – | – | – | – | 172,751 |
| Subordinated loan | – | – | – | – | (29,143) | (29,143) |
| Creditors | (49,337) | – | – | – | – | (49,337) |
| **Total** | **310,321** | **14,422** | **110,522** | **35,528** | **(16,917)** | **453,876** |

## Notes to the Financial Statements
### 31 December 2014 (continued)

**Note 3: Management of Financial Risk** (continued)

### (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's principal regulator is the Prudential Regulation Authority (PRA) in the United Kingdom. Under the PRA's ICA regime the Group is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5% confidence level of solvency over one year or a longer timeframe with an equivalent probability. Throughout the year the Group complied with the PRA's capital requirements and the requirements in other countries where it has regulated operations.

As at 31 December 2014 the Group's total regulatory capital available amounted to US$ 204.7 million (2013: US$ 190.7 million) made up surplus and reserves of US$ 175.5 million (2013: US$ 161.6) and subordinated debt of US$ 29.2 million (2013: US$ 29.1 million).

As at 31 December 2014, the Group held deposits and letters of credit totalling US$ 66.2 million to meet overseas regulatory requirements (2013: US$ 62.8 million). This includes collateralised letters of credit amounting to US$ 24.5 million (2013: US$ 24.5 million) in relation to Hong Kong and a trust fund deposit of US$ 41.2 million (2013: US$ 37.8 million) in relation to the US.

### (f) Fair value estimations

From 1 January 2009, the group adopted the amendment to Financial Reporting Standard 29. 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 (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (that is, prices) or indirectly (that is, derived from prices)

Level 3 – Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs)

All of the Group's financial assets and liabilities that are measured at fair value at both 31 December 2014 and 31 December 2013 fall into the Level 1 category with the exception of the debt securities which fall into level 2.

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 3: Management of Financial Risk (continued)

#### (f) Fair value estimations (continued)

| Consolidated | 2014 Level 1 US$000s | 2014 Level 2 US$000s | 2014 Total US$000s | 2013 Level 1 US$000s | 2013 Level 2 US$000s | 2013 Total US$000s |
|---|---|---|---|---|---|---|
| Debt securities | – | 339,747 | 339,747 | – | 289,889 | 289,889 |
| Equities | 27,151 | – | 27,151 | 31,929 | – | 31,929 |
| Forward currency contracts | – | – | – | 332 | – | 332 |
| Equity put options | – | – | – | 26 | – | 26 |
| UCITS | 101,157 | – | 101,157 | 136,752 | – | 136,752 |
| **Financial assets held at fair value through profit and loss** | 128,308 | 339,747 | 468,055 | 169,039 | 289,889 | 458,928 |

| Parent Company | 2014 Level 1 US$000s | 2014 Level 2 US$000s | 2014 Total US$000s | 2013 Level 1 US$000s | 2013 Level 2 US$000s | 2013 Total US$000s |
|---|---|---|---|---|---|---|
| Debt securities | – | 328,015 | 328,015 | – | 282,533 | 282,533 |
| Equities | 27,151 | – | 27,151 | 31,929 | – | 31,929 |
| Forward currency contracts | – | – | – | 332 | – | 332 |
| Equity put options | – | – | – | 26 | – | 26 |
| UCITS | 22,568 | – | 22,568 | 60,563 | – | 60,563 |
| **Financial assets held at fair value through profit and loss** | 49,719 | 328,015 | 377,734 | 92,850 | 282,533 | 375,383 |

The fair value of financial instruments traded in active markets is based on quoted bid prices as at the balance sheet date. All valuations are taken from external price feeds based upon market prices or broker quotes.

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 4: Claims paid

Claims paid include claims handling charges paid to the Managers totalling US$ 10.7 million (2013: US$ 10.2 million).

Net claims payments and best estimate of claims outstanding at the end of the year in respect of 2013 and prior policy years were US$ 24.7 million lower than the provision for claims outstanding at the beginning of the year (2012: US$ 9.5 million).

When the impact of fluctuations in foreign currency exchange rates is excluded from the movement in the best estimate of claims outstanding, the reduction in provisions for claims outstanding exceeds net claims paid in respect of 2013 and prior policy years by US$ 16.6 million (2013: US$ 7.4 million) due to better than expected claims development.

### Note 5: Reinsurers' share of claims paid

| | **2014 US$000s** | 2013 US$000s |
|---|---|---|
| Members' reinsurance | **941** | 286 |
| General reinsurance | **2,128** | 9,132 |
| Traditional quota share reinsurance | **17,204** | 10,893 |
| Change in provision for potential irrecoverable reinsurance | **170** | (32) |
| | **20,443** | 20,279 |

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 6: Net operating expenses

| | 2014 US$000s | 2013 US$000s |
|---|---|---|
| Acquisition costs | | |
| Brokerage and commission | **20,445** | 19,790 |
| Management fee in respect of underwriting | **15,118** | 13,284 |
| Change in deferred acquisition costs | **(30)** | (83) |
| | **35,533** | 32,991 |
| Management fee in respect of management and performance related fee | **17,075** | 15,234 |
| General expenses | **3,094** | 3,029 |
| Directors' fees | **623** | 707 |
| Directors' travelling costs | **580** | 451 |
| Auditors' remuneration | | |
| Parent company audit | **143** | 151 |
| Subsidiary company audit | **343** | 312 |
| Non-audit services | | |
| – Other services pursuant to legislation, including the audit of the regulatory returns | **24** | 23 |
| – Tax compliance services | **63** | 100 |
| – Tax advisory services | **–** | 104 |
| – Other services not covered above | **–** | – |
| | **21,945** | 20,111 |
| Total operating expenses before commission on reinsurance contracts | **57,478** | 53,102 |
| Commission on reinsurance contracts | **(6,381)** | (4,759) |
| | **51,097** | 48,343 |

The Directors’ fees for the highest paid director during 2014 amounted to US$ 133,000 (2013: US$ 141,000).

The Association had no employees during the year (2013: None).

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 7: Investment return

| | 2014 US$000s | 2013 US$000s |
|---|---|---|
| **Investment income** | | |
| Income from financial assets held at fair value through profit or loss | **3,160** | 3,188 |
| Net gains on the realisation of investments | **2,714** | 1,822 |
| | **5,874** | 5,010 |
| Exchange losses | **(10,832)** | (1,842) |
| | **(4,958)** | 3,168 |
| **Investment expenses and charges** | | |
| Interest payable | **(1,891)** | (1,650) |
| Other investment management expenses | **(1,333)** | (1,271) |
| Net unrealised gains on investments | **656** | 3,298 |
| **Total investment return** | **(7,526)** | 3,545 |
| Investment return is analysed between: | | |
| Allocated investment return transferred to the technical business account | **(4,569)** | 2,248 |
| Net investment return included in the non-technical account | **(2,957)** | 1,297 |
| **Total investment return** | **(7,526)** | 3,545 |

### Note 8: Tax on ordinary activities

| | 2014 US$000s | 2013 US$000s |
|---|---|---|
| (i) Analysis of tax charge on ordinary activities | | |
| Foreign tax for the current period | **829** | 533 |
| Adjustments in respect of prior periods | **666** | (29) |
| | **1,495** | 504 |

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 8: Tax on ordinary activities (continued)

| | 2014<br>US$000s | 2013<br>US$000s |
|---|---|---|
| (ii) Factors affecting Tax Charge for the current period | | |
| The tax assessed for the year is higher (2013: higher) than that resulting from applying the standard rate of corporation tax in Bermuda: 0% (2013: 0%) – the differences are explained below: | | |
| Surplus on ordinary activities before tax | **15,617** | 12,474 |
| Tax at 0% thereon | **–** | – |
| Effects of: | | |
| Tax levied outside Bermuda: | | |
| United Kingdom | **79** | 126 |
| United States | **750** | – |
| Singapore | **–** | 5 |
| Australia | **–** | 402 |
| Adjustments in respect of prior periods | **666** | (29) |
| Current tax charge for period | **1,495** | 504 |

The taxation charge comprises a charge for UK taxation based at a rate of 21% 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.

A potential deferred tax asset of US$ 1.1 million (2013: US$ 1.1 million) in respect of certain unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. This asset would be recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses.

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

The tax rate was reduced on 1 April 2014 to 21%. The impact of the change was to reduce tax by approximately US$ 5,000. A further fall to 20% would lead to an additional decrease of US$ 8,000.

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 9: Shares in subsidiary undertakings

| Name | 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% |

The opening and closing value of these investments at the balance sheet date is US$ 12,000. The directors consider the value of the investments to be supported by their underlying assets.

### Note 10: Other financial investments

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

| | Carrying Value | | Purchase Price | |
|---|---|---|---|---|
| **Consolidated** | **2014 US$000s** | 2013 US$000s | **2014 US$000s** | 2013 US$000s |
| Held at fair value through profit and loss: | | | | |
| – debt securities | **339,747** | 289,889 | **339,937** | 290,147 |
| – equities | **27,151** | 31,929 | **19,850** | 25,069 |
| – forward currency contracts | **–** | 332 | **–** | – |
| – equity put options | **–** | 26 | **–** | 45 |
| – UCITS | **101,157** | 136,752 | **101,156** | 136,752 |
| **Financial assets held at fair value through profit and loss** | **468,055** | 458,928 | **460,943** | 452,013 |

| | Carrying Value | | Purchase Price | |
|---|---|---|---|---|
| **Parent Company** | **2014 US$000s** | 2013 US$000s | **2014 US$000s** | 2013 US$000s |
| Held at fair value through profit and loss: | | | | |
| – debt and other fixed interest securities | **328,015** | 282,533 | **328,212** | 282,766 |
| – equities | **27,151** | 31,929 | **19,850** | 31,929 |
| – forward currency contracts | **–** | 332 | **–** | – |
| – equity put options | **–** | 26 | **–** | 45 |
| – UCITS | **22,568** | 60,563 | **22,568** | 60,563 |
| **Financial assets held at fair value through profit and loss** | **377,734** | 375,383 | **370,630** | 375,303 |

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 10: Other financial investments (continued)

The geographical split of the carrying value of the Association's debt securities is summarised below:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **US$000s** | US$000s | **US$000s** | US$000s |
| United States | **231,081** | 185,229 | **219,349** | 177,873 |
| Supranational | **30,153** | 15,412 | **30,153** | 15,412 |
| United Kingdom | **15,939** | 18,930 | **15,939** | 18,930 |
| Germany | **10,511** | 30,368 | **10,511** | 30,368 |
| Australia | **9,685** | 14,335 | **9,685** | 14,335 |
| Switzerland | **9,331** | – | **9,331** | – |
| Sweden | **7,543** | 7,532 | **7,543** | 7,532 |
| Bermuda | **5,038** | 5,038 | **5,038** | 5,038 |
| Netherlands | **5,005** | 5,018 | **5,005** | 5,018 |
| Japan | **3,816** | – | **3,816** | – |
| New Zealand | **3,769** | 3,026 | **3,769** | 3,026 |
| United Arab Emirates | **2,677** | – | **2,677** | – |
| Republic of Korea | **2,666** | – | **2,666** | – |
| Canada | **2,533** | – | **2,533** | – |
| Norway | **–** | 5,001 | **–** | 5,001 |
| | **339,747** | 289,889 | **328,015** | 282,533 |

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$ 163.6 million (2013: US$ 131.6 million) with the remainder recoverable after more then one year.

As described in note 2(h), the investments of US$ 468.1 million (2013: US$ 458.9 million) are valued in the financial statements at market value.

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 11: Surplus and reserves

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **US$000s** | US$000s | **US$000s** | US$000s |
| Balance at beginning of year | **161,385** | 149,415 | **106,088** | 91,770 |
| Surplus for the financial year | **14,122** | 11,970 | **14,510** | 14,318 |
| Balance at end of year | **175,507** | 161,385 | **120,598** | 106,088 |

### Note 12: Subordinated loan

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

The Group has 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 have been included in subordinated liabilities.

The fair value and amortised cost of the subordinated loan is US$ 29.18 million (2013: US$ 29.14 million).

### Note 13: Segmental information

| | **2014** | 2013 |
|---|---|---|
| | **US$000s** | US$000s |
| Gross premiums written | | |
| – Members located in UK | **11,483** | 12,963 |
| – Members located in other EU states | **29,303** | 29,550 |
| – Members located outside EU | **139,160** | 143,794 |
| | **179,946** | 186,307 |

The Group writes only marine, aviation and transport business.

The geographical analysis of surplus on ordinary activities before tax and net assets has not been disclosed as this, in the view of the Directors, would be prejudicial to the interest of the Members.

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 14: Reconciliation of surplus to net cash (outflow)/inflow from operating activities

| | **2014 US$000s** | 2013 US$000s |
|---|---|---|
| Surplus before taxation | **15,617** | 12,474 |
| Unrealised investment gains | **(656)** | (3,298) |
| Exchange losses | **10,832** | 1,843 |
| Interest payable | **1,853** | 1,612 |
| Servicing of finance | **38** | 38 |
| Decrease/(Increase) in debtors | **9,099** | (13,828) |
| (Decrease)/Increase in creditors | **(7,171)** | 20,761 |
| Decrease in net technical provisions | **(4,076)** | (9,379) |
| Net cash inflow from operating activities | **25,536** | 10,223 |

### Note 15: Movement in cash, portfolio investments and financing

| | 1 January 2014 US$000s | Cash flow US$000s | Changes to market value & currencies US$000s | **31 December 2014 US$000s** |
|---|---|---|---|---|
| Cash at bank | 35,999 | 6,407 | (2,570) | **39,836** |
| UCITS | 136,752 | (35,475) | (120) | **101,157** |
| Bond and other fixed interest securities | 289,889 | 53,938 | (4,080) | **339,747** |
| Equities | 31,929 | (5,209) | 431 | **27,151** |
| Forward currency contract | 332 | 1,689 | (2,776) | **(755)** |
| Options | 26 | (45) | 19 | **–** |
| | 494,927 | 21,305 | (9,096) | **507,136** |

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 16: Movement in opening and closing portfolios net of financing

| | **2014 US$000s** | 2013 US$000s |
|---|---|---|
| Net cash inflow/(outflow) | **6,407** | (7,469) |
| Portfolio investments | **14,898** | 15,739 |
| Movements arising from cash flows | **21,305** | 8,270 |
| Changes in market values and exchange rates | **(9,096)** | 1,456 |
| Total movement in portfolio investments net of financing | **12,209** | 9,726 |
| Portfolio investments net of financing as at 1 January | **494,927** | 485,202 |
| Portfolio investments net of financing as at 31 December | **507,136** | 494,928 |

### Note 17: Guarantees and commitments

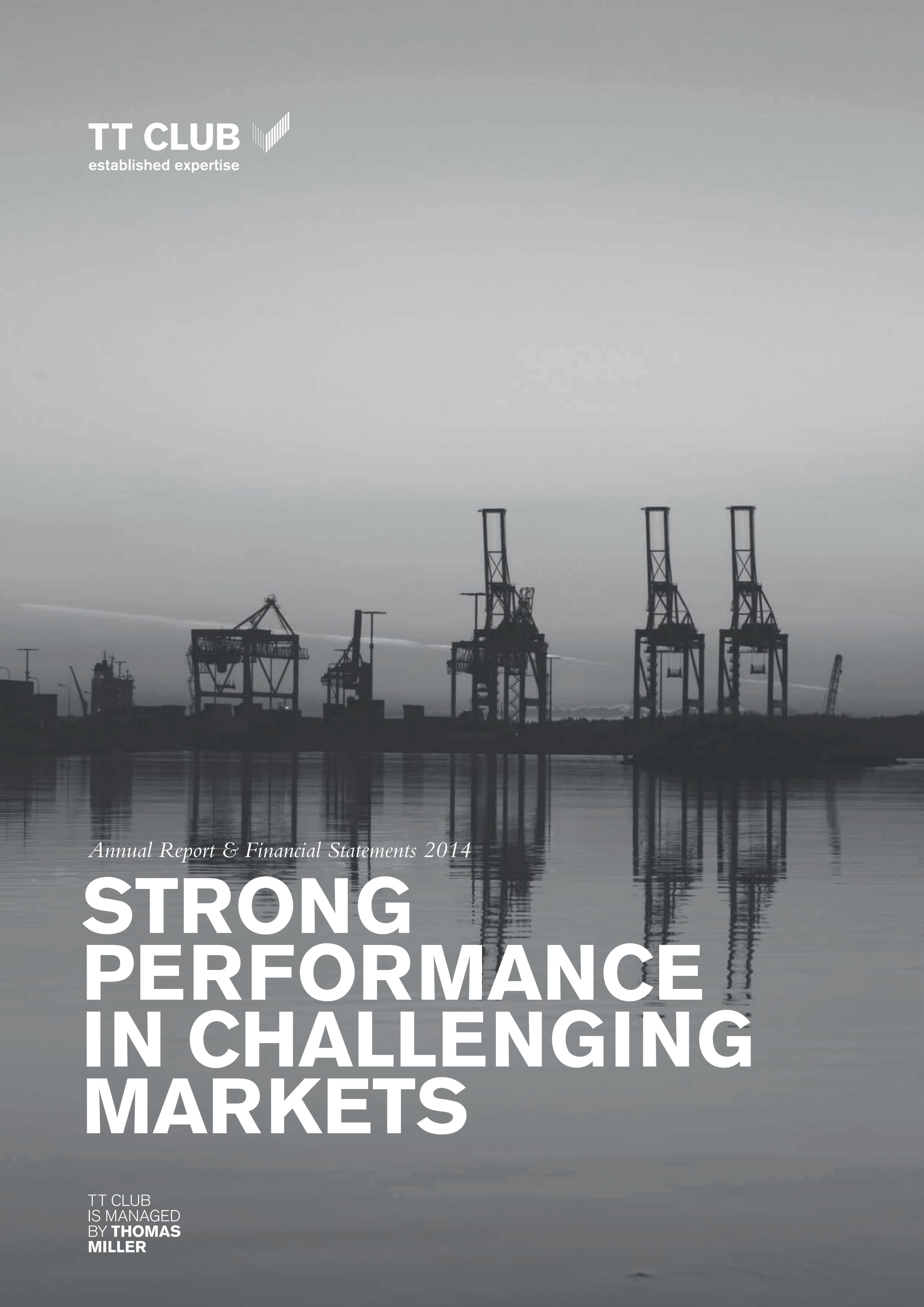
Investments to the value of US$ 38.05 million (2013: US$ 48.28 million) have been charged as collateral in respect of letters of credit as security for holders of insurance policies in Canada and for regulatory purposes in Singapore and Hong Kong. The Association has issued a guarantee, not to exceed 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 31 December 2014 amounted to nil (2013: nil).

### Note 18: Related party transactions

Through Transport Mutual Insurance Association Limited reinsures its subsidiary TT Club Mutual Insurance Limited under a 90% whole account quota share. All operations and transactions of TT Club Mutual Insurance Limited are included within the consolidated financial statements.

Through Transport Mutual Insurance Association Limited is managed by Thomas Miller (Bermuda) Limited. Under this arrangement, all day to day operations of the Club are outsourced to Thomas Miller (Bermuda) Limited. Total fees paid to Thomas Miller (Bermuda) Limited and related Companies are disclosed in notes 4 and 6. At 31 December 2014 the outstanding amount payable by the Club amounted to $ 6.05 million. Other than the management fees disclosed, no further payments were made to Thomas Miller (Bermuda) Limited, its related Companies or its Directors.

TT CLUB
established expertise



*Annual Report & Financial Statements 2014*

# STRONG PERFORMANCE IN CHALLENGING MARKETS

TT CLUB
IS MANAGED
BY **THOMAS
MILLER**

# Contents

## TT Club Mutual Insurance Limited

# Directors and Management

## Chairman

**K Pontoppidan 2 3**
Copenhagen

## Deputy Chairman

**J Küttel 1**
Ermewa, Geneva

## Directors

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

**M Onslow**
Specialist Director – Insurance

**G Sjöholm 1** (retired 20 March 2014)
Formerly Port of Gothenburg, Gothenburg

## Registered Office

90 Fenchurch Street
London
EC3M 4ST

Telephone +44 (0) 20 7204 2626
Telefax +44 (0) 20 7204 2727

## Company Registration number

2657093

1 **Audit & Risk Committee member**
2 **Investment Committee member**
3 **Nominations Committee member**

## Managers and Company Secretary

Through Transport Mutual Services (UK) Ltd

## Independent Auditor

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

# Strategic Report

## Business review

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

The Association operates in the UK and through branches in Singapore, Hong Kong and Australia.

## Strategy and values

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

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

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

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

## **Strategic Report** (continued)

**Financial performance, capital strength and solvency**

The Association's underwriting performance in 2014 continued to be affected by market pressure on premium rates in 2014. The technical result for 2014, after allowing for the attribution of investment income on the claims reserves, was a surplus of US$1.93 million (2013: surplus of US$0.65 million). The non-technical account produced a deficit of US$2.32 million (2013: deficit of US$2.88 million), resulting in an overall deficit after tax of US$0.39 million (2013: deficit of US$2.36 million). As a result the Association's surplus and reserves decreased to US$54.91 million (2013: US$55.30 million).

The principal KPIs by which performance is monitored by the Board are set out in the charts below. The position is shown as at the end of 2014 and 2013.

| | 2014 | 2013 |
|---|---|---|
| AM Best rating | A- (Excellent) | A- (Excellent) |
| Surplus and reserves | US$54.91 | US$55.30m |
| Technical result (before attribution of investment return) | US$2.98m | US$1.85m |
| Investment return (incl. exchange gains and losses) | US$(3.38m) | US$(3.83m) |
| Net result | US$(0.39m) | US$(2.36m) |

The Association'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 2014.

## **Strategic Report** (continued)

**Corporate and social**

The Directors are of the opinion that the environmental impact of the Association'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 Association has outsourced all of its management activities to independent professional managers there are no employee matters to report.

By approval of the Board

**Through Transport Mutual Services (UK) Limited,** *Company Secretary*
26 March 2015

## Directors' Report

The Directors present herewith their Annual Report and the audited financial statements of TT Club Mutual Insurance limited ("the Association" or "Company").

**Directors & 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 49. All the Directors retiring at the Annual General Meeting and seeking re-election were re-elected.

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

**Meetings of the Directors**
The Board of the Association met formally on eight occasions during 2014, with its main focus being to direct the operations of underwriting, sales, the external reinsurance programme, service, claims management, information technology and general administration. The Board also monitored performance against budget.

The Board 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 aims to ensure that the Board is appropriately skilled to direct a mutual insurance company, and has sufficient policyholder representation. The Nominations Committee met on three occasions during 2014.

The Investment Committee makes recommendations to the Board in respect of investment policy and reviews in detail the performance of the Association's investments. The Investment Committee met on three occasions during 2014.

The Audit & Risk Committee assists the Board in discharging its responsibilities for the integrity of the financial statements, the assessment of the effectiveness of the systems of internal control and risk management, monitoring the effectiveness and objectivity of the internal and external auditors and compliance with regulatory requirements in relevant jurisdictions. The Audit & Risk Committee met on three occasions during 2014.

## Directors' Report (continued)

### Risks and risk management

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

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

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

### Insurance risk

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

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

Insurance risk is mitigated by means of:

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

## **Directors' Report** (continued)

**Risks and risk management** (continued)

### 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 Association and its management of financial risks is disclosed in Note 3 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 information technology, information security, project management, human resources, taxation, legal, fraud and compliance.

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

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

### Future Developments

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

### Charitable and political donations

During the year, the Association made charitable donations to UNICEF totalling US$2,000 (2013: US$ Nil). No donations were made for political purposes.

## **Directors' Report** (continued)

**Statement of disclosure of information to auditors**

Each of the persons 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 2014 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.

**Independent Auditors**

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

**Through Transport Mutual Services (UK) Limited,** *Company Secretary*
26 March 2015

## Statement of Directors' Responsibilities

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

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

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

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

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

By approval of the Board

**Through Transport Mutual Services (UK) Limited,** *Company Secretary*
26 March 2015

## Notice of Meeting

Notice is hereby given that the twenty-fourth Annual General Meeting of the Members of TT Club Mutual Insurance Limited will be held at the Fairmont Southampton Hotel, Bermuda on the eighteenth day of June 2015 at 8.50 am for the following purposes:

To receive the Directors' report and financial statements for the year ended 31 December 2014 and to adopt them.

To elect Directors.

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

To transact any other business of an Ordinary General Meeting.

By approval of the Board

**Through Transport Mutual Services (UK) Limited,** *Company Secretary*
26 March 2015

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

## Report on the financial statements

### Our opinion

In our opinion, TT Club Mutual Insurance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

TT Club Mutual Insurance Limited's financial statements comprise:

- Balance Sheet as at 31 December 2014;
- Income and Expenditure Account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### Opinion on matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Other matters on which we are required to report by exception

#### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

**Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Responsibilities for the financial statements and the audit

**Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 57, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence

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

through testing the effectiveness of controls, substantive procedures or a combination of both.

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

**What an audit of financial statements involves** (continued)

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Kirstie Hanley** (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

26 March 2015

# Income and Expenditure Account
# for the year ended 31 December 2014

## Technical Account

| | Note | US$000s | 2014<br>US$000s | US$000s | 2013<br>US$000s |
|---|---|---|---|---|---|
| Gross written premiums | *13* | | **172,103** | | 181,885 |
| Outward reinsurance premiums | | | **(141,365)** | | (150,935) |
| Premiums written, net of reinsurance | | | **30,738** | | 30,950 |
| Change in provision for unearned premiums | | | | | |
| Gross | | **3,224** | | (4,125) | |
| Reinsurers' share | | **(3,080)** | | 3,684 | |
| | | | **144** | | (441) |
| Earned premiums, net of reinsurance | | | **30,882** | | 30,509 |
| Allocated investment return transferred from the non-technical account | *2(h)* | | **(1,051)** | | (1,198) |
| Commission income | *2(d)* | | **19,756** | | 17,864 |
| Other technical income, net of reinsurance | | | **19** | | 35 |
| Claims paid | | | | | |
| Gross | *4* | **(87,972)** | | (111,805) | |
| Reinsurers' share | *5* | **81,186** | | 102,610 | |
| | | **(6,786)** | | (9,195) | |
| Change in the provision for claims | | | | | |
| Gross | | **38,707** | | 25,932 | |
| Reinsurers' share | | **(38,095)** | | (24,791) | |
| | | **612** | | 1,141 | |
| Claims incurred, net of reinsurance | | | **(6,174)** | | (8,054) |
| Net operating expenses | *6* | | **(41,504)** | | (38,504) |
| Balance on the technical account | | | **1,928** | | 652 |

All activities derive from continuing operations.

# Income and Expenditure Account for the year ended 31 December 2014 (continued)

## Non-technical Account

| | Note | 2014 US$000s | 2013 US$000s |
|---|---|---|---|
| Balance on the technical account | | **1,928** | 652 |
| Investment income | | **394** | 455 |
| Unrealised gains/(losses) on investments | | **34** | (11) |
| Interest payable | | **(884)** | (631) |
| Exchange losses | | **(2,927)** | (3,643) |
| Total investment return | 7 | **(3,383)** | (3,830) |
| Allocated investment return transferred to the technical account | 2(h), 7 | **1,051** | 1,198 |
| Deficit on ordinary activities before tax | | **(404)** | (1,980) |
| Tax on ordinary activities | 8 | **14** | (378) |
| Deficit on ordinary activities after tax | 10 | **(390)** | (2,358) |

All activities derive from continuing operations.

Note 10 details the movements on the Reserve Fund during the year. Neither gains nor losses arising on the holding or disposal of investments; nor the effect of fair value accounting for financial instruments are required to be included in a note of historical profits and losses. There are no other differences between the profit on ordinary activities before tax or the profit for the financial year stated above and their historical cost equivalents.

The notes on pages 66 to 83 form an integral part of these financial statements.

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

# Balance Sheet
# as at 31 December 2014

| | Note | 2014 US$000s | 2013 US$000s |
|---|---|---|---|
| **Assets** | | | |
| Other financial investments | *9* | **90,321** | 83,544 |
| Reinsurers' share of technical provisions | | | |
| Provision for unearned premiums | | **46,774** | 49,854 |
| Claims outstanding | | **262,478** | 300,573 |
| | | **309,252** | 350,427 |
| Debtors | | | |
| Arising out of direct insurance operations | | | |
| – policyholders | | **34,221** | 34,442 |
| Arising out of reinsurance operations | | **3,221** | 12,589 |
| Corporation tax debtor | | **873** | 12,589 |
| Other debtors | | **1,151** | 2,249 |
| | | **39,466** | 49,280 |
| Cash at bank | | **34,728** | 32,883 |
| Prepayments and accrued income | | | |
| Prepayments | | **45** | 50 |
| Accrued interest | | **2** | 11 |
| Deferred acquisition costs | | **5,722** | 5,796 |
| | | **5,769** | 5,857 |
| Total assets | | **479,536** | 521,991 |

# Balance Sheet
## as at 31 December 2014 (continued)

| | *Note* | **2014 US$000s** | 2013 US$000s |
|---|---|---|---|
| **Liabilities and reserves** | | | |
| Surplus and reserves | *10* | **54,912** | 55,302 |
| Technical provisions | | | |
| Provision for unearned premiums – gross | | **56,622** | 59,846 |
| Claims outstanding – gross | | **287,019** | 325,726 |
| | | **343,641** | 385,572 |
| Creditors | | | |
| Arising out of direct insurance operations | | **85** | 15 |
| Arising from reinsurance ceded | *12* | **66,849** | 65,248 |
| Amounts due to parent company | | **9,773** | 1,843 |
| Provision for taxation | | **–** | 368 |
| Accrued expenses and sundry creditors | | **4,276** | 13,643 |
| | | **80,983** | 81,117 |
| Total liabilities and reserves | | **479,536** | 521,991 |

The notes on pages 66 to 83 form an integral part of these financial statements.

These financial statements on pages 62 to 83 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf by:

**K Pontoppidan,** *Director*
**J Küttel,** *Director*

**Company Registered Number**
2657093

# Notes to the Financial Statements
# 31 December 2014

## Note 1: Constitution

The Association was incorporated as a mutual company limited by guarantee in the United Kingdom under the Companies Act 1985 on 24 October 1991. The liability of Assureds is limited to the supplementary premiums set by the Directors. Under the Association's Memorandum of Association, individual Members' liabilities are limited, in the event of the Association being wound up, to a maximum of £5 and, under the Association's Articles, in the event of its liquidation, any net assets of the Association are to be distributed equitably amongst the Members.

## Note 2: Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom Law and accounting standards. The significant accounting policies adopted, which have been applied consistently throughout the year, are described below. The financial statements are prepared under the historical cost convention as modified by revaluation on certain financial instruments.

### (a) Basis of presentation

These financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006. The financial statements have been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers. The financial statements have been prepared under the UK Statutory Instruments 2008 410 provisions of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies. Under Financial Reporting Standard 1: Cash Flow statements, no cash flow has been presented in these Financial Statements as the Association is deemed to be a wholly owned subsidiary of Through Transport Mutual Insurance Association Limited and the cash flows of the Association are included within the consolidated financial statements of that entity.

### (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 Balance Sheet.

## Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 2: Accounting policies (continued)

**(d) Commission income**

Commission income is earned on the Association's quota share reinsurance with the parent company, the Association's general reinsurance programme and on insurance arranged by the Association on behalf of Members and others. Commission income also includes overriding commission on quota share reinsurance premiums.

**(e) Claims**

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

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 IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Association, where more information is generally available.

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 prior policy years and having due regard to recoverability.

**(f) Reinsurance recoveries**

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

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 2: Accounting policies (continued)

**(f) Reinsurance recoveries** (continued)

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

**(g) Acquisition costs**

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

**(h) Financial assets**

Financial assets are classified between the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired and is determined at initial recognition and this is re-evaluated at every reporting date.

**Fair value through profit and loss account**

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

Investments are included in the Balance Sheet at market value translated at year end rates of exchange. The market value of listed investments is based on current bid prices as at the balance sheet date.

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

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

# Notes to the Financial Statements
## 31 December 2014 (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. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. A bad debt provision is created against any balances that may be impaired.

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

**Derivative financial instruments**
Derivative financial instruments include open foreign currency contracts. They are classified as held for trading. 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 Income and Expenditure Account. 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.

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

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

**(i) Impairment**

At each balance sheet date an assessment is made whether there is objective evidence that an asset is impaired. An asset is impaired only if there is evidence of one or more events that have occurred giving rise to a reduction in estimated future cash flows. The Association must be able to reliably estimate the impact on future cash flows.

If the carrying value of an asset is greater than its recoverable amount, the carrying value is reduced through a charge to the Income and Expenditure account in the period of impairment.

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 2: Accounting policies (continued)

#### (j) Investment return

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

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

The Association 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.

#### (k) 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, apart from those relating to estimated future claims or investments, are shown separately in the Income and Expenditure Account.

Exchange gains or losses arising on non-US dollar cash holdings are treated as realised and are included in the Income and Expenditure Account.

#### (l) Policy year accounting

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

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

## Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 2: Accounting policies (continued)

**(m) Closure of policy years**

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

For closed policy years, the Association 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.

**(n) Unexpired risk reserve**

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

**(o) Deferred Taxation**

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

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

### Note 3: Management of Financial Risk

**Financial risk management objectives**

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

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 3: Management of Financial Risk (continued)

**Financial risk management objectives** (continued)

The Association manages these risks using a risk governance structure incorporating the Managers' Risk Committee and the Audit & Risk Committee. Further details can be found in the Strategic report on pages 50 to 52.

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

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

#### (a) Market – interest rate risk

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

The Association'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.

#### (b) Currency risk

The Association 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 Association is exposed to are pounds sterling and the Euro.

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

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 3: Management of Financial Risk (continued)

#### (b) Currency risk (continued)

| 2014 | USD US$000s | GBP US$000s | EUR US$000s | Other US$000s | Total US$000s |
|---|---|---|---|---|---|
| Debt securities | 11,734 | – | – | – | 11,734 |
| Assets arising from reinsurance contracts held | 308,863 | 14 | 931 | 2,665 | 312,473 |
| Debtors arising from insurance contracts | 28,123 | 2,683 | 1,901 | 1,514 | 34,221 |
| Other debtors | 1,151 | – | – | – | 1,151 |
| Cash and cash equivalents | 86,157 | 3,406 | 2,183 | 21,569 | 113,315 |
| Other | 5,327 | 45 | – | 1,270 | 6,642 |
| **Total** | **441,355** | **6,148** | **5,015** | **27,018** | **479,536** |

| 2013 | USD US$000s | GBP US$000s | EUR US$000s | Other US$000s | Total US$000s |
|---|---|---|---|---|---|
| Debt securities | 7,355 | – | – | – | 7,355 |
| Assets arising from reinsurance contracts held | 357,700 | 434 | 1,844 | 3,038 | 363,016 |
| Debtors arising from insurance contracts | 28,400 | 2,735 | 1,808 | 1,499 | 34,442 |
| Other debtors | 1,048 | 742 | – | 459 | 2,249 |
| Cash and cash equivalents | 80,565 | 1,689 | 1,438 | 25,380 | 109,072 |
| Other | 5,157 | 48 | – | 652 | 5,857 |
| **Total** | **480,225** | **5,648** | **5,090** | **31,028** | **521,991** |

At 31st December 2014, if the US dollar weakened/strengthened by 5% against the pound, with all other factors unchanged, the surplus for the year would have increased/decreased by US$0.28 million (2013: US$0.31 million). If the US dollar weakened/strengthened by 5% against the euro, with all other factors unchanged, the surplus for the year would have increased/decreased by US$1.20 million (2013: US$1.93 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 Association is exposed to credit risk are:

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

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 3: Management of Financial Risk (continued)

**(c) Credit risk** (continued)

Reinsurance is used to manage insurance risk. This does not, however, discharge the Association's liability as primary insurer. If a reinsurer fails to pay a claim, the Association remains liable for the payment to the policyholder.

Credit risk on reinsurance balances is mitigated by assessing the creditworthiness of a reinsurer before it is used and strict criteria are applied (including the financial strength of the reinsurer) before a reinsurer is approved. Counterparty limits based on credit ratings are also in place in relation to amounts due from bond issuers and cash and bank deposits.

The following table provides information regarding aggregated credit risk exposure, for financial assets with external credit ratings, as at 31 December 2014. The credit rating bands are provided by independent ratings agencies:

| 2014 | AAA | AA | A | BBB+ or less or not rated | Total |
|---|---|---|---|---|---|
| | US$000s | US$000s | US$000s | US$000s | US$000s |
| Debt securities | – | 11,734 | – | – | 11,734 |
| Assets arising from reinsurance contracts held | – | 39,603 | 268,309 | 4,561 | 312,473 |
| Debtors arising out of direct insurance | – | – | – | 34,221 | 34,221 |
| Other debtors | – | – | – | 1,151 | 1,151 |
| Cash and cash equivalents | 78,683 | 6,074 | 28,434 | 124 | 113,315 |
| Other | – | – | – | 6,642 | 6,642 |
| **Total assets bearing credit risk** | **78,683** | **57,411** | **296,743** | **46,699** | **479,536** |

| 2013 | AAA | AA | A | BBB+ or less or not rated | Total |
|---|---|---|---|---|---|
| | US$000s | US$000s | US$000s | US$000s | US$000s |
| Debt securities | 5,001 | 2,354 | – | – | 7,355 |
| Assets arising from reinsurance contracts held | – | 63,674 | 293,486 | 5,856 | 363,016 |
| Debtors arising out of direct insurance | – | - | – | 34,442 | 34,442 |
| Other debtors | – | - | – | 2,249 | 2,249 |
| Cash and cash equivalents | 76,188 | 4,897 | 27,987 | – | 109,072 |
| Other | – | – | – | 5,857 | 5,857 |
| **Total assets bearing credit risk** | **81,189** | **70,925** | **321,473** | **48,404** | **521,991** |

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 3: Management of Financial Risk (continued)

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

After assessing all other financial assets at the end of the year, no objective evidence was found to suggest that any were impaired (2013: no impairments).

#### (d) Liquidity and cash flow risk

Liquidity and cash flow risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. The Association 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 2014 the Association's short term deposits (including cash and UCITs) amounted to US$ 113.3 million (2013: US$109.1 million)

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

| **2014** | | Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither past due nor impaired | 0-3 months | 3-6 months | 6 months-1 year | > 1 year | Financial assets that have been impaired | Carrying value in the balance sheet |
| | US$000s | US$000s | US$000s | US$000s | US$000s | US$000s | US$000s |
| Debt securities | 11,734 | – | – | – | – | – | 11,734 |
| Assets arising from reinsurance contracts held | 312,139 | 1 | 8 | 289 | 36 | – | 312,473 |
| Debtors arising out of direct insurance | 24,616 | 8,784 | 821 | – | – | – | 34,221 |
| Other debtors | 1,151 | – | – | – | – | – | 1,151 |
| Cash and cash equivalents | 113,315 | – | – | – | – | – | 113,315 |
| Other | 6,642 | – | – | – | – | – | 6,642 |
| **Total** | **469,597** | **8,785** | **829** | **289** | **36** | **–** | **479,536** |
| **2013** | | | | | | | |
| Debt securities | 7,355 | – | – | – | – | – | 7,355 |
| Assets arising from reinsurance contracts held | 362,864 | 1 | 25 | 123 | 3 | – | 363,016 |
| Debtors arising out of direct insurance | 27,107 | 6,800 | 474 | 61 | – | – | 34,442 |
| Other debtors | 2,249 | – | – | – | – | | 2,249 |
| Cash and cash equivalents | 109,072 | – | – | – | – | – | 109,072 |
| Other | 5,857 | – | – | – | – | – | 5,857 |
| **Total** | **514,504** | **6,801** | **499** | **184** | **3** | **–** | **521,991** |

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 3: Management of Financial Risk (continued)

#### (d) Liquidity and cash flow risk (continued)

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

| **2014** | **< 6 months or on demand US$000s** | **6 months-1 year US$000s** | **1-2 years US$000s** | **2-5 years US$000s** | **> 5 years US$000s** | **Total US$000s** |
|---|---|---|---|---|---|---|
| Debt securities | 11,250 | – | – | – | 484 | 11,734 |
| Debtors arising out of direct insurance | 29,001 | 5,220 | – | – | – | 34,221 |
| Other debtors | 1,151 | – | – | – | – | 1,151 |
| Cash and cash equivalents | 113,315 | – | – | – | – | 113,315 |
| Creditors | (80,983) | – | – | – | – | (80,983) |
| **Total** | **73,734** | **5,220** | **–** | **–** | **484** | **79,438** |
| **2013** | | | | | | |
| Debt securities | 5,001 | – | – | 2,354 | – | 7,355 |
| Debtors arising out of direct insurance | 30,010 | 4,432 | – | – | – | 34,442 |
| Other debtors | 2,249 | – | – | – | – | 2,249 |
| Cash and cash equivalents | 109,072 | – | – | – | – | 109,072 |
| Creditors | (81,118) | – | – | – | – | (81,118) |
| **Total** | **65,214** | **4,432** | **–** | **2,354** | **–** | **72,000** |

#### (e) Capital management

The Association maintains capital, comprising of policyholders' funds (surplus and reserves), consistent with the Association's risk profile and the regulatory requirements of the business. As at 31 December 2014, the total regulatory capital available amounted to US$54.9 million (2013: US$55.3 million), which exceeded the UK Prudential Regulation Authority requirements.

As at 31 December 2014, the Association held deposits and letters of credit totalling US$56.1 million to meet overseas regulatory requirements (2013: US$52.7 million). This included a collateralised letter of credit amounting to US$24.5 million (2013: US$24.5 million) in relation to Hong Kong and a trust fund deposit of US$31.1 million (2013: US$27.7 million) in relation to the US.

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

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 3: Management of Financial Risk (continued)

**(f) Fair value estimations**

From 1 January 2009, the company adopted the amendment to FRS 29. 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 (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (that is, prices) or indirectly (that is, derived from prices)

Level 3 – Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs)

All of the assets and liabilities that are measured at fair value at both 31 December 2014 and 31 December 2013 fall into the Level 1 category, with the exception of the debt securities which fall into level 2.

| | **2014 Level 1 US$000s** | **2014 Level 2 US$000s** | **2014 Total US$000s** | 2013 Level 1 US$000s | 2013 Level 2 US$000s | 2013 Total US$000s |
|---|---|---|---|---|---|---|
| Debt securities | **–** | **11,734** | **11,734** | – | 7,355 | 7,355 |
| UCITS | **78,587** | **–** | **78,587** | 76,189 | – | 76,189 |
| **Financial assets held at fair value through profit and loss** | **78,587** | **11,734** | **90,321** | 76,189 | 7,355 | 83,544 |

The fair value of financial instruments traded in active markets is based on quoted bid prices as at the balance sheet date. All valuations are taken from external price feeds based upon market prices or broker quotes.

### Note 4: Claims paid

Claims paid include claims handling charges paid to the Managers totalling US$9.6 million (2013: US$9.2 million).

Net claims payments and best estimate of claims outstanding at the end of the year in respect of 2013 and prior policy years were US$4.0 million lower than the provision for claims outstanding at the beginning of the year due to better than expected claims development.

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 5: Reinsurers' share of claims paid

| | **2014 US$000s** | 2013 US$000s |
|---|---|---|
| Members' reinsurance | **941** | 286 |
| General reinsurance | **2,072** | 8,827 |
| Quota share reinsurance | **16,921** | 10,775 |
| Quota share with parent company | **61,082** | 82,754 |
| Change in provision for potential unrecoverable reinsurance | **170** | (32) |
| | **81,186** | 102,610 |

## Notes to the Financial Statements
**31 December 2014** (continued)

### Note 6: Net operating expenses

| | 2014 US$000s | 2013 US$000s |
|---|---|---|
| Acquisition costs | | |
| Brokerage and commission | **19,324** | 19,110 |
| Management fee in respect of underwriting | **13,674** | 11,940 |
| Change in deferred acquisition costs | **74** | (22) |
| | **33,072** | 31,028 |
| Administration expenses | | |
| Management fee in respect of management and performance related fee | **10,135** | 8,073 |
| General expenses | **3,805** | 3,539 |
| Directors' fees | **211** | 165 |
| Directors' travelling costs | **21** | 33 |
| Auditors' remuneration: | | |
| – Fee payable to the company's auditor for the audit of the company's annual financial statements | **343** | 312 |
| Non-audit services | | |
| – Other services pursuant to legislation, including the audit of the regulatory returns | **12** | 12 |
| – Tax compliance services | **11** | 50 |
| – Tax advisory services | **–** | 52 |
| – Other services not covered above | **–** | – |
| | **14,538** | 12,236 |
| Total operating expenses before commission on reinsurance contracts | **47,610** | 43,264 |
| Commission on reinsurance contracts | **(6,106)** | (4,760) |
| | **41,504** | 38,504 |

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

The Association had no employees during the year (2013: none).

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 7: Investment return

| | **2014 US$000s** | 2013 US$000s |
|---|---|---|
| **Investment income** | | |
| Income from financial assets held at fair value through profit or loss | **572** | 740 |
| Net /gains on the realisation of investments | **5** | (66) |
| | **577** | 674 |
| **Investment expenses and charges** | | |
| Foreign exchange losses | **(2,927)** | (3,643) |
| Other investment management expenses | **(183)** | (219) |
| Interest payable | **(884)** | (631) |
| Net unrealised gains/(losses) on investments | **34** | (11) |
| **Total investment return** | **(3,383)** | (3,830) |
| **Investment return is analysed between:** | | |
| Allocated investment return transferred to the technical business account | **(1,051)** | (1,198) |
| Net investment return included in the non-technical account | **(2,332)** | (2,632) |
| **Total investment return** | **(3,383)** | (3,830) |

### Note 8: Tax on ordinary activities

| | **2014 US$000s** | 2013 US$000s |
|---|---|---|
| (i) Analysis of tax charge on ordinary activities | | |
| United Kingdom corporation tax at 21.5% (2013: 23.5%) | | |
| – Adjustments in respect of prior years | **–** | – |
| – Charge in current period | **–** | – |
| Foreign tax | | |
| – Adjustments in respect of prior years | **–** | (29) |
| – Charge in current period | **(14)** | 407 |
| | **(14)** | 378 |

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 8: Tax on ordinary activities (continued)

| | **2014 US$000s** | 2013 US$000s |
|---|---|---|
| (ii) Factors affecting tax charge for the current year | | |
| The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in the UK: 21.5% (2013: 23.25%) – the differences are explained below: | | |
| Surplus on ordinary activities before tax | **(404)** | (1,980) |
| Tax at 21.5% (2013: 23.25%) thereon | **–** | – |
| Effects of: | | |
| Inland Revenue agreement – 10% of investment profits | **–** | – |
| Adjustments in respect of prior years | **(14)** | (29) |
| Foreign tax: | | |
| Australia | **–** | 402 |
| Singapore | **–** | 5 |
| | **(14)** | 378 |

A potential deferred tax asset of US$1.1 million (2013: US$1.1 million) in respect of certain unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. This asset would be recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses.

### Note 9: Other financial investments

The Association's financial investments are summarised below by measurement category in the table below;

| | **Carrying Value** | | **Purchase Price** | |
|---|---|---|---|---|
| | **2014 US$000s** | 2013 US$000s | **2014 US$000s** | 2013 US$000s |
| Held at fair value through profit or loss: | | | | |
| – debt securities | **11,734** | 7,355 | **11,726** | 7,380 |
| – UCITS | **78,587** | 76,189 | **78,587** | 76,189 |
| | **90,321** | 83,544 | **90,313** | 83,569 |

## Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 9: Financial investments (continued)

The geographical split of the carrying value of the Association's debt securities is summarised below:

| | 2014 US$000s | 2013 US$000s |
|---|---|---|
| United States | **11,734** | 7,355 |
| | **11,734** | 7,355 |

### Note 10: Surplus and reserves

| | 2014 US$000s | 2013 US$000s |
|---|---|---|
| Balance at beginning of year | **55,302** | 57,660 |
| Deficit on ordinary activities after tax | **(390)** | (2,358) |
| Balance at end of year | **54,912** | 55,302 |

Of the surplus and reserves, US$3.9 million (2013: US$4.0 million) is shown in the accounts of TT Club Mutual Insurance Limited's Singapore branch.

### Note 11: Guarantee from parent company

TT Bermuda has issued a guarantee, not to exceed US$2.5 million (2013: US2.5 million), to the Association to enable it to comply with the solvency margin requirements of the Financial Services and Markets Act 2000. The amount withdrawn as 31 December 2014 amounted to nil (2013: nil).

### Note 12: Creditors arising from reinsurance ceded

| | 2014 US$000s | 2013 US$000s |
|---|---|---|
| Reinsurance premiums ceded | **29,717** | 27,576 |
| Accrual for future reinsurance premiums ceded | **37,132** | 37,672 |
| | **66,849** | 65,248 |

# Notes to the Financial Statements
## 31 December 2014 (continued)

### Note 13: Segmental information

| | 2014 US$000s | 2013 US$000s |
|---|---|---|
| Gross premiums written | | |
| - Members located in UK | **11,504** | 12,985 |
| - Members located in other EU states | **29,356** | 29,599 |
| - Members located outside EU | **131,243** | 139,301 |
| | **172,103** | 181,885 |

The Association writes only marine, aviation and transport business.

The geographical analysis of surplus on ordinary activities before tax and net assets has not been disclosed as this, in the view of the Directors, would be prejudicial to the interest of the Members.

### Note 14: Related party transactionss

TT Club Mutual Insurance Limited is reinsured by its parent Through Transport Mutual Insurance Association Limited under a 90% whole account quota share. TT Club Mutual Insurance Limited is managed by Through Transport Mutual Services (UK) Ltd.

Reinsurers' share of the provision for unearned premiums includes US$37.1 million (2013: US$37.7 million) in relation to the quota share with the parent company. Reinsurers' share of the provision for outstanding claims includes US$220.9 million (2013: US$226.4 million) in relation to the quota share with the parent company.

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

### Note 15: Ultimate parent company

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

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