

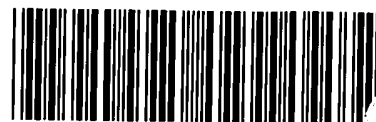
International Transport Intermediaries Club Limited

Directors' Report & Financial Statements

for the year ended 31 May 2017

Registered Number 2725312

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COMPANIES HOUSE

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

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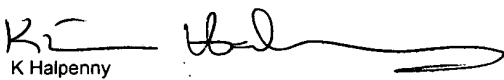
INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

Notice of Meeting

Notice is hereby given that the seventeenth Annual General Meeting of the members of International Transport Intermediaries Club Limited ("ITIC") will be held at the Thief Hotel, Oslo at 12 noon on Thursday, 21 September 2017 for the following purposes:

- o To receive the Strategic and Directors' Report with Financial Statements for the year ended 31 May 2017 and, if they are approved, to adopt them.
- o To elect directors.
- o To confirm the appointment of Auditors and to authorise the directors to agree their remuneration.
- o To transact any other business of an Annual General Meeting.

By order of the board


K Halpenny

Secretary

13 July 2017

Notes:

- i) A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him or her. A person so appointed must be a member of ITIC. The instrument appointing a proxy must be deposited with the Secretary not less than forty-eight hours before the meeting.
- ii) The agenda papers for the Annual General Meeting setting out the resolutions and containing the minutes of the last Annual General Meeting will be sent to the members prior to the meeting.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

Directors

Company and Location

P D French (Chairman)	BMT Group Ltd, London
R M Bishop	V Ships, Glasgow
C Döhle	Paul Günther Schiffsmakler GmbH & Co.KG, Hamburg
E F Davila	Maritima Davila Madrid S.A, Madrid
T M Evans - appointed 1st November 2016 (Chief Financial Officer)	Executive director of ITIC
D Fry	Columbia Ship Management Ltd, Limassol
T T Jones	BRS International S.A. Luxembourg
S M Jones	General Steamship Agencies Inc, San Francisco
F A Kanoo	Yusuf Bin Ahmed Kanoo W.L.L, Bahrain
A S Munro (Chief Executive Officer)	Executive director of ITIC
L G Säfverström	Gulf Agency Company Ltd, Dubai
U Salerno	RINA Spa, Genoa
M Shakesheff (Chairman Audit Investment & Risk Committee)	Casper Shipping Ltd, Middlesbrough
J D Woyda	Clarkson plc, London

Secretary

K Halpenny

Registered Office and Business Address

90 Fenchurch Street
London
EC3M 4ST

Telephone: (+44) 020 7338 0150
Fax: (+44) 020 7338 0151

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

Directors' Report

Summary of the financial year

The results of ITIC are contained in the accounts on pages 10 to 30. The surplus before taxation for the year ended 31 May 2017 was US\$3,604,000 (2016: surplus US\$2,162,000). Additional explanation is included in the business review later in this report.

Directors

The names of the present directors, all of whom have held office during the year, are shown on page 3, except as noted.

In the case of each of the persons who are directors at the time this report is approved, the following applies:

(a) So far as the directors are aware, there is no relevant audit information of which ITIC's auditors are unaware, and

(b) They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that ITIC's auditors are aware of that information.

Reinsurance relationship with Transport Intermediaries Mutual Insurance Association Limited ("TIMIA")

ITIC reinsures with TIMIA, registered in Bermuda, on a 90% quota share basis both its liabilities from 1 September 1992 and its liabilities assumed under the agreement to run-off Transport Intermediaries Mutual Insurance Association Limited and the Chartered and International Shipbrokers P&I Club Limited (CISBA).

Meetings of the Directors

The board met on 14 July 2016, 15 September 2016 and 23 March 2017 in order to carry out its general and specific responsibilities under the Memorandum of Association and Rules of ITIC. The number of directors present at these meetings were 5, 9 and 14 respectively.

The directors considered the following topics at their meetings:

Audit Investment & Risk Committee Minutes	Regulatory Issues
Board Nominations	Reinsurance Renewal
Brexit	Renewal Proposal
Business Plan	Report and Financial Statements, Audit and Regulatory Returns
Claims Report including cases for consideration	Risk Assessments
Closure of the 2015/16 Policy Year	Rule Changes
Debenture of TIMIA in favour of ITIC	Sales, Marketing & Communications Report
Directors' and Officers' Liability Insurance Cover	Solvency II Report including review of policies and the Own Risk and Solvency Assessment
Directors' Fees	Strategy Review
Financial Report	Terms of Reference for Board and Committees
Investment Report, Policy and Mandate	Underwriting Report
Litigation Against ITIC	
Management Agreement and Fees	

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

Directors' Report (continued)

Statement of Directors' Responsibilities

The directors are responsible for preparing the 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom 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 ITIC and of the surplus or deficit of ITIC 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 ITIC will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain ITIC's transactions and disclose with reasonable accuracy at any time the financial position of ITIC and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of ITIC 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 corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The following matters have been discussed within the Strategic Report:

- Likely future developments in the business of the company;
- The financial risk management objectives and policies of the company.



P.D. French

Chairman



A S Munro

Chief Executive Officer

13 July 2017

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

Strategic Report

Principal Activities

The principal activity of ITIC during the year was the insurance of professional indemnity and public liability risks of professionals in the transport industry.

Strategic Direction

The objective of ITIC is to provide competitively priced professional indemnity insurance (and related products) with loss prevention advice to businesses (known as members) servicing the marine and transport industry through a mutual insurance company, which maintains strong reserves and which is supported by at least "A" rated reinsurance security for limits in excess of the retention, sound risk management, quality service and competent staff.

Business Review

The board considers that the key indicators that will communicate the financial performance and strength of ITIC to its members are:

- Gross earned premium;
- Combined ratio being total underwriting costs and general expenses as a percentage of gross earned premium; and
- Operating surplus before investment result and taxation.

The gross earned premium drives the scale of the business. Action is taken continuously to ensure that business is written at rates required to achieve the target return. Joining and leaving members are continuously monitored. The continuity credit for renewing members is a mechanism for distributing excess reserves or retaining reserves where appropriate.

The combined ratio, including various cost ratios, monitors the performance of ITIC from a number of perspectives.

The operating surplus before taxation is the key performance measure. ITIC aims to deliver sustainable surpluses over the insurance cycle by choosing and underwriting risks at appropriate rates, coupled with rigorous expense control and the delivery of superior customer service to its members and intermediaries.

The following table extracts the main headings that management use to monitor the business performance. The surplus reconciles to the surplus on the technical account in the statement of income and expenditure account.

As illustrated below, premium increased whilst reinsurance costs reduced. Claims incurred during the year reduced significantly whilst decisions on the continuity credit increased the cost of the credit for the year. The strong dollar kept the management fee cost down whilst other costs reverted to a normal level after a one off recovery of legal fees in 2015/16. These factors resulted in a strong increase in the operating surplus before taxation. The combined loss ratio before continuity credit and quota share reinsurance for the financial year improved to 58.4% compared with the prior year's 72.7%. This level of combined ratio continues to reflect good claims experience which has enabled the continuity credit to be increased further for the coming year.

	2017 US\$ 000s	2017 % of gross earned premium	2016 US\$ 000s	2016 % of gross earned premium
Gross earned premium	54,368	100.0%	53,202	100.0%
Less acquisition costs including management fee element	(7,362)	13.5%	(7,615)	14.3%
Less excess of loss reinsurance costs	(4,634)	8.5%	(5,363)	10.1%
Net retained premium	42,372	77.9%	40,224	75.6%
Less continuity credit	(10,479)	19.3%	(7,512)	14.1%
Claims net of excess of loss recoveries including management fee element	(13,633)	25.1%	(19,184)	36.1%
Management Fee (excluding acquisition and claims elements)	(4,809)	8.8%	(5,606)	10.5%
Other expenses	(1,339)	2.5%	(910)	1.7%
Total claims and other expenses	(19,781)	36.4%	(25,700)	48.3%
<i>Total costs (excluding continuity credit)</i>	<i>(31,777)</i>	<i>58.4%</i>	<i>(38,678)</i>	<i>72.7%</i>
Operating surplus before quota share reinsurance	12,112	22.3%	7,012	13.2%
Net cost of quota share reinsurance	(10,100)	18.6%	(5,153)	9.7%
Surplus on technical account	2,012	3.7%	1,859	3.5%

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

Strategic Report (continued)

The statement of financial position shows US\$35,017,000 (2016: US\$31,613,000) as retained reserves.

Investments

The total deposited at banks and invested in bonds and other fixed interest securities amounted to US\$64,542,000 (2016: US\$47,770,000) and produced a return of US\$1,318,000 (2016: US\$352,000).

ITIC has retained its strong capital position and its reserves, combined with its quota share reinsurer, are comfortably above the Prudential Regulation Authority's minimum capital requirements, the Standard Formula Solvency Capital Requirement and the Own Risk and Solvency Assessment's capital requirement.

Reinsurance

ITIC places two main types of reinsurance.

- ITIC's excess of loss reinsurance cost includes the cost of the underlying contract and the cost of the reinsurance in respect of limits of cover in excess of those provided by ITIC. This cost for the year was US\$4,634,000 (2016 - US\$5,363,000).

- ITIC also has quota share reinsurance through Transport Intermediaries Mutual Insurance Association Ltd. The aggregate of claims within ITIC's retention is reinsured on a 90% quota share basis by Transport Intermediaries Mutual Insurance Association Ltd of Hamilton, Bermuda. The policy cost US\$22,516,000 (2016 - \$36,691,000) less a ceding commission of US\$10,319,000 (2016 - \$11,319,000).

Analysis of Funds in 2015 (Closed) and 2016 (Open) Policy Years and Reserves as at 31 May 2017

The following table shows the accumulated surplus split down by ITIC policy year. This is different to the breakdown by ITIC financial year as shown in the income and expenditure account.

	At 31 May 2017 US\$ 000s	Change in year US\$ 000s	At 31 May 2016 US\$ 000s
General reserves and earlier years	30,905	530	30,375
2015 Policy Year (closed March 2017)	1,430	192	1,238
2016 Policy Year (open)	2,682	2,682	-
General reserves at end of year	<u>35,017</u>	<u>3,404</u>	<u>31,613</u>

The results above are stated after:

1. Quota share costs comprising 90% of: premium, net of brokerage, commissions, excess of loss reinsurance premiums and claims net of reinsurance recoveries.
2. The ceding commission received from the quota share reinsurer covering the management fee, general expenses and exchange gains and losses of ITIC.

At their meeting in March 2017, the directors decided to close ITIC's 2015 policy year leaving only the 2016 policy year open.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

Strategic Report (continued)

Future Development

The directors expect that the present level of business activity will continue for the foreseeable future.

Membership

The number of members entered in ITIC on 31 May 2017 was 2,483, of which 579 carry on, as their principal activity, the business of ship agency, 452 ship broking, 347 ship management, 663 naval architect, marine surveying and consultants and 442 represent other professionals in the transport industry. Some members carry on more than one of these activities and many members are insured jointly with their subsidiary or related companies.

The membership is drawn from 122 countries the majority being from Europe, with a substantial number of members from North America, Australasia, the Far East and the Middle East.

Risk Management

ITIC has risk management procedures in place which address the five risk areas laid out in the Prudential Regulation Authority's Handbook. These are credit risk, market risk, liquidity risk, operational risk and insurance risk. ITIC has developed a business risk assessment which defines the risks and sets out the procedures that are in place to mitigate those risks. The business risk assessment is reviewed regularly by the board.

In its business risk assessment, ITIC has identified its key risks as :

- Loss of Club financial strength
- Loss of business to competition
- Loss or impairment of investments
- Change to UK tax agreement
- Misappropriation of investment funds

ITIC has taken steps, where appropriate and possible to mitigate these risks with internal controls and procedures and management oversight. Where appropriate, ITIC is prepared to accept higher levels of risk and this is set out in its Risk Appetite Statement. ITIC is considering its options for dealing with Brexit and this will continue to develop over the near future.

The ITIC board approved its Own Risk and Solvency Assessment at the board meeting in March 2017 and this was submitted to the Prudential Regulatory Authority shortly afterwards.

P.D. French

Chairman

A S Munro

Chief Executive Officer

13 July 2017

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

REPORT OF THE INDEPENDENT AUDITORS

Independent Auditors' Report to the Members of International Transport Intermediaries Club Limited ("ITIC")

We have audited the financial statements of International Transport Intermediaries Club Limited for the year ended 31 May 2017 which are set out on pages 10 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to ITIC's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to ITIC's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than ITIC and ITIC's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of ITIC's affairs as at 31 May 2017 and of its surplus 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

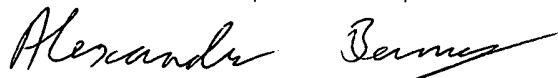
Opinion on other matter prescribed by the Companies Act 2006

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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- ITIC's financial statements are not in agreement with the accounting records or returns;
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Alexander Barnes (Senior Statutory Auditor)

13th July 2017

For and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

STATEMENT OF INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 May 2017

	Notes	2017 US\$ 000s	2017 US\$ 000s	2016 US\$ 000s	2016 US\$ 000s
TECHNICAL ACCOUNT					
Gross premiums written	2, 27	44,212		61,890	
Less continuity credits raised		(9,223)		(10,116)	
Outward reinsurance premiums	2, 5	(16,831)		(30,735)	
Net premiums written		<u>18,158</u>		<u>21,039</u>	
Change in gross provision for unearned premium less deferred continuity credits	6	8,900		(6,084)	
Reinsurers' share	7	(8,010)		5,476	
Earned premiums net of reinsurance		<u>890</u>		<u>(608)</u>	
			19,048		20,431
Claims paid					
Gross amount	8	(17,962)		(20,586)	
Reinsurers' share	9	<u>14,181</u>		<u>16,190</u>	
		<u>(3,781)</u>		<u>(4,396)</u>	
Change in the provision for claims					
Gross amount	10	2,164		(3,693)	
Reinsurers' share	11	<u>(1,909)</u>		<u>3,648</u>	
		<u>255</u>		<u>(45)</u>	
Claims incurred net of reinsurance			(3,526)		(4,441)
Net operating expenses	12		(13,510)		(14,131)
Balance on the technical account			<u>2,012</u>		<u>1,859</u>
NON-TECHNICAL ACCOUNT					
Balance on the technical account			2,012		1,859
Investment result - realised	18	1,718		(164)	
Unrealised (losses) / gains on investments		(400)		516	
Other costs – exchange gains / (losses)	19	<u>274</u>		<u>(49)</u>	
			1,592		303
Surplus on ordinary activities before tax			<u>3,604</u>		<u>2,162</u>
Tax on ordinary activities	20		(200)		(124)
Surplus on ordinary activities after tax			<u>3,404</u>		<u>2,038</u>
STATEMENT OF OTHER COMPREHENSIVE INCOME					
Surplus on ordinary activities after tax			3,404		2,038
Other comprehensive income			-		-
Total comprehensive income for the year			<u>3,404</u>		<u>2,038</u>

All the above transactions relate to continuing activities. The notes on pages 14 to 30 form an integral part of these financial statements.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

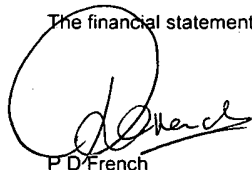
STATEMENT OF FINANCIAL POSITION
as at 31 May 2017

Company No 2725312

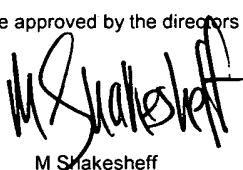
	Notes	2017 US\$ 000s	2017 US\$ 000s	2016 US\$ 000s	2016 US\$ 000s
ASSETS					
Investments					
Financial investments	2, 21		53,409		42,510
Reinsurers' share of technical provisions					
Unearned premium reserve	7	26,659		34,369	
Claims outstanding	11	66,350		68,259	
			93,009		102,628
Debtors					
Arising out of direct insurance operations	22	19,828		26,527	
Other debtors	23	384		688	
			20,212		27,215
Other Assets					
Cash at bank			11,140		5,260
Prepayments and accrued income					
Accrued interest		242		171	
Deferred acquisition costs		3,812		4,252	
Prepayments		745		788	
			4,799		5,211
TOTAL ASSETS			182,569		182,824
LIABILITIES					
Reserves					
Income and expenditure account			35,017		31,613
Technical provisions					
Provision for unearned premiums	6	29,622		38,188	
Claims outstanding – gross amount	10	72,769		74,933	
			102,391		113,121
Creditors					
Arising out of direct insurance operations	24	2,466		92	
Arising out of reinsurance operations		37,020		32,255	
Other creditors including taxation and social security	25	1,576		1,261	
			41,062		33,608
Accruals	26		4,099		4,473
TOTAL LIABILITIES AND RESERVES			182,569		182,824

The notes on pages 14 to 30 form an integral part of these financial statements.

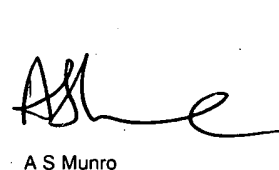
The financial statements on pages 10 to 30 were approved by the directors on 13 July 2017.


P D French

Director


M Shakesheff

Director


A S Munro

Director and Chief Executive Officer

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

STATEMENT OF CHANGES IN RESERVES
as at 31 May 2017

	2017	2016
	US\$	US\$
	000s	000s
Balance at start of the year	31,613	29,575
Surplus for the year	3,404	2,038
Other comprehensive income for the year	-	-
Balance at end of the year	35,017	31,613

The notes on pages 14 to 30 form an integral part of these financial statements.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

CASH FLOW STATEMENT
for the year ended 31 May 2017

	2017	2016
	US\$	US\$
	000s	000s
Reconciliation of balance on the general business technical account to net cash inflow from operating activities		
Operating activities		
Calls & premiums received	43,076	43,785
Reinsurance premium paid	(10,795)	(39,307)
Claims paid	(17,962)	(20,586)
Reinsurance recoveries received	14,181	16,190
Acquisition costs	(7,310)	(2,117)
Operating expenses paid	(5,675)	(13,467)
Interest and dividends received	1,718	(164)
Taxation paid	(59)	(355)
Net cash provided by operating activities	17,174	(16,021)
Investing activities		
Purchase of investments	(38,567)	(19,697)
Sale of investments	27,275	34,787
Net cash used in investing activities	(11,292)	15,090
Net increase / (decrease) in cash and cash equivalents	5,882	(931)
Cash and cash equivalents at the beginning of the year	5,260	6,326
Effect of exchange rate fluctuations on cash and cash equivalents	(2)	(135)
Cash and cash equivalents at the end of the year	11,140	5,260

The notes on pages 14 to 30 form an integral part of these Financial Statements.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Constitution

ITIC is incorporated in England and Wales under the Companies Act 2006 as a company limited by guarantee and not having a share capital.

In the event of ITIC's liquidation the net assets of ITIC are to be distributed among the current members in proportion to the amounts of premium payable by them during the preceding three years.

Note 2 Accounting policies

(a) Statement of compliance and basis of preparation

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standards FRS102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the provisions of section 408 of the Companies Act 2006.

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.

The financial statements have been prepared on the historical cost basis, except for other financial investments which are presented at fair value.

(b) Policy year accounting

ITIC's business is accounted for on an annual basis. For reporting to the members, calls and premiums together with reinsurance premiums are allocated to the policy years in which they incept. Claims and related reinsurance recoveries are allocated to the policy year in which the claim is first notified. General expenses and management fees are allocated to the current policy year. The income and expenditure account represents the aggregate of changes during the financial year on all policy years.

A policy year is usually closed during the second year from inception during which time members are liable for their rateable proportion of any deficiency resulting from an excess of claims and expenses over income. The directors are empowered to return all or part of any surplus to the members.

(c) Non-US dollar currencies

Revenue transactions are translated into US dollars at applicable rates throughout the year. Assets and liabilities have been translated at the closing US dollar exchange rate. The resulting difference is included within exchange gains / losses. Provisions are made for any movement in the value of investments. All exchange gains / losses have been included in the income or expenditure for the year.

(d) Calls and premiums

All premiums are accounted for on an annual basis. Gross premiums written are the total receivable for contracts entered into during the accounting period together with any premium adjustments relating to prior periods. All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon. Continuity credits are discounts provided to renewing members.

(e) Unearned premiums

Written premiums are recognised as earned income over the period of the policy on a time apportionment basis. Similarly, continuity credit costs are recognised over the period of the policy on a time apportioned basis, as a discount to premiums.

(f) Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the statement of financial position date.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(g) Claims

Claims are accounted for on a notification basis.

Statement of financial position

The claims provision in the statement of financial position comprises:

- i) Estimated claims as at the statement of financial position date on notified claims outstanding in all policy years;
- ii) Additional provision to allow for adverse developments on estimated claims including those claims where no estimate is currently thought to be required; and
- iii) Provision for the managers' future claims handling costs.

Income and expenditure account

The figure for claims incurred in the income and expenditure account comprises claims and costs paid during the year, the claims handling costs of the managers and the movement in the claims provision since the last statement of financial position date.

(h) Reinsurance recoveries

The claims liabilities of ITIC are reinsured above certain levels; in addition, claims within ITIC's retention are reinsured on a 90 per cent quota share basis. The figure credited to the income and expenditure account for reinsurance recoveries represents receipts and amounts due under these arrangements on claims already notified.

(i) Outward reinsurance premiums

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inward reinsurance business being reinsured.

(j) Financial instruments

Financial instruments are recognised on ITIC's statement of financial position when ITIC becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price and are classified as either "basic" or "other" in accordance with Section 11 of FRS 102. Subsequent to initial recognition, they are measured as set out below.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or when ITIC has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

(k) Other financial investments

ITIC classifies its financial investments at fair value as they can be evidenced by a quoted price within an active market.

Financial investments are recognised at trade date and subsequently measured at fair value. Fair values of financial investments traded in active markets are measured by bid price. Where there is no active market, fair value is measured by reference to other factors such as independent valuation reports.

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

The cost of financial investments denominated in currencies other than US dollar 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 in the period in which they occur.

Net gains or losses arising from changes in fair value of financial investments 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.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(l) Investment returns

Investment returns comprise dividend income from equities, income on fixed interest securities, interest on deposit and cash.

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

(m) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks and investments on the money market instruments which are readily convertible, being those with original maturities of three months or less. Cash and cash equivalents in foreign currency are translated based on the relevant exchange rates at the reporting date.

(n) Foreign currencies

ITIC's functional and presentational currency is US dollars and the figures shown within the financial statements are rounded to the nearest thousand.

Transactions in foreign currencies have been translated into US dollars at the rate applicable for the month in which the transaction took place. At each reporting date, monetary assets and liabilities that are denominated on foreign currencies, are translated into US dollars at the rates of exchange ruling at the end of the reporting period.

All exchange gains and losses, whether realised or unrealised, are included in the foreign exchange gains and losses in the income and expenditure account.

(o) Taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated in full on timing differences that result in an obligation at the statement of financial position 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 the current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in the 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 Critical accounting estimates and judgements

ITIC makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The following critical accounting estimates and judgements are made by ITIC:

(a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is ITIC's most critical accounting estimate. The carrying amount for the liability is US\$72,769,000 (2016: US\$74,933,000). There are several sources of uncertainty that need to be considered in the estimate of the liability that ITIC will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims at the end of the reporting period.

Estimates are made for both the expected ultimate cost of claims reported and claims incurred but not enough reserved ("IBNER") at the reporting date. The estimate of IBNER is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, ITIC uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. The methods used and estimates made, are reviewed regularly.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Fair value estimations

In accordance with section 34 of FRS102, as a financial institution, ITIC applies the requirements of paragraph 11.27 of FRS102. This requires, for financial instruments held at fair value in the statement of financial position, disclosure of fair value measurements by the level of the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets and liabilities;

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

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

The tables below presents ITIC's assets and liabilities measured at fair value by the level of the fair value hierarchy:

As at 31 May 2017	Level 1	Level 2	Level 3	Total
	US\$	US\$	US\$	US\$
	000s	000s	000s	000s
Assets				
Fixed Interest - Government	21,875	1,696	-	23,571
Fixed Interest - Corporate	-	17,184	-	17,184
UCITS	12,654	-	-	12,654
Total	34,529	18,880	-	53,409

As at 31 May 2016	Level 1	Level 2	Level 3	Total
	US\$	US\$	US\$	US\$
	000s	000s	000s	000s
Assets				
Fixed Interest - Government	18,719	810	-	19,529
Fixed Interest - Corporate	-	19,938	-	19,938
UCITS	3,043	-	-	3,043
Total	21,762	20,748	-	42,510

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 Management of risks

ITIC is governed by the board of directors which drives decision making within ITIC from board level through to operational decision making within the managers. The board considers the type and scale of risk that ITIC is prepared to accept in its ordinary course of activity and this is used to develop strategy and decision making.

ITIC is focused on the identification and management of potential risks. This covers all aspects of risk management including that to which ITIC is exposed through its core activity as a provider of insurance services, and the broader range of risks. ITIC's key risks are the following:

- Insurance risk - incorporating underwriting and reserving risk;
- Market risk - incorporating investment risk, and interest rate risk;
- Currency risk - the risk of adverse currency exchange movements;
- Credit risk - the risk that a counterparty is unable to pay amounts in full when due; and
- Liquidity and cash flow risk - the risk that cash may not be available to pay obligations as they fall due.

Financial risk management objective

ITIC is exposed to financial risk through its financial investments, reinsurance assets and liabilities to policy holders. 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.

ITIC manages these risks using a risk governance structure incorporating the managers' risk committee and the Audit Investment & Risk Committee. Further details can be found in the Strategic Report on pages 6 to 8.

The board is responsible, advised by ITIC's Chairman working with the Audit Investment & Risk 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 ITIC which are analysed as part of the ORSA process.

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

(a) Insurance risk

ITIC's exposure to insurance risk is initiated by the underwriting process and incorporates the possibility that an insured event occurs, leading to a claim on ITIC from a member. The risk is managed by the underwriting process, acquisition of the reinsurance cover, and the management of claims costs.

ITIC's main insurance risks can arise from:

- Inappropriate underwriting of risks;
- Prohibitive cost / unavailability of reinsurance;
- Failure to react to major increase in claims;
- Impact of new legislation on risks written; and
- Over reliance on significant premium payers.

The objective of ITIC's insurance risk management process is to establish effective underwriting, reinsurance and reserving strategies which are agreed and monitored by ITIC's board in accordance with its risk appetite statement.

ITIC establishes provisions for unpaid claims and related expenses to cover its expected liability. These provisions are established through the application of actuarial techniques and assumptions. In order to minimise the risk of understating these provisions, the assumptions made and actuarial techniques employed are reviewed in detail by management.

ITIC considers that the liability for insurance claims recognised in the statement of financial position is adequate. However, actual experience will differ from the expected outcome and this is monitored in ITIC's Key Risk Indicators which are reported to the board and Audit Investment & Risk Committee at their meetings.

The results of sensitivity testing are set out below, showing the impact on the surplus before tax, gross and net of reinsurance. The impact of the change in a single factor is shown, with the assumption unchanged. The sensitivity analysis assumes that a change in loss ratio is driven by the change in claims incurred.

	2017	2016
	US\$	US\$
	000s	000s
Increase in loss ratio by 5 percentage points		
Based on gross premium net of continuity credit and acquisition costs	(1,911)	(2,002)
Based on gross premium net of continuity credit and acquisition costs and reinsurances	(168)	(173)
A 5 per cent decrease in loss ratios would have an equal and opposite effect.		

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 Management of risks (continued)

Underwriting process

ITIC has an underwriting policy which is approved by the board annually which manages the underwriting risk. The policy sets out the processes by which the risk is managed.

ITIC operates a risk rating system which provides underwriting parameters for assessing the premium to be charged. All policies are signed off by the underwriting director or an individual delegated by the underwriting director.

Reinsurance

ITIC's reinsurance programme is designed to manage risk to an acceptable level to optimise ITIC's capital position. The programme comprises excess of loss reinsurance cover to protect against individual large losses, and a 90% quota share arrangement with TIMIA.

Reserving process

ITIC establishes provisions for unpaid reported claims and relating expenses to cover its expected liability. These provisions are established through the application of actuarial techniques and assumptions as set out in note 3 of the financial statements as directed and reviewed by the Audit Investment & Risk Committee. In order to minimise the risk of understating these provisions, the assumptions made and actuarial techniques employed are reviewed in detail by senior members of the managers and ITIC's Audit Investment & Risk Committee.

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

(b) 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 rate, liabilities to policyholders are exposed to interest rate risk.

ITIC's investment policy is set to ensure that the duration of the investment portfolio is appropriately matched to the duration of the policyholders' liabilities. Interest rate risk is monitored by comparing the mean duration of the investment portfolio and that of the policyholders' liabilities. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in the 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. In the event of a parallel shift of yield curve up by 100 basis points, the benchmark portfolio value will move by the modified duration of approximately three years. This will result in a circa 3% loss on the fixed income portfolio. For ITIC, this would result in a loss for the period and a decrease in investment values of approximately US\$1,600,000 (2016: US\$1,200,000) assuming all other assumptions remain unchanged. A decrease in 100 basis points in interest yields would result in an equal and opposite increase in investment values assuming all other assumptions remain unchanged.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 Management of risks (continued)

(c) Currency risk

ITIC is exposed to currency risk in respect of assets under policies of insurance denominated in currencies other than US dollars. The most significant currency risk to which ITIC is exposed to are pounds sterling and the Euro.

The following table shows ITIC's net retained reserves by currency. ITIC seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities within the financial investments denominated in the same currency.

	US\$	GBP	EUR	Other	Total
	US\$	US\$	US\$	US\$	US\$
	000s	000s	000s	000s	000s
2017					
Debt securities, UCITS and cash	56,012	4,885	3,887	-	64,784
Forward Contracts	(5,476)	2,290	3,193	-	7
Balances arising from insurance and reinsurance contracts	3,953	(1,550)	(1,426)	(498)	479
Other debtors and creditors	(3,769)	44	264	(99)	(3,560)
Gross claims provisions	(55,013)	(9,096)	(8,660)	-	(72,769)
Balance with quota share reinsurer	37,129	4,483	4,464	-	46,076
Total retained reserves	32,836	1,056	1,722	(597)	35,017
	US\$	GBP	EUR	Other	Total
	US\$	US\$	US\$	US\$	US\$
	000s	000s	000s	000s	000s
2016					
Debt securities, UCITS and cash	39,808	4,812	3,322	-	47,942
Forward Contracts	(2,478)	755	1,714	-	(9)
Balances arising from insurance and reinsurance contracts	3,454	(1,871)	(1,118)	(397)	68
Other debtors and creditors	(1,322)	187	647	(71)	(559)
Gross claims provisions	(56,649)	(9,367)	(8,917)	-	(74,933)
Balance with quota share reinsurer	50,157	4,483	4,464	-	59,104
Total retained reserves	32,970	(1,001)	112	(468)	31,613

A 5 per cent strengthening of the following currencies against the US dollar would be estimated to have increased / (decreased) the surplus before tax and reserves at the year-end by the following amounts:

	Effect on Surplus after tax
As at 31 May 2017	
Sterling	36
Euro	77
As at 31 May 2016	
Sterling	(33)
Euro	5

A 5 per cent weakening of these currencies against the US dollar would have an equal and opposite effect.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 Management of risks (continued)

(d) Credit risk

Credit risk is the risk a counterparty will be unable to pay the amounts in full when due. The main areas where ITIC is exposed to credit risk are:

- Reinsurers' share 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.

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

Credit risk on reinsurance balances is mitigated by assessing the creditworthiness of the reinsurer before it is used and strict criteria are applied (including rating the financial strength of the reinsurer) before a reinsurer is approved. All excess of loss reinsurance contracts are subject to an A- or above rating. The quota share reinsurance is placed with TIMIA. TIMIA is unrated but ITIC holds a fixed charge over US\$35m of the TIMIA investments portfolio. This provides satisfactory mitigation comfort over the credit risk.

Debtors arising out of direct insurance operations comprises premium owed by the members of the club. Credit risk relating to this risk is managed through take on procedures for the assured. Furthermore, if the assured does not pay, then cover may be cancelled back to inception.

Counterparty limits based on the credit ratings are also in place in relation to the 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 May 2017. The credit rating bands are provided by independent ratings agencies:

	AAA	AA	A	BBB+ or less or not rated	Total
	US\$ 000s	US\$ 000s	US\$ 000s	US\$ 000s	US\$ 000s
2017					
Fixed interest - Government	695	21,876	1,000	-	23,571
Fixed interest - Corporate	-	3,993	13,191	-	17,184
Forward Contracts	7	-	-	-	7
UCITS	12,647	-	-	-	12,647
Cash	-	-	-	11,140	11,140
Total	13,349	25,869	14,191	11,140	64,549

	AAA	AA	A	BBB+ or less or not rated	Total
	US\$ 000s	US\$ 000s	US\$ 000s	US\$ 000s	US\$ 000s
2016					
Fixed interest - Government	810	18,719	-	-	19,529
Fixed interest - Corporate	1,998	8,903	9,037	-	19,938
UCITS	3,043	-	-	-	3,043
Cash	-	-	-	5,260	5,260
Total	5,851	27,622	9,037	5,260	47,770

After assessing all other financial assets at the end of the year, no objective evidence was found to suggest that any were impaired (2016: no impairments).

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 Management of risks (continued)

(e) 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. ITIC 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 May 2017 ITIC's short term deposits amounted to US\$11,140,000 (2016: US\$5,260,000).

The tables below provide a maturity analysis of ITIC's financial assets.

	Less than 6 months or on demand	6 months - 1 year	1 - 2 years	2-5 years	> 5 years	Carrying value in the statement of financial position
	US\$ 000s	US\$ 000s	US\$ 000s	US\$ 000s	US\$ 000s	US\$ 000s
2017						
Debt securities	20,519	1,502	3,211	9,983	18,194	53,409
Assets arising from reinsurance contracts held	2,440	-	-	-	-	2,440
Debtors arising from insurance contracts	3,885	6,897	6,606	-	-	17,388
Other debtors	384	-	-	-	-	384
Cash and cash equivalents	11,140	-	-	-	-	11,140
Total	38,368	8,399	9,817	9,983	18,194	84,761

	Less than 6 months or on demand	6 months - 1 year	1 - 2 years	2-5 years	> 5 years	Carrying value in the statement of financial position
	US\$ 000s	US\$ 000s	US\$ 000s	US\$ 000s	US\$ 000s	US\$ 000s
2016						
Debt securities	3,043	1,749	4,621	11,818	21,279	42,510
Assets arising from reinsurance contracts held	1,344	-	-	-	-	1,344
Debtors arising from insurance contracts	16,327	5,800	3,056	-	-	25,183
Other debtors	688	-	-	-	-	688
Cash and cash equivalents	5,260	-	-	-	-	5,260
Total	26,662	7,549	7,677	11,818	21,279	74,985

The assets in the above tables are not impaired due to the fact that their full value are deemed to be recoverable.

(f) Capital management

ITIC maintains capital, comprising of policyholders' funds (surplus and reserves), consistent with ITIC's risk profile and the regulatory requirements of the business. As at 31 May 2017, the total free reserves available amounted to US\$35,017,000 (2016: US\$31,613,000).

ITIC's strategy is to maintain sufficient capital to exceed the Standard Formula Solvency II Capital Requirements such that there is less than a 1 in 200 chance of breaching this requirement over the subsequent year.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 Outward reinsurance premiums

	2017	2016
	US\$	US\$
	000s	000s
Excess of loss and members' facultative reinsurance premium	(4,634)	(5,363)
Quota share premium to TIMIA	(22,516)	(36,691)
	<u>(27,150)</u>	<u>(42,054)</u>
Plus ceding commissions from TIMIA current year	10,319	11,319
	<u>(16,831)</u>	<u>(30,735)</u>

Note 6 Movement on unearned premium

Unearned premium is that part of gross premiums written, net of continuity credits, which is estimated to be earned in the following or subsequent financial years. The income and expenditure account shows the change in the provision for unearned premium and comprises the following:

	2017	2016
	US\$	US\$
	000s	000s
Unearned premium provision brought forward	38,188	31,223
Foreign exchange differences	334	881
Less: Unearned premium provision carried forward	(29,622)	(38,188)
	<u>8,900</u>	<u>(6,084)</u>
Movement in year		

Note 7 Reinsurers' share of unearned premium

	2017	2016
	US\$	US\$
	000s	000s
Reinsurers' share brought forward	(34,369)	(28,101)
Foreign exchange differences	(300)	(792)
Reinsurers' share carried forward	26,659	34,369
	<u>(8,010)</u>	<u>5,476</u>
Movement in year		

Note 8 Gross claims paid

i) Claims paid

	2017	2016
	US\$	US\$
	000s	000s
Claims paid	(15,558)	(17,783)
Claims handling fees (see note 13)	(2,404)	(2,803)
	<u>(17,962)</u>	<u>(20,586)</u>

ii) Insurance contract liabilities and reinsurance assets

Movement in insurance liabilities and reinsurance assets

	2017	2017	2017	2016	2016	2016
	Gross	Reins.	Net	Gross	Reins.	Net
	US\$	US\$	US\$	US\$	US\$	US\$
	000s	000s	000s	000s	000s	000s
Technical provisions at beginning of the year	74,933	(68,259)	6,674	71,240	(64,611)	6,629
Claims paid (recovered)	(17,962)	14,181	(3,781)	(20,586)	16,190	(4,396)
Claims incurred	15,798	(12,272)	3,526	24,279	(19,838)	4,441
Technical provisions at the end of the year	<u>72,769</u>	<u>(66,350)</u>	<u>6,419</u>	<u>74,933</u>	<u>(68,259)</u>	<u>6,674</u>

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

ii) Insurance contract liabilities and reinsurance assets (continued)

Unearned premium reserve	2017	2017	2017	2016	2016	2016
	Gross	Reins.	DAC	Gross	Reins.	DAC
	US\$	US\$	US\$	US\$	US\$	US\$
	000s	000s	000s	000s	000s	000s
Brought forward balance	38,188	34,369	4,252	31,223	28,101	3,400
Movement in the year	(8,900)	(7,410)	(734)	6,084	7,060	767
Foreign exchange differences	334	(300)	294	881	(792)	85
Carried Forward Balance	29,622	26,659	3,812	38,188	34,369	4,252

Development claims tables

The development of insurance liabilities provides a measure of ITIC's ability to estimate the ultimate value of claims. The top half of each table below illustrates ITIC's estimate of total claims outstanding for each policy year has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount shown in the statement of financial position.

Gross insurance claims liability before excess of loss or quota share reinsurance recoveries:

Reporting year ended 31st May	2012	2013	2014	2015	2016	2017	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
	000s	000s	000s	000s	000s	000s	000s
At end of the reporting year	22,349	24,260	23,538	21,949	23,902	23,710	
1 year later	17,861	21,971	21,600	18,991	22,651		
2 years later	16,306	19,743	23,696	14,200			
3 years later	16,420	18,134	21,633				
4 years later	16,186	18,173					
5 years later	16,445						
Estimate of ultimate claims	16,445	18,173	21,633	14,200	22,651	23,710	
Cumulative payments to date	(12,718)	(12,360)	(15,740)	(7,023)	(7,633)	(2,450)	
Liability recognised	3,727	5,813	5,893	7,177	15,018	21,260	58,888
Claims liabilities greater than six years							8,681
Claims run off provision							5,200
Total technical provisions included in statement of financial position: Claims outstanding – gross amount							72,769

Insurance claims liability net of excess of loss and quota share reinsurance recoveries:

Reporting year	2012	2013	2014	2015	2016	2017	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
	000s	000s	000s	000s	000s	000s	000s
At end of the reporting year	2,220	2,220	2,345	2,190	2,390	2,300	
1 year later	1,760	2,120	2,160	1,899	2,170		
2 years later	1,585	1,940	2,080	1,420			
3 years later	1,520	1,760	1,880				
4 years later	1,462	1,700					
5 years later	1,450						
Estimate of ultimate claims	1,450	1,700	1,880	1,420	2,170	2,300	
Cumulative payments to date	(1,161)	(1,186)	(1,469)	(702)	(763)	(245)	
Liability recognised	289	514	411	718	1,407	2,055	5,394
Claims liabilities greater than six years							505
Claims run off provision							520
Total technical provisions included in statement of financial position							6,419

Net technical provisions included in statement of financial position as the following:

Claims outstanding - gross amount	72,769
Reinsurers' share - excess of loss reinsurers	(8,580)
Reinsurers' share - quota share reinsurer	(57,770)
Technical provisions at the end of the year (see note 8)	6,419

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 9 Reinsurers' share of claims paid

	2017	2016
	US\$	US\$
	000s	000s
Excess of loss recoveries	1,785	1,853
Quota share recoveries from TIMIA	12,396	14,337
	<u>14,181</u>	<u>16,190</u>

Note 10 Change in net provision for claims

	2017	2016
	US\$	US\$
	000s	000s
Claims outstanding - gross amount	(72,769)	(74,933)
Claims outstanding - recoverable excess of loss reinsurance	8,580	8,200
Claims outstanding - net amount	<u>(64,189)</u>	<u>(66,733)</u>
Gross claims provision brought forward	74,933	71,240
Gross claims provision carried forward	(72,769)	(74,933)
Increase in gross provision for claims	<u>2,164</u>	<u>(3,693)</u>

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular case and the ultimate cost of notified claims. The estimates for known outstanding claims are based on the best estimates and judgement of the managers of the final cost of individual cases. These estimates are as reliable as possible given the details of the cases and taking into account all the current information. However, the final outcome of individual cases may prove to be significantly different to the estimates made at the statement of financial position date. The estimates are reviewed regularly. The gross provision for claims includes allowances for adverse development and the managers' future claims handling costs.

A reasonable allowance has been made for adverse claims development in the future. The allowance is assessed by an actuary using standard actuarial techniques. This methodology projects the claims statistics forward based on the historical pattern of claims experience of ITIC in the past.

The movement in the gross provision for claims is the difference between the provision for outstanding claims on all financial years at the beginning of the year and the equivalent provision at the end of the year, after deduction of all claims paid during the financial year and addition of the allowance for new claims notified in the 2016 / 2017 policy year.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 11 Reinsurers' share of claims outstanding

	2017	2016
	US\$	US\$
	000s	000s
Reinsurers' share - excess of loss reinsurers	8,580	8,200
Reinsurers' share - quota share reinsurer	57,770	60,059
	<u>66,350</u>	<u>68,259</u>
Reinsurers' share brought forward	(68,259)	(64,611)
Reinsurers' share carried forward	66,350	68,259
Increase in reinsurers' share of technical provisions	<u>(1,909)</u>	<u>3,648</u>

The reinsurers' share represents that part of the claims provision which is recoverable from reinsurers and is based on estimated recoveries against estimated claims and cost provisions.

Note 12 Net operating expenses

	Notes	2017	2016
		US\$	US\$
		000s	000s
Management fees	13	(4,809)	(5,606)
Acquisition costs	14	(7,362)	(7,615)
Directors' fees	15	(206)	(247)
General expenses	16	(1,008)	(599)
Fees payable to auditors - current year audit	17	(63)	(50)
Fees payable to auditors - prior year audit over / (under) provision		(8)	1
Fees payable to auditors - taxation		(12)	(3)
Fees payable to auditors - other services		(42)	(12)
		<u>(13,510)</u>	<u>(14,131)</u>

Note 13 Management fees

The fee paid to the managers relates to the cost of providing offices, staff and administration in London. The basis of this remuneration is fixed by the directors and is subject to periodic review.

The fees for the year to 31 May 2017 are based on four elements as follows:

- The cost based element which covers the managers' costs in sterling;
- The operating incentive fee which is calculated at 2.7% of gross premium income;
- The investment incentive fee which is calculated at 0.1% of average funds under management; and
- A further combined ratio incentive fee of US\$100,000 per percentage point of combined ratio before continuity credit under 100%, subject to a cap and collar of US\$1,000,000 either above or below a based expected fee of US\$250,000.

This formula provides a fee for the year to 31 May 2017 of US\$8,905,000 of which US\$1,250,000 is not immediately payable. This cost is allocated in the technical account between management fee, acquisition costs and claims handling fees:

	2017	2016
	US\$	US\$
	000s	000s
Management fee	(4,809)	(5,606)
Acquisition costs (see Note 14)	(1,692)	(1,972)
Claims handling fees (see Note 8)	(2,404)	(2,803)
	<u>(8,905)</u>	<u>(10,381)</u>

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 14 Acquisition costs

Acquisition costs comprise brokerage and commissions of US\$5,670,000 (2016: US\$5,643,000) and an allocation of management fee in the amount of US\$1,692,000 (2016: US\$1,972,000).

Note 15 Directors' fees

The directors are paid an annual fee and a fee for each meeting attended, as follows, as authorised under the bye-laws.

	Annual fee £	Attendance fee £
Chairman	12,000	3,400
Directors	3,000	3,400

No loans have been made to the directors and none are contemplated.

Note 16 General expenses

	2017 US\$ 000s	2016 US\$ 000s
Marketing and servicing	(202)	(291)
Directors' meetings	(344)	(344)
Seminar / conference attendance	(2)	(9)
Printing and design	(12)	(27)
Advertising	(130)	(127)
Postage, telephone and fax	(34)	(34)
Subscriptions	(28)	(44)
Legal and compliance fees	(233)	418
Insurance costs	(17)	(21)
Sundry expenses	(6)	(120)
	<u>(1,008)</u>	<u>(599)</u>

ITIC has no employees.

Note 17 Audit fees

An accrual of US\$62,400 (2016: US\$43,500) has been made for the audit fee.

Note 18 Investment result

	2017 US\$ 000s	2016 US\$ 000s
Interest on bank deposits and bonds	1,392	272
Realised gains / (losses) on disposals	326	(436)
	<u>1,718</u>	<u>(164)</u>

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 19 Other costs and exchange gains / losses

	2017	2016
	US\$	US\$
	000s	000s
Exchange (losses) / gains - investing activities	317	(134)
Exchange gains - currency contracts	13	33
Exchange (losses) / gains - operating activities	(56)	52
	<u>274</u>	<u>(49)</u>

Note 20 Taxation

	2017	2016
	US\$	US\$
	000s	000s
The tax charge in the income and expenditure account is made up as follows:		
Current year tax charge	(263)	(124)
Deferred tax movement	-	-
Exchange difference on deferred tax	-	-
Under / over accrual previous years	63	-
	<u>(200)</u>	<u>(124)</u>
Surplus on ordinary activities before tax	3,604	2,162
Tax on surplus on ordinary activities at 19.8% (2016: 20.0%)	(717)	(432)
Effect of:		
Non-taxable mutual operations	399	318
Non-taxable exchange gains / (losses)	54	(10)
Current tax charge	<u>(263)</u>	<u>(124)</u>

Note 21 Investments

	2017	2016	2017	2016
	US\$	US\$	US\$	US\$
	000s	000s	000s	000s
	Market Value	Market Value	Cost	Cost
Fixed income securities	40,755	39,467	42,693	39,478
Forward contracts	7	-	7	-
UCITS – cash	12,647	3,043	12,647	3,043
	<u>53,409</u>	<u>42,510</u>	<u>55,347</u>	<u>42,521</u>

All holdings in fixed income securities are in securities traded on recognised exchanges. "undertakings for collective investment in transferable securities" ("UCITS") are funds held for the short term.

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 22 Debtors arising out of direct insurance operations

	2017	2016
	US\$	US\$
	000s	000s
Members' balances due	2,894	2,198
Members' balances not yet due	14,494	22,985
Excess of loss reinsurance recoveries	2,440	1,344
	<u>19,828</u>	<u>26,527</u>

Note 23 Other debtors

	2017	2016
	US\$	US\$
	000s	000s
Value added tax	18	16
Other debtors	366	672
	<u>384</u>	<u>688</u>

Note 24 Creditors arising out of direct insurance operations

	2017	2016
	US\$	US\$
	000s	000s
Amounts due to members / brokers	(47)	(40)
Outward reinsurance premiums	(2,419)	(52)
	<u>(2,466)</u>	<u>(92)</u>

INTERNATIONAL TRANSPORT INTERMEDIARIES CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 25 Other creditors including taxation and social security

	2017 US\$ 000s	2016 US\$ 000s
Management fee	(1,315)	(1,141)
Corporation tax	(261)	(120)
	<u>(1,576)</u>	<u>(1,261)</u>

Note 26 Accruals and deferred income

	2017 US\$ 000s	2016 US\$ 000s
Accrued expenses and sundry creditors	(668)	(647)
Quota share reinsurers share of deferred insurance commission costs	(3,431)	(3,826)
	<u>(4,099)</u>	<u>(4,473)</u>

Note 27 Segmental information

	2017 US\$ 000s	2016 US\$ 000s
Gross premium written:		
Members located in UK	12,434	18,435
Members located in other EU States	14,739	21,475
Members located outside EU	17,039	21,980
	<u>44,212</u>	<u>61,890</u>

ITIC writes only one class of business. Premium is written in one or two year policies and the renewal of these policies is uneven. As a result, more premium is written in years ending in an even number. The business review clearly summarises the premium on an earned basis and this shows a more even split between consecutive years.

Note 28 Related party transactions

ITIC has no share capital and is controlled by the members who are also the insured. Subsequently, all insurance transactions are deemed to be between related parties and these are represented in these financial statements. These are the only transactions between ITIC and its members

All the directors are current representatives of member companies (unless stated otherwise on page 3) and, other than the member interests of their companies, the directors have no financial interests in ITIC.

ITIC reinsures with Transport Intermediaries Mutual Insurance Association Limited of Bermuda on a 90% quota share basis both its liabilities from 1 September 1992 and its liabilities assumed under the agreement to run-off Transport Intermediaries Mutual Insurance Association Limited and the Chartered and International Shipbrokers P&I Club Limited (CISBA). At the year end ITIC have an amount owing to TIMIA of US\$4,765,000 (2016: US \$6,350,000).

Note 29 Movement in cash, portfolio investments and financing

	At 1 June 2016 US\$ 000s	Purchases / Sales US\$ 000s	Change in market value US\$ 000s	At 31 May 2017 US\$ 000s
Cash at bank and in hand	5,260	5,880	-	11,140
Fixed income securities	39,467	(1,494)	(400)	40,755
Forward contracts	(9)	7	(9)	7
UCITS cash	3,043	(13,596)	-	12,647
	<u>47,761</u>	<u>(9,203)</u>	<u>(409)</u>	<u>64,549</u>