NAGICO INSURANCE (BAHAMAS) LIMITED
Bahamas

Financial statements
December 31, 2017

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Financial statements

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Deloitte.

Deloitte & Touche
Chartered Accountants
and Management Consultants
2nd Terrace West, Centreville
P.O. Box N-7120
Nassau, Bahamas

Tel: +1 (242) 302 4800
Fax: +1 (242) 322 3101
www.deloitte.com/bs

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Nagico Insurance (Bahamas) Limited:

Opinion

We have audited the financial statements of Nagico Insurance (Bahamas) Limited (the "Company"), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company, as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of Nagico Insurance (Bahamas) Limited for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on March 30, 2017.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Nassau, Bahamas
April 23, 2018

J. S. CHENG & PARTNERS INC.
JSCP
ACTUARIES Who Care™

APPOINTED ACTUARY'S REPORT TO THE BOARD OF DIRECTORS

We have valued the net claims liabilities (-$519,000) together with reinsurance recoveries ($1,881,000) of Nagico Insurance (Bahamas) Limited for its statement of financial position as at December 31, 2017 and their change in net income or loss in the statement of comprehensive income for the year then ended in accordance with generally accepted actuarial practice.

In our opinion, the valuation is appropriate, and the financial statements fairly present its results.

J. S. Cheng & Partners Inc.
1500 Don Mills Road, Suite 706
Toronto, Ontario M3B 3K4
Canada

March 16, 2018

Statement of financial position as at December 31, 2017

Assets *(in Bahamian dollars)*	Note	2017	2016
Property and equipment	2	991,903	947,846
Investment securities	3	877,000	3,000,000
Receivables			
Due from reinsurers	10	5,881,485	8,435,218
Insurance receivables	4	2,495,947	3,462,504
Deferred acquisition costs	5	883,444	753,287
Prepayments and other current assets	6	35,361	85,581
Current account affiliated companies	7	437,237	222,298
		9,733,474	*12,958,888*
Cash and cash equivalents	8	9,481,045	2,148,648
TOTAL ASSETS		**21,083,422**	**19,055,382**

Shareholder's equity and liabilities *(in Bahamian dollars)*	Note	2017	2016
Shareholder's equity			
Share capital	9	5,000	5,000
Additional paid-in capital	9	8,995,000	5,695,000
Retained earnings		(1,264,321)	166,821
		7,735,679	*5,866,821*
Liabilities			
Insurance liabilities	10	6,818,488	7,991,767
Due to reinsurers	10	2,268,614	4,958,603
Accounts payable and accrued liabilities	11	200,714	238,191
Current account affiliated companies	7	4,059,927	-
		13,347,743	*13,188,561*
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		**21,083,422**	**19,055,382**

These financial statements were approved by the Board of Directors and signed on its behalf by:

Director

Director

See accompanying notes to the financial statements

Statement of comprehensive income for the year ended December 31, 2017

(in Bahamian dollars)	Note	2017	2016
Underwriting income			
Insurance premium revenue	12	11,330,606	10,381,819
Reinsurance cost		(8,362,664)	(7,020,157)
Net premiums earned		2,967,942	3,361,662
Commission expense	5	(1,378,353)	(1,543,348)
Net insurance premium revenue		1,589,589	1,818,314
Other underwriting income		6	-
Net insurance premium revenue		*1,589,595*	*1,818,314*
Underwriting expenses			
Insurance claims and loss adjustment expenses, net of recoveries from reinsurers	13	*1,367,484*	*892,188*
Other underwriting expenses		343,473	315,515
Total underwriting expenses		*1,710,957*	*1,207,703*
Net underwriting (loss) /income		***(121,362)***	***610,611***
Other expenses			
Personnel expenses	14	727,748	681,739
Administrative expenses	15	188,623	211,097
Other operating expenses	16	431,341	577,026
Depreciation	2	18,806	15,027
Total other expenses		*1,366,518*	*1,484,889*
Other income			
Investment income	17	53,053	95,000
Other income	18	3,685	920
Total other income		*56,738*	*95,920*
Net result before taxation		**(1,431,142)**	**(778,358)**
Taxation		-	-
Net result after taxation		**(1,431,142)**	**(778,358)**
Other comprehensive income		-	-
Comprehensive loss for the year		**(1,431,142)**	**(778,358)**

Statement of changes in shareholder's equity for the year ended December 31, 2017

(in Bahamian dollars)	Share capital	Additional paid-in capital	Retained earnings	Total
Balance as at January 1, 2016	5,000	5,695,000	945,179	**6,645,179**
Comprehensive loss for the year	-	-	(778,358)	**(778,358)**
Balance as at December 31, 2016	**5,000**	**5,695,000**	**166,821**	**5,866,821**
Additional paid in capital	-	3,300,000	-	**3,300,000**
Comprehensive loss for the year	-	-	(1,431,142)	**(1,431,142)**
	-	**3,300,000**	**(1,431,142)**	**1,868,858**
Balance as at December 31, 2017	**5,000**	**8,995,000**	**(1,264,321)**	**7,735,679**

Refer to note 9 for additional disclosures regarding these equity components.

Statement of cash flows for the year ended December 31, 2017

(in Bahamian dollars)	**2017**	**2016**
Cash flows from operating activities:		
Net result before taxation	(1,431,142)	(778,358)
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation	18,806	15,027
Bad debts	-	3,748
Working capital movements:		
Due from reinsurers	2,553,733	(4,547,296)
Insurance receivables	966,557	(1,904,022)
Deferred acquisition costs	(130,157)	(55,833)
Prepayments and other current assets	(40,880)	(54,086)
Due to reinsurers	(2,689,989)	3,432,948
Insurance liabilities	(1,173,279)	2,693,055
Accounts payable and accrued liabilities	(37,477)	157,274
Current account affiliated companies	3,844,988	(469,835)
	3,312,302	(729,020)
Interest received	91,100	93,628
	91,100	93,628
Net cash flows provided by /(used in) operating activities	1,972,260	(1,413,750)
Cash flows from investing activities:		
Purchase of property and equipment	(62,863)	(942,152)
Purchase of investment securities	(877,000)	-
Proceeds from sale and maturity of investment securities	3,000,000	-
Net cash flows provided by /(used in) by investing activities	2,060,137	(942,152)
Cash flows from financing activities:		
Additional paid in capital	3,300,000	-
Net cash flows provided by financing activities	3,300,000	-
Net increase /(decrease) in cash and cash equivalents	**7,332,397**	**(2,355,902)**
Cash and cash equivalents at January 1	2,148,648	4,504,550
Cash and cash equivalents at December 31	**9,481,045**	**2,148,648**

Notes to the financial statements

(1) Other general information and summary of significant accounting policies

CORPORATE INFORMATION

Nagico Insurance (Bahamas) Limited ("the Company") was incorporated on November 9, 2011 in the Commonwealth of The Bahamas under the Companies Act. On February 22, 2012 the Company was licensed under the Insurance Act, 2005 ("the Act") to operate as a general insurer.

The Company's registered office is located at 26 East Avenue, Centerville, Nassau, Bahamas and its principal place of business is located at 10 Armstrong Street, Nassau, Bahamas.

The Company is a wholly-owned subsidiary of Nagico Insurance Company Limited ("the Parent") which is incorporated in Anguilla. The ultimate parent is NAGICO Holdings Limited, which is incorporated in Anguilla. The Company commenced operations on March 1, 2012. All transactions and balances described as group relate to NAGICO Holdings Limited, its subsidiaries and affiliates.

Peak Reinsurance Company Limited ("Peak Re"), a Hong Kong based global reinsurer, acquired a 50% share in NAGICO Holdings Limited. The transaction was officially completed in August 2016 after the receipt of all required regulatory approvals and other customary closing conditions. Peak Re is a global reinsurer with extensive experience in the Asia Pacific market. Peak Re is authorized by the Office of the Commissioner of Insurance of Hong Kong and is backed by Fosun International Limited and the International Finance Corporation.

The Company's principal activity is the offering of property and casualty insurance including fire, motor, public liability and marine insurance. A significant portion of the Company's casualty insurance business is reinsured.

Approval of the financial statements
The financial statements were approved by the Board of Directors on April 23, 2018.

Roles of the actuary and external auditors
The actuary has been appointed by the Board of Directors to carry out an actuarial valuation of management's estimate of the Company's policy liabilities and report thereon to the Board of Directors. Actuarially determined policy liabilities consist of the provisions for, and reinsurance recovery of, unpaid claims and adjustment expenses on insurance policies in force. The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any directive that may be made by regulatory authorities. The actuary's valuation is contingent upon the reliability of the information supplied by the management of the Company. The actuary's report outlines the scope of the valuation and the actuary's opinion.

The independent auditors have been appointed by the shareholders to conduct an independent and objective audit of the financial statements of the Company in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the appointed actuary and the actuary's report on the Company's actuarially determined policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation (continued)

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), under the historical cost convention unless otherwise stated.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Company's accounting policies, management has made various judgments. Those which management has assessed to have the most significant effect on the amounts recognized in the financial statements have been disclosed in the individual notes of the related financial statement line items.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The reserves consist of a provision for the estimated outstanding casualty and property insurance claims to be paid and include a provision for incurred but not yet reported (IBNR) claims. These provisions are not discounted. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The related portions recoverable from reinsurers in respect of incidents occurring up to the statement of financial position date are recorded as claims receivable.

Determination of fair value

When measuring the fair value of an asset or liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs in the valuation techniques as follows:

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Basis of preparation (continued)

Financial instruments at fair value through profit or loss are valued using quoted prices in active markets when available. Market values were determined on the basis of available information at the end of the financial year, and therefore, did not take into account subsequent movements.

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

In cases where the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less any impairments. Investment in government bonds are carried at cost less any impairments due to lack of an active market.

The amortized costs less impairment provision of insurance receivables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. The carrying amounts of trade payables and other current liabilities approximate fair values due to the short-term maturities of these liabilities.

As at December 31, 2017, all investments were classified in Level 2.

Foreign currency translation

Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

New and amended standards

The Company applied for the first time certain standards and amendments which are effective for annual periods beginning on or after January 1, 2017. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Company.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Company does not have liabilities arising from financing activities, hence, the amendments has had no impact on the Company's financial statements.

New and amended standards (continued)

Amendments to IAS 12 Income Taxes

The Company has applied these amendments for the first time in the current year. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference. The amendments now clarify that it is possible to recognise a deferred tax asset if the future bottom line of your tax return is expected to be a loss. The application of these amendments has had no impact on the Company's financial statements.

Annual Improvements 2014-2016 Cycle

The Company has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Company.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Company's financial statements as it has no such interests.

Standards issued but not yet effective

The standards that are issued, but not yet effective, up to the date of issuance of the Company’s financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In accordance with IFRS 4, *Insurance Contracts* , Phase I, the Company has applied existing accounting practices for insurance contracts.

In September 2016, the IASB published "Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts" (Amendments to IFRS 4). The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach"); or
- An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the "deferral approach").

Amendments to IFRS 2 Share-based Payment

Amendments to IFRS 2 clarify the accounting for a cash-settled share-based payment. This is to be measured using the same approach as for equity-settled share-based payments. IFRS 2 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company plans to adopt the new standard on the required effective date, however, these amendments are not expected to have any impact on the Company.

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. The IASB has issued an exposure draft for insurers to have an option to either apply the deferral approach wherein the implementation of IFRS 9 is deferred until the effective date of IFRS 17 on January 1, 2021 or apply the overlay approach upon implementation of IFRS 9 to remove from profit or loss some of the accounting mismatches and volatility that may occur before the new insurance contracts standard is implemented. The Company plans to apply the deferral approach and adopt the new standard on January 1, 2021.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. These amendments are not expected to have any impact on the Company.

IFRS 16 Leases

Under the new standard, the accounting treatment of leases by lessees will change fundamentally because it eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 is also adopted. The Company plans to adopt the new standard on the required effective date and will further investigate the implications in the near future.

IFRS 17 Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of January 1, 2021. IFRS 17 is effective for annual periods beginning on or after January 1, 2021, with early application permitted if IFRS 9 and IFRS 15 are also adopted. The Company plans to adopt the new standard on the required effective date and will further investigate the implications in the near future.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply. The Company plans to adopt the new standard on the required effective date and will further investigate the implications in the near future.

Standards issued but not yet effective (continued)

Annual Improvements to IFRSs 2014 - 2016 Cycle
The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Company. The package also includes amendments to IFRS 12 which is mandatorily effective for the Company in the current year.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The directors of the Company do not anticipate that the application of the amendments in the future will have any impact on the Company's financial statements as the Company is neither a first-time adopter of IFRS nor a venture capital organisation.

Annual Improvements to IFRS Standards 2015–2017 Cycle

This annual improvements makes amendments to the following standards:

IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

These amendments are effective for annual periods beginning on or after January 1, 2019. The Company does not anticipate material impact on the financial statements upon application of these amendments.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

Standards issued but not yet effective (continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration (continued)

The Interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application. The Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements. This is because the Company already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- The effect of changes in facts and circumstances.

The interpretation will be applicable for annual reporting periods beginning on or after January 1, 2019. The Company plans to adopt the interpretation on the required effective date and will further investigate the implications in the near future.

Presentation of the financial statements

IAS 1, Presentation of Financial Statements, provides an option to distinguish between current and non-current items for all assets and liabilities in the statement of financial position of the Company. Such a distinction is not appropriate for the company, where close control over liquidity, asset and liability matching, and highly regulated capital and solvency positions are considered more relevant.

The financial statements are presented in Bahamian dollars ($), which is the Company's functional and presentation currency. Except as indicated, financial information presented in Bahamian dollars has been rounded to the nearest dollar.

Summary of significant accounting policies

Property and equipment

Property and equipment, except for land, buildings and improvements, are stated at cost net of accumulated depreciation and impairment losses.

Depreciation is determined on the straight-line basis based on the estimated useful life of the property and equipment and an eventual residual value has been taken into consideration. Depreciation is charged to the statement of comprehensive income. The estimated useful lives are as follows:

· furniture and fixtures	5 years
· equipment	3 years
· vehicles	3 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in the statement of comprehensive income. Repairs and maintenance are charged to net income or loss in the statement of comprehensive income when the expenditure is incurred.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Financial instruments

classification

A financial instrument is any contract that gives rise to both a financial instrument of one enterprise and a financial liability or equity instrument of another enterprise. Financial assets have been determined to include cash and cash equivalents, investment securities, insurance receivables, other current assets and related party balances. Financial liabilities include accounts payable and accrued liabilities, related party balances and due to reinsurers.

Initial recognition and measurement

A financial instrument is recognized if the Company becomes a party to the contractual provisions of the instrument.

Financial instruments are initially recognized at fair value plus, in the case of financial instruments not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial instruments carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Subsequent to initial recognition financial instruments are measured as described below.

Purchases or sales of financial instruments that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

Loans and receivables

Loans and receivables are financial instruments with fixed or determinable payments that are not quoted in an active market. These financial instruments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the effective interest rate ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. Gains and losses are recognized in the statement of comprehensive income when the investments are derecognized or impaired, as well as through the amortisation process.

Financial instruments (continued)

Subsequent measurement (continued)

Held-to-maturity investments
Financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold until maturity. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, held-to-maturity financial assets are measured at amortized cost, using the effective interest rate method, less impairment. Gains and losses are recognized in the statement of comprehensive income when the investments are derecognized or impaired, as well as through the amortisation process.

Derecognition
A financial instrument (or, when applicable, a part of a financial instrument or part of a group of similar financial instruments) is derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial instrument or a group of financial instruments is impaired. An impairment exists if one or more events that have occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial instrument or the group of financial instruments that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial instruments carried at amortized cost, the Company first assesses whether impairment exists individually for financial instruments that are individually significant, or for financial instruments that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial instrument, whether significant or not, it includes the asset in a group of financial instruments with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

Financial assets (continued)

Impairment of financial assets (continued)

Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial instrument's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'finance cost' in the statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities include insurance payables, trade and other payables.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Company currently has a legally enforceable right to offset the amounts and intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash invested in short-term financial instruments purchased that are readily convertible to known amounts of cash, maturing within 90 days of the date of purchase and which are deemed to present insignificant risk of changes in value due to changing interest rates.

Statement of cash flows

The Company has elected to present cash flows from operating activities using the indirect method and has used "Result before taxation" as the starting point for presenting operating cash flows, followed by the investing and financial activities on cash flows.

Other assets and liabilities

Other assets and liabilities are stated at cost unless otherwise stated.

Related party transactions

Related parties are those enterprises that are either in control of the Company or are controlled by the Company, can exercise significant influence over the Company or any member of a Group of which the Company is a part provides key management personnel services to the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. All transactions with the related parties are conducted at arm's-length except that no interest is charged to the Company and affiliated company balances and such balances are unsecured, unless otherwise stated. No expense has been recognized in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

Transactions with shareholder

Since June 2015, the Company entered into a Quota Share reinsurance agreement with the 50% shareholder of its ultimate parent, Peak Re, whereby Peak Re agrees to cover a portion of the risks that may be incurred by the Company. During 2017, the net transactions between the Company and Peak Re in relation to this agreement amounted to $0.4 million (2016: $2 million). As at December 31, 2017, the net outstanding balance amounts to $1.0 million (receivable) and is included in both "due from reinsurers" and "due to reinsurers" (2016: $1.6 million, receivable).

The Company's Quota Share transactions with Peak Re can be summarized as follows:

(in Bahamian dollars)	**2017**	**2016**
Premiums ceded	(5,462,421)	(4,124,570)
Commission income	2,504,608	1,339,819
Reinsurance premium ceded	2,273,051	1,707,763
Claims recoverable	274,153	3,089,189
Net transactions	**(410,609)**	**2,012,201**

The Company's Quota Share outstanding balances as at December 31, 2017 and December 31, 2016 are as follows:

(in Bahamian dollars)	**2017**	**2016**
Due from reinsurers		
Unearned reinsurance premiums	2,661,728	2,397,102
Claims receivable	350,902	2,880,762
Commission revenue receivable	(80,780)	390,240
	2,931,850	*5,668,104*
Due to reinsurers		
Reinsurance premiums payable	(1,035,481)	(3,351,996)
Unearned commission revenue	(921,719)	(689,186)
	(1,957,200)	*(4,041,182)*
Net outstanding balance	**974,650**	**1,626,922**

Deferred acquisition cost

Those direct and indirect costs incurred during the financial year arising from the writing or renewal of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, costs for acquisition are amortized over the year in which the related revenues are earned.

Deferred acquisition costs are reviewed at end of each reporting period. These are impaired if these are no longer considered recoverable.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expires. Contracts can be reclassified to insurance contracts after inception if insurance risk becomes significant.

Recognition and measurement

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Motor insurance contracts cover the driver's liability to third parties in respect of personal injury or property damage. If comprehensive cover is purchased, the policy also covers damage to the policyholder's vehicle.

Marine insurance contracts include the insurance of goods in transit over land or sea and also the insurance of hulls. Hull insurances typically cover both physical damage to the vessel and also the boat owner's liability to third parties in respect of personal injury or property damage.

For all these contracts, premiums are recognized as revenue (earned premiums) proportionally over the policy year of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the statement of financial position date is reported as the unearned premium liability. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Revenue recognition

Gross premiums

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Revenue recognition (continued)

Reinsurance premiums

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the year and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting year in respect of reinsurance contracts incepting in prior accounting years.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to years of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contracts.

Commission income and expense

Base commissions paid to agents and received from insurers and reinsurers are calculated based on gross premiums written and reinsured. Base commissions paid and received are adjusted so that they are recognized over the period covered by the related policies taking into consideration the exposure period to which they relate.

Policy fees

Insurance contract policyholders are charged for policy administration services and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods then they are deferred and recognized over those future periods.

Significant assumptions and other sources of estimation uncertainty

IFRS 4 requires an insurer to describe the process used to determine the assumptions that have the greatest effect on the measurement of assets, liabilities, income and expense arising from insurance contracts. At each financial reporting date, the valuation assumption for each component of policy cash flow consists of an assumption for the expected experience and, separately, a margin for adverse deviation that reflects the degree of uncertainty in the expected experience assumption. The expected experience and the margin reflect the latest current experiences.

Claims and loss adjustment expenses and related liabilities

These reserves consist of a provision for the estimated outstanding casualty and property insurance claims to be paid and include a provision for incurred but not yet reported ("IBNR") claims. The related portions recoverable from reinsurers in respect of incidents occurring up to the statement of financial position date are recorded as claims receivable.

Besides casualty and property insurance, the Company also underwrites sickness insurance. These policies are reinsured over a minimum threshold per incident. Subsequent claim settlements above the threshold amount are provided for.

The provision for IBNR claims is computed by the Company with the assistance of independent professional actuaries using standard actuarial techniques and assumptions, in this case the Bornhuetter-Ferguson (BF) methodology.

Unallocated loss adjustment expenses ("ULAE") are expenses incurred during the processing of claims that cannot be attributed to a specific claim. The ULAE are computed by the Company with the assistance of independent professional actuaries. The sources of ULAE are salaries of in-house examiners, information technology and/or communication expenses.

Claim expenses

Claim expenses are charged to income as incurred and accounted for net of the reinsured portion and proceeds from salvage and subrogations.

Reinsurance

The Company cedes insurance risk in the normal course of business for most of its lines of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliable measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of comprehensive income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognized as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Other income

Realized gains and losses

Realized gains and losses recorded in the statement of comprehensive income on investments include gains and losses on financial instruments. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction.

Investment income

Finance income comprises interest income on funds invested (including available-for-sale financial instruments), dividend income, gains on the disposal of available-for-sale financial instruments, fair value gains on financial instruments at fair value through profit or loss and gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination are recognized in profit or loss and Reclassifications of net gains previously recognized in other comprehensive income. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Benefits, claims and expenses recognition

Gross benefits and claims

General insurance and health claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant contract.

Premium tax

Premium tax is incurred at a rate of 3% of gross premiums written in The Commonwealth of The Bahamas and is recognized as an expense in the statement of comprehensive income when the Company's obligation to make payment has been established.

(2) Property and equipment

2017 movement schedule	Land, building and improvements	Furniture and fixtures	Equipment	Vehicles	31-Dec-17
(in Bahamian dollars)					
Balance as at January 1					
Cost	940,983	52,932	12,788	53,000	**1,059,703**
Accumulated depreciation	-	(49,157)	(10,060)	(52,640)	**(111,857)**
Net book value	940,983	3,775	2,728	360	**947,846**
Changes in book value					
Additions	14,233	-	-	48,630	**62,863**
Depreciation	-	(3,049)	(1,887)	(13,870)	**(18,806)**
	14,233	(3,049)	(1,887)	34,760	**44,057**
Balance as at December 31					
Cost	955,216	52,932	12,788	101,630	**1,122,566**
Accumulated depreciation	-	(52,206)	(11,947)	(66,510)	**(130,663)**
Net book value	**955,216**	**726**	**841**	**35,120**	**991,903**

There are no restrictions on the realisability of property and equipment or the remittance of income and proceeds of disposal. The Company has no contractual obligations to purchase, construct or develop property or for repairs, maintenance or enhancements.

(2) Property and equipment (continued)

2016 movement schedule

(in Bahamian dollars)	Land, building and improvements	Furniture and fixtures	Equipment	Vehicles	31-Dec-16
Balance as at January 1					
Cost	-	52,932	11,619	53,000	**117,551**
Accumulated depreciation	-	(38,571)	(7,786)	(50,473)	**(96,830)**
Net book value	-	14,361	3,833	2,527	**20,721**
Changes in book value					
Additions	940,983	-	1,169	-	**942,152**
Depreciation	-	(10,586)	(2,274)	(2,167)	**(15,027)**
	940,983	(10,586)	(1,105)	(2,167)	**927,125**
Balance as at December 31					
Cost	940,983	52,932	12,788	53,000	**1,059,703**
Accumulated depreciation	-	(49,157)	(10,060)	(52,640)	**(111,857)**
Net book value	**940,983**	**3,775**	**2,728**	**360**	**947,846**

(3) Investment securities

(in Bahamian dollars)	2017	2016
Long-term investments	877,000	-
Short-term investments	-	3,000,000
	877,000	**3,000,000**

The Company's investment securities are summarized into the following categories:

(in Bahamian dollars)	2017	2016
Long-term investments		
Fair value through profit or loss financial assets	877,000	-
	877,000	-
Short-term investments		
Held-to-maturity financial assets	-	1,000,000
Loans and receivables	-	2,000,000
	-	3,000,000
	877,000	**3,000,000**

During 2016, the Company renewed the lending arrangement in the sum of $2,000,000 with the Government of The Bahamas through a recognized financial institution. This loan was repaid in 2017.

During 2017, the Company has placed $877,000 Bahamas Government Registered Stock (“BGRS”) with maturity date of 2027, in a bond with a recognized financial institution to meet the requirement of the Insurance Act 2005. This instrument earns interest at the rate of 4.82% per annum.

The following tables show a further breakdown of the various investments for each category and also separate for the restricted and the unrestricted investments as well as the listed and non-listed investments as per December 31, 2017 and December 31, 2016:

	2017				
(in thousands of U.S. dollars)	Listed	Non-listed	Total	Restricted	Non-restricted
Fair value through profit or loss financial assets					
Government bonds	-	877,000	**877,000**	877,000	-
	-	**877,000**	**877,000**	**877,000**	**-**

(3) Investment securities (continued)

(in Bahamian dollars)	2016				
	Listed	**Non-listed**	**Total**	**Restricted**	**Un-restricted**
Held-to-maturity investments					
Statutory deposits	-	1,000,000	**1,000,000**	1,000,000	-
Loans and receivables					
Other loans	-	2,000,000	**2,000,000**	2,000,000	-
	-	**3,000,000**	**3,000,000**	**3,000,000**	**-**

The following table provides an analysis of the investments of the Company into relevant maturity categories as per December 31, 2017 and December 31, 2016:

2017	**< 1 year**	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
Fair value through profit or loss	-	-	-	877,000	877,000
	-	**-**	**-**	**877,000**	**877,000**

2016	**< 1 year**	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
Held-to-maturity	1,000,000	-	-	-	1,000,000
Loans and receivables	2,000,000	-	-	-	2,000,000
	3,000,000	**-**	**-**	**-**	**3,000,000**

(4) Insurance receivables

(in Bahamian dollars)	**2017**	**2016**
Agents and brokers	2,511,912	3,478,756
	2,511,912	3,478,756
Less: provision for doubtful debts	(15,965)	(16,252)
	2,495,947	**3,462,504**

Movements in provision for doubtful debts

(in Bahamian dollars)	**2017**	**2016**
Balance as at January 1	16,252	20,000
Write-offs	(287)	(3,748)
Balance as at December 31	**15,965**	**16,252**

(5) Deferred acquisition costs

(in Bahamian dollars)	2017	2016
Commercial and private property	793,202	679,563
Motor	49,580	38,856
Group medical and personal accident	4,890	3,362
Marine hull and cargo	14,283	8,604
Public liability	20,969	22,043
Other	520	859
	883,444	**753,287**

Movement in deferred acquisition costs

(in Bahamian dollars)	2017	2016
Balance as at January 1	753,287	697,454
Gross commissions	1,508,510	1,599,181
	2,261,797	2,296,635
Commission expense reported for the year	(1,378,353)	(1,543,348)
Balance as at December 31	**883,444**	**753,287**

Deferred acquisition cost relates to prepaid commissions to agents and brokers.

(6) Prepayments and other current assets

(in Bahamian dollars)	2017	2016
Interest receivable on investment securities	1,853	39,466
Prepaid expenses and other receivables	33,508	46,115
	35,361	**85,581**

(7) Current account affiliated companies

(in Bahamian dollars)	2017	2016
Due from related parties		
Nagico Holdings Limited	1,523	1,523
National General Insurance Corporation (Nagico) N.V.	-	56,145
Nagico Insurance Company Ltd. (NICL)	435,230	164,630
Nagico (St. Lucia) Limited	484	-
	437,237	**222,298**

(7) Current account affiliated companies (continued)

(in Bahamian dollars)	2017	2016
Due to related parties		
National General Insurance Corporation (Nagico) N.V.	4,059,927	-
	4,059,927	**-**

The balances held with the related parties, National General Insurance Corporation (NAGICO) N.V., Nagico Insurance Company Limited, Nagico (St. Lucia) Limited and Nagico Insurance (Trinidad & Tobago) Limited are debited or credited for payments made and funds received on behalf of the Company such as reinsurance expenses, collection of revenue, expenses paid and management fees charged to the Company for administrative services provided by the related parties. The balances have no fixed repayment terms and do not carry interest unless otherwise specifically agreed between the companies.

Transactions between the Company and related parties including associated companies can be specified as follows by nature of the transactions:

(in Bahamian dollars)	2017	2016
Due from related parties		
Opening balance, January 1	222,298	-
Settlements	(108,751)	(5,774,585)
Management fees	-	(64,044)
Reinsurance	-	5,783,319
Bank transfer	71,275	300,000
Additional paid in capital	175,000	-
Office expense	77,415	(22,392)
	437,237	**222,298**
Due to related parties		
Opening balance, January 1	-	247,537
Settlements	(4,181,145)	(247,537)
Management fees	200,841	-
Reinsurance	8,013,648	-
Office expense	26,583	-
	4,059,927	**-**

(8) Cash and cash equivalents

(in Bahamian dollars)	2017	2016
Current accounts	9,481,045	2,148,648
	9,481,045	**2,148,648**

The current accounts are non-interest bearing. An amount of $313,892 (2016: $150,226) is held in a restricted account and not currently available for the Company's use.

(9) Capital and other components of equity

Share capital and additional paid-in capital

The authorized capital consists of 5,000 ordinary shares with a par value of $1 each. All of the shares have been issued and outstanding. The additional paid-in capital relates to capital that was issued above the nominal value of the shares. There was no movement in the number of shares outstanding during the year.

(10) Insurance liabilities

The following table presents details of insurance liabilities:

(in Bahamian dollars)	2017	2016
Provision for unearned premiums		
Commercial and private property	4,858,748	4,418,079
Motor	310,867	251,154
Marine hull and cargo	95,349	75,024
Public liability	151,512	168,944
Other	39,258	30,626
	5,455,734	4,943,827
Outstanding claims provisions		
Commercial and private property	523,842	2,421,745
Motor	41,296	55,605
Marine hull and cargo	-	47,000
Public liability	545,116	222,246
	1,110,254	2,746,596
Subtotal, transfer to the next page	*6,565,988*	*7,690,423*

(10) Insurance liabilities (continued)

(in Bahamian dollars)	**2017**	**2016**
Subtotal, from previous page	*6,565,988*	*7,690,423*
Incurred but not reported claims ("IBNR")		
Commercial and private property	26,000	16,218
Motor	59,500	34,500
Marine hull and cargo	7,500	43,450
Public liability	159,500	207,176
	252,500	301,344
Gross insurance liabilities	**6,818,488**	**7,991,767**
Due to reinsurers	2,268,614	4,958,603
Gross (re)insurance liabilities	**9,087,102**	**12,950,370**
Due from reinsurers		
Unearned reinsurance premiums	4,080,237	3,821,438
Claims receivable from reinsurers	1,882,028	4,223,541
Commission revenue receivable from reinsurers	(80,780)	390,239
Total reinsurance assets	**5,881,485**	**8,435,218**
Net insurance liabilities	**3,205,617**	**4,515,152**

The following table shows the reconciliation of the movement in gross insurance liabilities:

(in Bahamian dollars)	**2017**	**2016**
Balance as at January 1	7,991,767	5,298,712
Net change in unearned premiums	511,907	453,014
Change in claims provision	(1,636,342)	2,118,539
Change in IBNR	(48,844)	121,502
Balance as at December 31	**6,818,488**	**7,991,767**

Unearned premiums represent the portion of premiums received in 2017 and 2016, but refer to a period of coverage expiring in 2018 and 2017, respectively. Consequently, this balance represents funds received in advance for which repayment is not considered likely.

The majority of the outstanding claims will be paid within one to three years. Individual claims in excess of $50 thousand included in the claims provision amount to $835 thousand (2016: $2.1 million).

(11) Accounts payable and accrued liabilities

(in Bahamian dollars)	2017	2016
Accounts payable	96,812	7,881
Other taxes payable	103,902	230,310
	200,714	**238,191**

(12) Underwriting income

The following table presents details of premium income:

(in Bahamian dollars)	2017	2016
Gross premiums written		
Commercial and private property	10,533,922	9,741,650
Motor	639,224	493,834
Marine hull and cargo	166,927	132,631
Public liability	371,326	408,306
Other	131,114	58,413
	11,842,513	10,834,834
Movement in unearned premiums		
Commercial and private property	(440,669)	(426,674)
Motor	(59,713)	(101,083)
Marine hull and cargo	(20,325)	13,459
Public liability	17,432	13,876
Other	(8,632)	47,407
	(511,907)	(453,015)
Insurance premium revenue	**11,330,606**	**10,381,819**

(13) Underwriting expenses

The underwriting expenses are built up as follows:

(in Bahamian dollars)	2017	2016
Claims Paid, net of recoveries from reinsurers		
Commercial and private property	2,980,508	(1,543,968)
Motor	12,576	84,115
Marine hull and cargo	61,812	(9,148)
Public liability	(16,333)	123,191
Other	14,107	(2,043)
Subtotal, transfer to the next page	3,052,670	(1,347,853)

(13) Underwriting expenses (continued)

(in Bahamian dollars)	2017	2016
Subtotal, from previous page	*3,052,670*	*(1,347,853)*
Changes in claims provisions		
Commercial and private property	(1,897,903)	2,224,080
Motor	(14,309)	27,262
Marine hull and cargo	(47,000)	47,000
Public liability	322,870	(179,803)
	(1,636,342)	2,118,539
Changes in IBNR	(48,844)	121,502
Insurance claims and loss adjustment expenses, net of recoveries from reinsurers	**1,367,484**	**892,188**

(14) Personnel expenses

(in Bahamian dollars)	2017	2016
Salaries and bonuses	551,037	539,589
Social premiums	14,728	13,846
Travel and accommodation allowances	45,239	39,200
Car expenses	3,647	8,388
Entertainment	3,578	4,281
Directors' fees	45,000	17,719
Group medical	47,042	44,785
Other personnel expenses	17,477	13,931
	727,748	**681,739**
Number of employees as at December 31	**9**	**8**

The total gross salaries and bonuses (including director fees) that are paid out by the Company to the key management personnel in 2017 amounted to $248 thousand (2016: $276 thousand). The pension premiums paid for key management in 2017 amounted to nil (2016: nil).

(15) Administrative expenses

(in Bahamian dollars)	2017	2016
Office expenses	22,461	27,322
Rent	98,850	99,000
Insurance	10,380	9,606
Maintenance	20,155	21,934
Telephone	17,872	16,084
Utilities	9,382	14,195
Travel and lodging	9,523	22,956
	188,623	**211,097**

(16) Other operating expenses

(in Bahamian dollars)	2017	2016
Advertising and promotional costs	59,641	98,525
Bad debt expense	-	-
Professional fees	82,382	116,525
Management fee	253,447	241,912
Subscriptions	3,810	5,670
Postage	5,136	4,358
Bank charges	21,340	104,812
Other operating expenses	5,585	5,224
	431,341	**577,026**

Management fee allocation

Effective January 1, 2014 the Company entered into an agreement with National General Insurance Corporation (Nagico) N.V. to pay 5% of total shared costs for providing back office services to the Company. The agreement has a term of 5 years.

(17) Investment income

(in Bahamian dollars)	2017	2016
Interest on investments	53,053	95,000
	53,053	**95,000**

(18) Other income

(in Bahamian dollars)	2017	2016
Other interest income	434	920
Other income	3,251	-
	3,685	**920**

(19) Commitments and contingencies

Contingent liability

In the normal course of its business, the Company is involved in various legal proceedings arising out of and incidental to its operations. There are no outstanding litigation matters for which the outcome is uncertain at the reporting date.

(20) Financial Risk Management

General

The Company is exposed to financial risk through its financial assets and financial liabilities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management structure. The Company has established the Conduct Review Committee and the Investment, Mergers and Acquisition Committee to ensure that management has a system which details the risk policies, procedures, measurement, reporting and compliance. The Company's Internal Audit reviews the risk management policies and processes and reports directly to the Audit Committee. The Audit Committee oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks that face the Company. These committees report regularly to the Board of Directors on their activities.

The overriding objective of the Company's risk management framework is to enhance its capital base through competitive earnings growth and to protect capital against inherent business risks. This means that the Company accepts certain levels of risk in order to generate returns, and the Company manages the levels of risk assumed through enterprise wide risk management policies and procedures. Identified risks are assessed as to their potential financial impact and as to their likelihood of occurrence.

This section provides details of the Company's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Company is exposed are credit risk, market risk, liquidity risk, operational risk and insurance risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and reinsurers, investment securities and cash and cash equivalents. The concentration of credit risk is also monitored to minimize the Company's exposure to significant losses from reinsurer insolvency. The following assets of the Company are exposed to credit risk:

(in Bahamian dollars)	**2017**	**2016**
Long-term investments	877,000	-
Short-term investments	-	3,000,000
Due from reinsurers	1,801,248	4,613,780
Insurance receivables	2,511,912	3,478,756
Cash and cash equivalents	9,481,045	2,148,648
Other current assets	1,853	39,466
	14,673,058	**13,280,650**

(20) Financial Risk Management (continued)

Credit risk (continued)

Financial assets exposed to credit risk that are neither past due nor impaired, past due but not impaired and those that are impaired are analyzed in the table below:

(in Bahamian dollars)	**Neither past due nor impaired**	**Past due but not impaired**	**Impaired**	**Total**
As at December 31, 2017				
Long-term investments	877,000	-	-	877,000
Due from reinsurers	1,801,248	-	-	1,801,248
Insurance receivables	932,132	1,563,815	15,965	2,511,912
Cash and cash equivalents	9,481,045	-	-	9,481,045
Other current assets	1,853	-	-	1,853
	13,093,278	**1,563,815**	**15,965**	**14,673,058**

(in Bahamian dollars)	**Neither past due nor impaired**	**Past due but not impaired**	**Impaired**	**Total**
As at December 31, 2016				
Short-term investments	3,000,000	-	-	3,000,000
Due from reinsurers	4,613,780	-	-	4,613,780
Insurance receivables	1,643,941	1,818,563	16,252	3,478,756
Cash and cash equivalents	2,148,648	-	-	2,148,648
Other current assets	39,466	-	-	39,466
	11,445,835	**1,818,563**	**16,252**	**13,280,650**

The credit risk associated with short-term investments and cash equivalents is mitigated by the fact that investment and cash transactions are limited to high credit financial institutions. The Company has policies that limit the amount of credit exposure to any one financial institution.

Investments

The Company has no significant concentration of credit risk on its investments. The Company minimizes its credit risk by limiting its investments primarily between counterparties to Government and financial institutions. All investments are held with well established financial institutions. All other investments are evaluated individually by the Investment Manager and members of the Executive Board. If the investment involves third parties, consideration is given to its criteria including the relative expertise available, the Company's relative level of exposure and the viability of the investment itself.

(20) Financial Risk Management (continued)

Credit risk (continued)

The investments can be specified as follows:

(in Bahamian dollars)	2017	2016
Investments held by governments	877,000	1,000,000
Investments held by financial institutions	-	2,000,000
	877,000	**3,000,000**

Insurance receivables

Agents are ultimately responsible for credit granted to their clients. The Company establishes certain guidelines within which agents are expected to operate. Agents are held liable when they grant credit outside of the Company's general guidelines or where they are unable to collect from clients.

Breakdown of insurance receivables for 2017:

2017	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Agent	932,132	1,563,815	15,965	2,511,912
	932,132	**1,563,815**	**15,965**	**2,511,912**

Ageing analysis of insurance receivables 2017 neither past due nor impaired and past due but not impaired:

	< 30 days	30-90 days	> 90 days	Total
Agent	932,132	1,265,729	298,086	2,495,947
	932,132	**1,265,729**	**298,086**	**2,495,947**

Breakdown of insurance receivables for 2016:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Agent	1,643,941	1,818,563	16,252	3,478,756
	1,643,941	**1,818,563**	**16,252**	**3,478,756**

Ageing analysis of insurance receivables 2016 neither past due nor impaired and past due but not impaired:

	< 30 days	30-90 days	> 90 days	Total
Agent	1,643,941	1,824,010	(5,447)	3,462,504
	1,643,941	**1,824,010**	**(5,447)**	**3,462,504**

(20) Financial Risk Management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risks are evaluated on an ongoing basis by the Board of Directors and by Executive Management through discussions and the review of market developments and trends.

Management also proactively anticipates likely developments in their markets via monitoring of regional and international trends via industry publications. Based on the reviews performed, there has been no change to the Company's exposure to market risks or the manner in which it manages the risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is solely to the extent that interest-earning assets mature or re-price at different times or in differing amounts. The Company addresses this risk by concentrating its investments on risk-free investments such as fixed interest rate deposits.

Sensitivity analysis-interest rate risk

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 the market interest rates. The analysis below has been determined based on the Company's exposure to interest rates for interest bearing assets and liabilities at the reporting date.

As at December 31, 2017 and December 31, 2016 the interest bearing assets and liabilities consisted of:

	2017	**2016**
(in Bahamian dollars)		
Government bonds	877,000	-
Statutory deposits	-	1,000,000
Other loans	-	2,000,000
	877,000	**3,000,000**

There were no interest bearing liabilities as at December 31, 2017 (2016: nil). The analysis assumes that the stipulated change takes place at the beginning of the financial year and is held constant throughout the reporting period. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

If the effective interest rate increased by 100 basis points, this would have increased the equity and the net income for the year by $9 thousand (2016: $30 thousand). A decrease of 100 basis points would have had an equal but opposite effect.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's exposure to foreign currency risks results from the settlement of amounts due to related parties and the movement in the exchange rate between the United States dollar and the Bahamian dollar which is not considered to be significant.

(20) Financial Risk Management (continued)

Market risk (continued)

Price risk
Price risk is the risk that the value of the financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all financial instruments traded in the market. The Company is not exposed to significant price risk as it does not have any equity securities at year end.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Company's reputation. In respect of catastrophic events, the Company is exposed to liquidity risk associated with the timing differences between cash flows and expected reinsurance recoveries to meet its insurance liability obligation.

Liquidity risk management process
The Company's liquidity management process as carried out within the Company is monitored by the Accounts Department and includes:

- Cash flow is monitored weekly through cash summary reports. In order to evaluate excess funds availability, the Company considers large recurring commitments, such as reinsurance, and claims/expenditure patterns as well as expected large expenditures. These are then weighed against cash inflows;
- Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Optimizing cash returns on investment; and
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements.

Accounting classifications and fair values
The following describes the methodologies and assumptions used to determine fair values for those investments which are not already recorded at fair value in the financial statements (i.e., held-to-maturity and loans and receivables).

Assets for which fair value approximates carrying value
For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity. For other variable rate investments, adjustments are also made to reflect the change in required credit spread since the investments were first recognized.

Fixed rate financial instruments
The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar investment securities. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

(20) Financial Risk Management (continued)

Liquidity risk (continued)

In accordance with IFRS 7.39 the following table provides an analysis of the financial assets and liabilities of the Company into relevant maturity groupings based on the remaining periods to repayment.

December 31, 2017	**< 1 year**	**1-3 years**	**> 3 years**	**Total**
(in Bahamian dollars)				
Investments				
Fair value through profit or loss	-	-	877,000	877,000
	-	-	877,000	877,000
Receivables	4,299,048	-	-	4,299,048
Cash and cash equivalents	9,481,045	-	-	9,481,045
	13,780,093	-	-	13,780,093
Total	***13,780,093***	-	***877,000***	***14,657,093***
Insurance liabilities	(6,818,488)	-	-	(6,818,488)
Due to reinsurers	(2,268,614)	-	-	(2,268,614)
Accounts payable	(96,812)	-	-	(96,812)
Total	***(9,183,914)***	-	-	***(9,183,914)***
Difference in expected cash flows	**4,596,179**	-	**877,000**	**5,473,179**

December 31, 2016	**< 1 year**	**1-3 years**	**> 3 years**	**Total**
(in Bahamian dollars)				
Investments				
Held-to-maturity	1,000,000	-	-	1,000,000
Loans and receivables	2,000,000	-	-	2,000,000
	3,000,000	-	-	3,000,000
Receivables	8,115,750	-	-	8,115,750
Cash and cash equivalents	2,148,648	-	-	2,148,648
	10,264,398	-	-	10,264,398
Total	***13,264,398***	-	-	***13,264,398***
Insurance liabilities	(7,991,767)	-	-	(7,991,767)
Due to reinsurers	(4,958,603)	-	-	(4,958,603)
Accounts payable	(7,881)	-	-	(7,881)
Total	***(12,958,251)***	-	-	***(12,958,251)***
Difference in expected cash flows	**306,147**	-	-	**306,147**

(20) Financial Risk Management (continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate governance. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the yearic assessments of the operational risks faced, and the adequacy of controls and procedures to assess and manage the risks identified;
- Development of contingency plans;
- Training and professional development of staff; and
- Ethical and business standards.

Insurance risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty that the Company will have sufficient assets to satisfy the benefits payable under the contract. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated, and subsequent development of long-term claims. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Frequency

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered as a result of exposure to various causes of loss events. The Company's underwriting strategy is intended to ensure that risks underwritten are well diversified in terms of the type of risk and the level of insured benefits. The Company manages this risk though the review of its underwriting and reinsurance program on an annual basis in order to ensure that there is adequate mitigation against this risk.

Loss reserves

To ensure appropriate reserving, the Company has established and implemented a policy to ensure consistency in its reserve positioning year to year and thus preserve the integrity of its financial reporting. The Company's loss reserves shall not exceed the actuary's calculated centralized point nor shall it fall below 95% of that value.

(20) Financial Risk Management (continued)

Insurance risk (continued)

<u>*Reinsurance risk*</u>

To mitigate the financial loss exposure, reinsurance is purchased by the Company. The Company selects reinsurers which have established capability to meet their contractual obligations whose A.M. Best credit ratings are A- or better. There is an ongoing due diligence review to ensure that all reinsurers meet the minimum financial strength criteria.

The Company utilises the excess of loss reinsurance structure for the majority of its treaties. Operations are spread across territories which are exposed to catastrophe and as a consequence, catastrophe reinsurance is purchased to protect our policyholders against a one in one hundred year event.

The Board of Directors and Management prudently set and approve the Company's risk retention levels under its reinsurance treaties.

Sources of uncertainty in the estimation of future claim payments

Claims on casualty contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to IBNR. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer’s liability coverage) or members of the public (for public liability coverage). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprise a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at year-end. The amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Casualty contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at year-end.

Sensitivity analysis

The Company predominantly funds its net insurance liabilities through its cash generated in the normal course of its operations. In the event of a catastrophe, the net insurance liabilities may be required to be funded through the Company’s portfolio of investments. Insurance liabilities are calculated using historical claims data to determine an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred at the date of the statement of financial position. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based. As such, the sensitivity of the insurance liabilities is based on the financial impact of changes to the reported loss ratio. The provision for long tail claims is determined by using the incurred loss method and loss ratio method. The loss development factors used are based on the Company’s experience. The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant. The analyses assume that there is no correlation between the assumptions.

(20) Financial Risk Management (continued)

Insurance risk (continued)

Sensitivity factor	Description of sensitivity factor applied
Claims expense	The impact of a change in claims expense by 1%, 2%, 5% or 10%

Claims expense	December 31, 2017		December 31, 2016	
(in Bahamian dollars)	**+1%**	**-1%**	**+1%**	**-1%**
Impact on net income before tax	(13,675)	13,675	(8,922)	8,922
	+2%	**-2%**	**+2%**	**-2%**
Impact on net income before tax	(27,350)	27,350	(17,844)	17,844
	+5%	**-5%**	**+5%**	**-5%**
Impact on net income before tax	(68,374)	68,374	(44,609)	44,609
	+10%	**-10%**	**+10%**	**-10%**
Impact on net income before tax	(136,748)	136,748	(89,219)	89,219

Managing insurance risks

Each contract is reviewed annually by the underwriting department under the supervision of the Underwriting Manager. The “four-eyes principle” is applied to ensure that the rate charged is appropriate for the risk.

Four (4) types of reinsurance that are used to mitigate insurance risk are:

- Risk Excess of Loss contracts provide an automatic binding authority up to the limit of the reinsurance treaty and protects against individual loss(es) which exceed(s) the Company's deductible.
- Individual Facultative Reinsurance is used on an individual basis to buy reinsurance when the sum to be insured on a particular risk exceeds the Company's automatic binding limit referred to the first type above. Individual Facultative Reinsurance is also used for risks that are excluded from the Company automatic binding treaty.
- Catastrophe Reinsurance protects against the total loss from a single event that affects several risks at the same time. For example, a hurricane or earthquake.
- Quota Share Treaty, a type of coverage is in effect for a specified period of time, rather than on a per risk, or contract basis. For the duration of the contract, the reinsurer agrees to cover a portion of the risks that may be incurred by the insurance company being covered.

(21) Risk Management framework

Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Company has established a risk management function with clear terms of reference from the Board of Directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and senior managers. Lastly, a Company policy framework which sets out the risk profiles for the Company, risk management, control and business conduct standards for the Company's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Company.

The Board of Directors approves the Company's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. For example, following the regulatory changes, the Company has placed a greater emphasis on assessment and documentation of risks and controls.

Capital management objectives, policies and approach

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- To safeguard the Company's ability to continue as a going concern in order to provide the requisite returns for shareholders and benefits for other stakeholders;
- To align the profile of assets and liabilities taking account of risks inherent in the business;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders;
- To provide an adequate return to shareholders by pricing insurance and investment contracts consumerately with the level of risk; and
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximize shareholder's value.

Externally imposed capital requirements are set by the Insurance Commission of The Bahamas ("the Commission"). These requirements are put in place to ensure sufficient solvency margins.

(21) Risk Management framework (continued)

Capital management objectives, policies and approach (continued)

The Company is registered under the Insurance Act 2005 ("the Act") as required by the Act and has met the required minimum paid up and unencumbered capital of $2,000,000. The Company is also required to establish and maintain a statutory deposit in respect of its insurance business in The Bahamas, such deposit to be held in trust pursuant to Section 43(2) of the Act and regulation 62 of the Insurance (General) Regulations, 2010 ("the Regulations"). As of December 31, 2017, the Company held a Statutory Deposit Trust ("the Trust") in the sum of $1,000,000 (see note 3) with a recognized financial institution appointed as trustees of the Trust and the Commission as the protectors of the Trust.

Solvency ratios are established on the basis of risk assessment. The Company is required to meet a minimum margin of solvency. The Act defines insolvency as the inability of the Company to pay its debts if, at any time, the value of its admissible assets does not exceed its liabilities by such amount as the Commission may prescribe. Of the value of admissible assets, at least 75% must be in the form of qualifying assets, as defined in Section 70 of the Regulations. As at December 31, 2016 the Company exceeded the minimum margin of solvency required under the Act.

The Company has complied with the regulatory imposed capital requirements throughout the year.

Approach to capital management

The Company seeks to optimize the structure and sources of capital to ensure that it consistently maximizes returns to the shareholders and policyholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics. An important aspect of the Company's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholders.

The primary source of capital used by the Company is shareholders' equity funds. The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analysis. The process is ultimately subject to approval by the Board.

The Company has had no significant changes in its policies and processes to its capital structure during the year.

Regulatory framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also informed that the Company is satisfactorily managing affairs for their benefit. Regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

(21) Risk Management framework (continued)

Asset-liability management ("ALM") framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces, due to the nature of its investments and liabilities, is interest rate risk. The Company manages these positions within an ALM framework that has been developed to achieve long–term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Company's ALM framework is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The Company's ALM is:

- Integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities;
- An integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

(22) Subsequent events

Management has evaluated the need for disclosures and adjustments resulting from subsequent events from January 1, 2018 to April 23, 2018, the date the financial statements were available to be issued. There were no subsequent events requiring disclosures and/or adjustments.