

**BAHAMAS FIRST GENERAL
INSURANCE LIMITED**

**Financial Statements
For The Year Ended December 31, 2017
And Independent Auditors' Report**

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Bahamas First General Insurance Company Limited:

Opinion

We have audited the financial statements of Bahamas First General Insurance Company Limited (the Company), which comprise the statement of financial position as at December 31, 2017, and the statement of profit or loss, statement of profit or loss and other comprehensive income (loss), 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 for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' 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.

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.

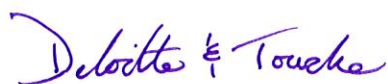
Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 Company 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.



April 6, 2018

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017

(Expressed in Bahamian dollars)

	Notes	2017	2016
ASSETS			
Cash	6	\$ 8,295,270	\$ 15,270,135
Trade accounts receivable, net	4,8,19	10,827,249	13,485,758
Receivable from reinsurers		1,002,417	-
Sundry receivables and prepayments	19	480,120	2,666,660
Deferred commission costs	9	6,355,721	6,285,602
Unpaid claims recoverable from reinsurers	4,10	25,838,596	65,332,883
Deferred reinsurance premiums	9	23,670,996	25,395,686
Investments	7	31,600,524	33,914,039
Receivables from related companies	13,19	14,423,002	21,387,251
Property and equipment	4,11	9,443,713	9,687,910
Intangible asset	4,12	<u>2,692,559</u>	<u>2,692,559</u>
TOTAL		<u>\$ 134,630,167</u>	<u>\$ 196,118,483</u>
			(Continued)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017

(Expressed in Bahamian dollars)

	Notes	2017	2016
LIABILITIES AND EQUITY			
LIABILITIES:			
Accrued expenses and other liabilities		\$ 2,443,933	\$ 1,238,117
Payable to reinsurers		-	20,517,813
Unearned commission income	9	6,323,415	6,490,524
Unearned premiums	9	35,702,045	36,962,852
Unpaid claims	4,10	40,160,774	80,909,177
Total liabilities		<u>84,630,167</u>	<u>146,118,483</u>
EQUITY:			
Share capital	13	7,500,000	7,500,000
Contributed surplus		14,100,000	14,100,000
Reserves	14,15	6,203,588	6,084,766
Retained earnings		<u>22,196,412</u>	<u>22,315,234</u>
Total equity		<u>50,000,000</u>	<u>50,000,000</u>
TOTAL		<u>\$ 134,630,167</u>	<u>\$ 196,118,483</u>
			(Concluded)

See notes to financial statements.

These financial statements were approved by the Board of Directors on March 8, 2018 and are signed on its behalf by:


Director


Director

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2017

(Expressed in Bahamian dollars)

	Notes	2017	2016
UNDERWRITING INCOME:			
Gross premiums written	19	\$ 91,372,668	\$ 88,428,937
Movement in unearned premiums	9	<u>1,260,807</u>	<u>(193,434)</u>
		92,633,475	88,235,503
Premiums ceded to reinsurers		(61,350,736)	(60,309,420)
Movement in deferred reinsurance premiums	9	<u>(1,432,118)</u>	<u>(9,021)</u>
Net premiums earned		29,850,621	27,917,062
Commission income from reinsurers		<u>18,426,225</u>	<u>16,068,757</u>
Total underwriting income		<u>48,276,846</u>	<u>43,985,819</u>
UNDERWRITING EXPENSES:			
Commission expense	19	17,945,561	16,057,463
Cost of excess of loss reinsurance		6,549,975	6,609,590
Net claims incurred	10	8,636,349	17,490,199
Premium tax		<u>2,661,340</u>	<u>2,575,600</u>
Total underwriting expenses		<u>35,793,225</u>	<u>42,732,852</u>
Net underwriting income		<u>12,483,621</u>	<u>1,252,967</u>
OTHER EXPENSES:			
Management fees	19	2,193,947	1,856,863
Salaries, benefits and bonuses	17,18,19	2,546,277	2,384,027
General and administrative expenses		1,685,937	1,503,223
Depreciation	11	<u>261,087</u>	<u>260,895</u>
Total other expenses		<u>6,687,248</u>	<u>6,005,008</u>
UNREALIZED GAIN ON INVESTMENT	7	4,165,119	3,317,387
OTHER INCOME	16,19	<u>2,323,253</u>	<u>1,966,962</u>
PROFIT FOR THE YEAR		<u>\$ 12,284,745</u>	<u>\$ 532,308</u>

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2017

(Expressed in Bahamian dollars)

	Notes	2017	2016
PROFIT FOR THE YEAR		<u>\$ 12,284,745</u>	<u>\$ 532,308</u>
OTHER COMPREHENSIVE INCOME (LOSS):			
Item that will not be reclassified subsequently to profit or loss:			
Revaluation of land and buildings	11,15	-	644,235
Items that may be reclassified subsequently to profit or loss:			
Reclassification adjustment of available-for-sale investment	7,15,16	-	-
Unrealized gain on available-for-sale investments	7,15	<u>118,822</u>	<u>196,518</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR		<u>118,822</u>	<u>840,753</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>\$ 12,403,567</u>	<u>\$ 1,373,061</u>

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

(Expressed in Bahamian dollars)

	Share Capital	Contributed Surplus	General Reserve	Revaluation Reserve	Retained Earnings	Total
Balance at January 1, 2016	\$7,500,000	\$14,100,000	\$3,500,000	\$1,744,013	\$23,155,987	\$50,000,000
Profit for the year	-	-	-	-	532,308	532,308
Other comprehensive income	-	-	-	840,753	-	840,753
Total comprehensive income	-	-	-	840,753	532,308	1,373,061
Dividends paid (\$0.18 per common share) (Note 13)	-	-	-	-	(1,373,061)	(1,373,061)
Balance at December 31, 2016	7,500,000	14,100,000	3,500,000	2,584,766	22,315,234	50,000,000
Profit for the year	-	-	-	-	12,284,745	12,284,745
Other comprehensive income	-	-	-	118,822	-	118,822
Total comprehensive income	-	-	-	118,822	12,284,745	12,403,567
Dividends paid (\$1.65 per common share) (Note 13)	-	-	-	-	(12,403,567)	(12,403,567)
Balance at December 31, 2017	<u>\$7,500,000</u>	<u>\$14,100,000</u>	<u>\$3,500,000</u>	<u>\$2,703,588</u>	<u>\$22,196,412</u>	<u>\$50,000,000</u>

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

(Expressed in Bahamian dollars)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year		\$ 12,284,745	\$ 532,308
Adjustments for:			
Depreciation	11	261,087	260,895
Unrealized gain on investment	7	(4,165,119)	(3,317,387)
Realized gains on sales of investments	7,16	(723,187)	(182,282)
Decrease in provision for bad debts	8	(249,672)	(50,000)
Decrease (increase) in trade accounts receivable, net		2,908,181	(2,878,425)
(Increase) decrease in receivable from reinsurers		(1,002,417)	37,166
Decrease (increase) in sundry receivables and prepayments		2,186,540	(1,550,811)
Increase in deferred commission costs	9	(70,119)	(116,538)
Decrease (increase) in deferred reinsurance premiums	9	1,724,690	(890,223)
Decrease in receivable from related companies	13	(5,439,318)	(7,974,508)
Increase in accrued expenses and other liabilities		1,205,816	34,883
(Decrease) increase in payable to reinsurers		(20,517,813)	20,517,813
(Decrease) increase in unearned commission income	9	(167,109)	330,074
(Decrease) increase in unearned premiums	9	(1,260,807)	193,434
(Decrease) increase in net unpaid claims	10	(1,254,116)	1,530,289
Net cash (used in) from operating activities		<u>(14,278,618)</u>	<u>6,476,688</u>

(Continued)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

(Expressed in Bahamian dollars)

	Notes	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	11	\$ (16,890)	\$ (368,019)
Proceeds from sales and maturities of investments	7	7,445,343	4,578,345
Purchase of investments	7	(124,700)	(1,917,505)
Decrease in term deposits		-	581,059
Net cash from investing activities		<u>7,303,753</u>	<u>2,873,880</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(6,974,865)	9,350,568
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR		<u>15,270,135</u>	<u>5,919,567</u>
END OF YEAR		<u>\$ 8,295,270</u>	<u>\$ 15,270,135</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:			
Interest received, bank deposits		<u>\$ 64,261</u>	<u>\$ 125,462</u>
Interest received, investments		<u>\$ 756,808</u>	<u>\$ 1,016,177</u>
Dividends received		<u>\$ 432,626</u>	<u>\$ 469,165</u>
Non-cash dividends paid	13	<u>\$ 12,403,567</u>	<u>\$ 1,373,061</u>
<i>(Concluded)</i>			

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Expressed in Bahamian dollars)

1. GENERAL

Bahamas First General Insurance Company Limited (the “Company”) was incorporated on September 8, 1982 under the laws of the Commonwealth of The Bahamas. Effective January 1, 1998 the Company became a wholly-owned subsidiary of Bahamas First Holdings Limited (“BFH”). It is registered to carry on general insurance business. One of BFH’s subsidiaries, Nassau Underwriters Agency Insurance Agents and Brokers Ltd. (“NUA”) acts as an insurance agent for the Company. First Response Limited (“FRL”), a wholly-owned subsidiary of BFH, provides motor vehicle claim roadside assistance and claim adjusting services to BFG.

The Company, BFH, and the other subsidiaries of BFH are hereinafter collectively referred to in these financial statements as the “Group”. All of the Group’s companies except BFH International Limited (“BFHIL”) and Cayman First Insurance Company Limited (“CFI”) are incorporated in The Bahamas. BFHIL, CFI, BFH Services (Cayman) Limited, and Brac Insurance Associates Ltd. are incorporated under the laws (2009 Revision) of the Cayman Islands.

The registered office of the Company is located at 32 Collins Avenue, Nassau, Bahamas.

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS)

In the current year, there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB effective for annual reporting periods beginning on or after January 1, 2017. The adoption of these Standards and Interpretations has not led to any significant impact in the Company’s accounting policies, operations or financial statements other than certain additional disclosures.

a. *Standards and Interpretations effective but not affecting the reported results or financial position*

IAS 1	Presentation of Financial Statements (Amendments)
IAS 16	Property, Plant and Equipment (Amendments)
IAS 19	Employee Benefits (Amendments)
IAS 34	Interim Financial Reporting (Amendments)
IAS 38	Intangible Assets (Amendments)
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Amendments)
IFRS 7	Financial Instruments: Disclosures (Amendments)
IFRS 14	Regulatory Deferral Accounts
Various	Amendments to various Standards derived from Annual improvements to IFRSs 2012-2014 Cycle

b. *Standards and Interpretations in issue but not yet effective*

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the aforementioned date. Management has not assessed whether the relevant adoption of these standards, interpretations and amendments in future periods will have a material impact on the financial statements of the Company.

Effective date annual periods beginning on or after January 1, 2018

IAS 7 Statement of Cash Flows (Amendments)

IAS 12 Income Taxes (Amendments)

Effective date annual periods beginning on or after January 1, 2018

IFRS 2 Share-based payments (Amendments)

IFRS 4 Insurance Contracts (Amendments)

IFRS 7 Financial Instruments: Disclosures (Amendments)

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

Effective date annual periods beginning on or after January 1, 2019

IFRS 16 Leases

Effective date annual periods beginning on or after January 1, 2021

IFRS 17 Insurance Contracts

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The following is a summary of the significant accounting policies:

- a. ***Basis of preparation*** - These financial statements have been prepared on the accrual basis and under the historical cost convention, except for investments measured at fair value, and land and buildings, which are revalued every three years.

The accounting policies are consistent with those used in previous years.

- b. ***Financial instruments***

Classification and measurement - On initial recognition, a financial asset or liability is measured at its fair value plus transaction costs directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition, financial assets are classified as either financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; or available-for-sale ("AFS"); and are measured at their fair values without any deduction for transaction costs, except for the following financial assets:

- (i) loans and receivables and held-to-maturity financial instruments are measured at amortized cost using the effective interest rate method;
- (ii) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the classification at each reporting date.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value.

Term deposits are classified as held-to-maturity financial instruments. They have fixed or determinable payments and fixed maturity dates, and the Company has the intent and ability to hold them to maturity.

Trade accounts receivable, sundry receivables and receivable from reinsurers that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables and are carried at cost, which equates to amortized cost, less provision for bad debts. Trade accounts payable and accrued liabilities are financial liabilities, which are carried at cost.

Investments in Bahamas Government Registered Stock are designated as held-to-maturity and are carried at amortized cost. Preference shares and redeemable fixed rate note investments are classified as available-for-sale and are carried at cost, as this is considered to be the fair value at the statement of financial position date.

Gains and losses arising from changes in fair value of available-for-sale investments are recognized in other comprehensive income (loss) until the investments are disposed of or are determined to be permanently impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income (loss) is included in profit or loss for the period. All other investments are classified as financial assets at fair value through profit or loss. They are measured at fair value with reference to market prices, or, for non-listed companies, financial information on the company. The gain or loss on investments classified as at fair value through profit or loss is recognized in the statement of profit or loss.

Recognition and derecognition - The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Company recognizes/derecognizes financial assets purchased or sold on the trade date.

Investments held-to-maturity are recognized/derecognized on the day they are transferred to/by the Company. Financial liabilities are derecognized when they are extinguished. For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the statement of profit or loss when it is derecognized or impaired, as well as through the amortization process.

- c. **Trade accounts receivable** - Trade accounts receivable is stated at cost less provision for bad debts. The bad debt provision is based on management's evaluation of the accounts receivable portfolio.
- d. **Property and equipment** - Property and equipment, other than freehold land and buildings, are stated at cost less accumulated depreciation and impairment losses.

Expenditure incurred in the construction or replacement of property and equipment is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the property and equipment. All other expenditure is recognized in the statement of profit or loss as an expense as incurred.

Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives. Land is not depreciated and expenditure incurred in the construction-in-progress is not depreciated until construction is completed.

The estimated useful lives are as follows:

Buildings	40 years
Furniture and equipment	5 - 10 years
Leasehold improvements and others	3 - 5 years

Freehold land and buildings are stated at fair market value, based on independent professional appraisals, which are performed every three years. The fair value measurement is categorized in Level 3 in the fair value hierarchy. A revaluation increment is recorded in other comprehensive income (loss), unless it reverses a revaluation decrease of the same asset previously recognized as an expense and is transferred to retained earnings to the extent realized by complete or partial disposal of the related asset, including depreciation.

Any revaluation decrease is recognized as an expense unless it reverses a revaluation increase that was previously recognized in other comprehensive income (loss).

Any depreciation accumulated on an asset at the date of revaluation is eliminated against the gross carrying amount of the asset and the resulting net amount restated to the revalued amount of the asset. The accumulated depreciation is reduced or eliminated, and any remaining surplus is used to increase cost.

- e. **Intangible assets** - For insurance portfolios acquired, an intangible asset is accounted for under IFRS 4, representing the difference between the fair value of the contractual insurance rights acquired and insurance obligations assumed and any liability for insurance contracts that it issues. The subsequent measurement of this intangible asset is consistent with the measurement of the related insurance liability. IAS 38 Intangible Assets does not apply to this intangible asset; however, it does apply to customer lists and relationships reflecting the expectation of future contracts that are not part of the contractual insurance rights and insurance obligations that existed at the date of the business combination or portfolio transfer. Intangible assets recognized under IAS 38 are initially carried at fair value. After initial recognition, an intangible asset with a finite useful life is amortized, whereas an intangible asset with an indefinite useful life is not amortized. An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to

generate net cash inflows to the Company. The intangible asset is tested for impairment at least annually.

An intangible asset shall be derecognized on disposal or when no future economic benefit is expected from its use or disposal. The gain or loss arising from the derecognition is recognized in the statement of profit or loss.

- f. ***Impairment*** - The carrying amounts of the Company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of profit or loss.

An impairment loss in respect of held-to-maturity assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

- g. ***Insurance contracts***

Product classification - Insurance contracts are those that transfer significant insurance risk at the effective date of the contract. Insurance risk is transferred when the Company agrees to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract under IFRS 4 Insurance Contracts are classified as investment contracts. The main insurance contracts issued by the Company are as follows:

Property and casualty insurance contracts - Property and casualty contracts are generally one year renewable contracts issued by the Company covering insurance risks over property, motor, marine, engineering and general accident.

Reinsurance contracts - Contracts with reinsurers under which the Company is compensated for losses are classified as reinsurance contracts held. Insurance contracts in which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term recoverables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense over the period of the contract.

The Company assesses its reinsurance assets for impairment on an ongoing basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the statement of profit or loss.

Portfolio Transfer In / (Out) - At the option of the Company and at the anniversary date of the reinsurance agreements, proportional reinsurers agree to relinquish (assume) liability for all policies in force at such anniversary date. The Company debits (credits) the reinsurers with the related portion of the unearned premiums and unpaid claims calculated in accordance with the method outlined in the agreement.

Premiums - Premiums written are recognized as income over the periods covered by the related policies taking into consideration the exposure period to which they relate. The adjustment to apportion the gross premiums written and ceded over the life of the policy is made through the movement in the unearned premiums.

Unearned premiums at year end represent the proportion of the premiums which relate to periods of insurance subsequent to the statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

Premiums ceded - Premiums ceded to reinsurers are recognized as an expense over the periods covered by the related policies taking into consideration the exposure period to which they relate.

Deferred reinsurance premiums in the statement of financial position at year end represent the proportion of the premiums ceded which relate to periods of insurance subsequent to the statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

- h. ***Unpaid claims and unpaid claims recoverable from reinsurers*** - The provision for unpaid claims and the reinsurers' share thereof, represents 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 on or before each statement of financial position date.

The provision is periodically reviewed and evaluated in the light of emerging claims experience and changing circumstances. Changes in estimate of the ultimate liability are included in net claims incurred in the statement of profit or loss.

At the date of the statement of financial position, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows. If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. Management has engaged independent actuaries to assist in performing the liability adequacy test at year-end.

i. ***Policy acquisition cost***

Deferred and unearned commissions - At year end, deferred and unearned commissions represent the proportion of the commission paid to agents and brokers and received from reinsurers which related to periods of insurance subsequent to the statement of financial position date. These amounts are calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

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.

Profit commissions received from reinsurers and non-Company insurers, calculated based on past underwriting results, are received from other insurance companies for whom Company agents may act and from the Company's reinsurers. The agency profit commissions are recorded in the year in which Company agents receive notification of the commission. Reinsurance profit and override commissions are recorded on an accrual basis.

- j. ***Dividend and interest income*** – Dividends are recognized in profit or loss when the Company's right to receive the dividend income is established. Interest income is accounted for on an accrual basis. Both are recognized in Other Income in the statement of profit or loss.
- k. ***Cash and cash equivalents*** - Cash and cash equivalents consist of cash on hand, cash at bank, bank overdraft, and term deposits with banks maturing within ninety days from the date of acquisition.
- l. ***Borrowings*** - Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the statement of profit or loss over the period of borrowing using the effective rate method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan and are capitalized and amortized over the period of the facility to which it relates.
- m. ***Share capital*** - Shares are classified as equity when there is no obligation to transfer cash or other assets. Share capital is comprised of common shares. When common shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction in equity.

Dividends on common shares are recognized as a liability and deducted from equity when they are declared by the Company's Board of Directors.

n. ***Foreign currency translation:***

- (i) ***Functional and presentation currency*** - Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (functional currency), the Bahamian dollar. The financial statements are presented in Bahamian dollars, which is also the Company's presentation currency.
- (ii) ***Transactions and balances*** - Assets and liabilities denominated or accounted for in currencies other than the Bahamian dollar are translated into Bahamian dollars at the exchange rate prevailing at the statement of financial position date. Foreign currency transactions and income and expense items have been translated at the exchange rates prevailing at the date of the transaction. Gains or losses arising from transactions in foreign currencies are included in the statement of profit or loss and other comprehensive income (loss).

o. ***Related parties*** - Related parties include:

- (i) Controlling shareholders;
- (ii) Directors;
- (iii) Subsidiaries;
- (iv) Associates;
- (v) Individuals owning, directly or indirectly, an interest in the voting power that gives them significant influence over the enterprise, i.e. normally more than 20% of shares (plus close family members of such individuals);
- (vi) Key management personnel (plus close family members of such individuals);
- (vii) Enterprises owned by the individuals described in (iv) and (v).

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, being the Officers and Directors.

Close family members include the spouse of Key and Non-Key Management Personnel and the children and dependents of Key and Non-Key Management Personnel.

- p. ***Pension benefits*** - The Company's employees participate in a defined contribution plan. Under the plan, the Company contributes a fixed percentage of annual salary that is expensed in the year. Once the contributions have been made, the Company has no further obligations. The expensed amount is included in salaries, benefits and bonuses in the statement of profit or loss.
- q. ***Leases*** - The Company has entered into an operating lease for office space. Payments made under the operating lease are recognized as an expense on a straight line basis over the term of the lease.
- r. ***Taxation*** - The Company is subject to premium tax on taxable gross premium income at the flat rate of 3% (2016: 3%). Value added tax (VAT) is assessed at 7.5% (2016: 7.5%) on taxable gross premium income. There are no other taxes on corporate income or capital gains levied on the Company.

- s. ***Contingent liabilities*** - A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that the Company will be required to settle that obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle that obligation at the reporting date and are discounted to present value.

Potential recoveries from third parties are recognized as a receivable when it is virtually certain that the recoveries will be received and the amount can be measured reliably.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i. ***The ultimate liability arising from claims made under insurance contracts***

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Company will ultimately pay to settle such claims.

The provision for unpaid claims is necessarily based on estimates due to the fact that ultimate disposition of claims incurred prior to the date of the statement of financial position, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include, inter alia, jury decisions, court interpretations, legislative changes, and the cost of automobile and property repair materials and labour rates.

Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. Management estimates and judgments are based on the Company's claims experience, relevant circumstances and/or advice from legal counsel.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within one to three months after the claims event.

Information for long-tail claims such as casualty claims for bodily injury and general third party and employers' liability claims may not be readily available. The provision for the long-tail claims is continually evaluated by management and is based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Company does not establish provisions for catastrophes (such as natural disasters) in advance of the occurrence of such events. These events can cause significant volatility in the Company's level of incurred losses and the provision for unpaid claims.

The impact of critical accounting estimates and judgments on the ultimate liability arising from claims made under insurance contracts is partially mitigated through relief arising from reinsurance contracts held.

The carrying value at the statement of financial position date of gross claims reported and loss adjustment expenses and claims incurred but not reported was \$40,160,774 (2016: \$80,909,177). The amount of reinsurance recoveries estimated at the statement of financial position date is \$25,838,596 (2016: \$65,332,883).

Refer to Note 10 for further information on the provision for unpaid claims.

ii. ***Pro-ration of Premiums and Commissions***

As described in Note 3g, unearned premiums and deferred reinsurance premiums at year end represent the proportion of the premiums which relate to periods of insurance subsequent to the statement of financial position date. Similarly as per Note 3i, deferred and unearned commissions at year end represent the proportion of the commission paid to agents and brokers and received from reinsurers which relate to periods of insurance subsequent to the statement of financial position date. These amounts are calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

iii. ***Impairment of intangible assets***

Determining whether intangible assets are impaired requires an estimation of (a) the value in use or (b) the fair value less costs to sell of the cash-generating unit to which the value has been allocated:

- a) The value in use calculation requires the Company to estimate the future cash flows expected to arise from the cash-generating unit(s) and a suitable discount rate in order to calculate present value, both of which are material sources of uncertainty.
- b) The fair value less costs to sell is the amount obtainable from the sale of an asset or cash generating unit between knowledgeable willing parties, less the costs of disposal.

The carrying value at the statement of financial position date for the intangible asset is \$2,692,559 (2016: \$2,692,559).

iv. ***Provision for bad debts***

As described in Note 3c, provision for bad debts is based on management's evaluation of the respective portfolios. This evaluation is based on the aged analysis of the trade accounts receivable. Trade accounts receivable, which is shown net of provision for bad debts, is comprised of amounts receivable from insurance agents that have signed agency agreements with the Company. The carrying value at the statement of financial position date for trade accounts receivable, net was \$10,827,249 (2016: \$13,485,758).

v. ***Depreciation***

Depreciation is based on management estimates of the future useful life of property and equipment. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the depreciation charges. The Company reviews the future useful life of property and equipment periodically, taking into consideration the factors mentioned above and all other important factors. In case of significant changes in the estimated useful lives, depreciation charges are adjusted prospectively.

vi. ***Fair value of financial assets and liabilities***

The fair values of listed equities are based on current bid prices reported on recognized exchanges. The fair value of debt securities is based on either current bid prices reported on recognized exchanges or pricing data provided by internationally recognized pricing services. Mutual funds are carried at fair value based on the net asset value per share provided by the administrator of the fund. If prices are not readily available, the fair value is estimated using either dealer quotes or pricing models or discounted cash flow models or management's estimate of amounts that could be realized under current market conditions and which are based on observable market-based inputs when available.

Where fair value has been determined using data provided by a recognized pricing service, dealer quotes, pricing models or net asset value per share, the Company has obtained an understanding of the methods, models and inputs used in pricing and has controls in place that management considers sufficient to validate that prices represent fair value.

Investments for which observable market prices do not exist are reported at fair value as determined in good faith by management. Fair value is based on the best information available and is determined by reference to information including, but not limited to the following: projected revenues, net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), book value, relevant public or private transactions, valuations for publicly traded companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and restrictions on disposition. The amount determined to be fair value may incorporate management's own assumptions (including appropriate risk adjustments for non-performance and lack of marketability).

For certain financial instruments carried at cost, the carrying amounts approximate to fair value due to the short term nature of these instruments. Such instruments include, premiums receivable, reinsurance balances receivable, other receivables, reinsurance balances payable and other short term liabilities.

Refer to Notes 5 and 7 for further information on the fair value of financial assets and liabilities.

5. RISK MANAGEMENT

The Company is concerned about the risks inherent in its business activities (insurance risk) and the risks associated with the management of the financial assets and liabilities (financial risk) which support the operational activities. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management structure. The Company has established the Technical Review and Risk Compliance Committee, and the Finance and Investment Committee to ensure that management has a system which details the risk policies, procedures, measurement, reporting and compliance. 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. The committees report regularly to the Board of Directors on their activities.

The Company has exposures to risks that may develop in each class of business and could have a material impact upon the Company's financial position.

INSURANCE RISK

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

Risk factors that affect insurance are many and include the lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Company insures the risks of entities within The Bahamas.

Below is a discussion of insurance risks specific to the lines of coverage provided by the Company.

Property and casualty insurance risks

Property risks are comprised of physical damage to property. Property policies are underwritten by reference to the commercial replacement value of the properties and content insured.

Casualty risks are comprised of personal injury from motor claims, public liability, employers' liability, workmen's compensation and personal liability coverage.

For the Company's property and casualty insurance contracts, significant risk exposure arises from low frequency, high severity events such as hurricanes. Single events, such as flooding and fires may also generate significant claims.

Claim payment limits are always included to cap the amount payable on occurrence of the insured event. The costs of rebuilding properties, replacement or indemnity for contents are the key factors that influence the level of claims under these policies.

The frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. The Company manages this risk through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. Underwriting limits are in place to enforce appropriate risk selection criteria. The Company actively manages and pursues early settlement of all claims to reduce its exposure to unpredictable developments. It has a dedicated in-house claims department and uses third party loss adjusters as necessary. The Company will, where necessary, appoint lawyers to act on the Company's behalf in respect of serious bodily injury claims thus ensuring settlements and avoiding claims development.

The Company follows the policy of underwriting and reinsuring contracts of insurance, which generally limit the liability for any one risk. In addition, catastrophe reinsurance is obtained to limit liability to a maximum of 10% of the Company's capital and reserves in the event of a series of claims arising out of a single occurrence.

The Company is exposed to contractual disputes with its reinsurers and the possibility of default by its reinsurers. The Company is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance constraints. The Company's strategy is to select reinsurers with the best combination of financial strength, price and capacity.

In the event that the Company's reinsurers were unable to meet their obligations under the reinsurance programs in place, the Company would still be obligated to pay all claims made under the insurance policies it issues, but would only receive reimbursement to the extent that the reinsurers could meet their above mentioned obligations.

Management does not anticipate that there will be any issues with the collection of amounts due from reinsurers as they become due, and is not aware of any disputes with reinsurers, overdue amounts or any specific credit issues.

The reinsurance program used by the Company is reviewed and approved by the Technical Review and Risk Compliance Committee on an annual basis.

FINANCIAL RISK

The Company is exposed to financial risk through its financial assets and liabilities. The components of financial risk that have an impact on the Company are credit risk, market risk and liquidity risk. Market risk exposure results from adverse movements in market rates and prices and as a result the Company is exposed to interest rate risk, foreign currency risk and price risk.

Financial risk is a significant risk for the Company's operations. The risk framework combines investment policies, limits, stress tests and regular monitoring to control the nature and level of financial risk and to ensure adherence to Company and regulatory policies and guidelines.

The following table reconciles financial assets and financial liabilities to the Company's statement of financial position:

	2017	2016
Financial assets:		
Cash and term deposits	\$ 8,295,270	\$ 15,270,135
Investments:		
Held-to-maturity	5,429,600	8,218,000
At fair value through profit or loss	17,160,100	13,094,949
Available-for-sale	9,010,824	12,601,090
Loans and receivables:		
Trade accounts receivable, net	10,827,249	13,485,758
Receivables from related companies	14,423,002	21,387,251
Other receivables*	463,930	2,634,190
Total financial assets	<u>65,609,975</u>	<u>86,691,373</u>
Non - financial assets	<u>69,020,192</u>	<u>109,427,110</u>
Total assets	<u>\$ 134,630,167</u>	<u>\$ 196,118,483</u>
Financial liabilities:		
Payables at amortized cost:		
Payable to reinsurers and accrued expenses and other liabilities	\$ 2,443,933	\$ 21,755,930
Total financial liabilities	<u>2,443,933</u>	<u>21,755,930</u>
Non - financial liabilities	<u>82,186,234</u>	<u>124,362,553</u>
Total liabilities	<u>\$ 84,630,167</u>	<u>\$ 146,118,483</u>

*excludes prepayments of \$16,188 (2016: \$32,470).

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Key areas where the Company is exposed to credit risk are in the investment portfolios, reinsurance receivables, premiums receivable, and other receivables.

The Company's investment policy requires the Company to invest in fixed income securities, equity securities, private placements of financial institutions, term deposits, and to limit exposure to any one issuer. The Company's deposits are placed with well-known high quality financial institutions. Policies and guidelines are in place to limit the exposure faced by the Company.

The Company is exposed to credit risk with respect to the amounts recoverable from its reinsurers. The Company's liability as primary insurer is not discharged if a reinsurer defaults on the obligation to pay. The Technical Review and Risk Compliance Committee ensures that management assesses the creditworthiness of all reinsurers by reviewing credit ratings as determined by independent rating agencies and other publicly available financial information.

The Company has approved limits for the maximum participation of any one reinsurer in its reinsurance program. Reinsurance coverage is placed with a number of major international third party reinsurers, including underwriting members of Lloyd's, with credit ratings of A- or higher from A.M. Best or Standard & Poor's. 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:

	2017	2016
Held-to-maturity debt securities:		
Bahamas Government Registered Stocks	\$ 5,429,600	\$ 8,218,000
Available-for-sale securities:		
Preference shares	2,075,500	2,080,500
Mutual fund	1,832,879	5,286,716
Fixed income debt securities	5,102,445	5,233,874
Loans and receivables:		
Trade accounts receivable	10,827,249	13,735,430
Receivables from related parties	14,423,002	21,387,251
Other receivables	463,930	2,634,190
Reinsurers' share of provision for unpaid claims	25,838,596	65,332,883
Cash and term deposits	<u>8,295,270</u>	<u>15,270,135</u>
Total	<u>\$ 74,288,471</u>	<u>\$139,178,979</u>

Financial and other 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 following table.

At December 31, 2017	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Held-to-maturity debt securities	\$ 5,429,600	\$ -	\$ -	\$ 5,429,600
Available-for-sale debt securities	9,010,824	-	-	9,010,824
Loans and receivables:				
Trade accounts receivable	9,810,101	1,017,148	-	10,827,249
Due from reinsurers				
Due from related party	14,423,002	-	-	14,423,002
Other receivables	463,930	-	-	463,930
Reinsurers' share of provision for unpaid claims	25,838,596	-	-	25,838,596
Cash and term deposits	8,295,270	-	-	8,295,270
Total assets exposed to credit risk	<u>\$ 73,271,323</u>	<u>\$ 1,017,148</u>	<u>\$ -</u>	<u>\$ 74,288,471</u>

At December 31, 2016	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Held-to-maturity debt securities	\$ 8,218,000	\$ -	\$ -	\$ 8,218,000
Available-for-sale debt securities	12,601,090	-	-	12,601,090
Loans and receivables:				
Trade accounts receivable	12,617,943	867,815	249,672	13,735,430
Due from reinsurers				
Due from related party	21,387,251	-	-	21,387,251
Other receivables	2,634,190	-	-	2,634,190
Reinsurers' share of provision for unpaid claims	65,332,883	-	-	65,332,883
Cash and term deposits	15,270,135	-	-	15,270,135
Total assets exposed to credit risk	<u>\$ 138,061,492</u>	<u>\$ 867,815</u>	<u>\$ 249,672</u>	<u>\$ 139,178,979</u>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above. The Company does not hold collateral as security.

INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This is primarily a concern with fixed and fluctuating interest rate investments, which the Company intends to hold for the long-term.

The Company's fixed income debt securities, cash and cash equivalents, loans and investments are all subject to interest rate risk. Fluctuations in interest rates impact the level of gains and losses on the Company's interest bearing investments. The underlying debt securities of the mutual fund may be affected by changes in interest rates.

FOREIGN CURRENCY RISK

The Company is not directly exposed to foreign currency risk, as investments are denominated in Bahamian dollars ("B\$"), which is fixed to the US dollar at the following rate: B\$1 = US\$1.

PRICE RISK

The Company is subject to price risk on its equity securities due to changes in market values. One of the primary objectives of the Company's risk management policy is to mitigate potential adverse impacts of market movements.

LIQUIDITY RISK

Liquidity risk is the risk that the Company may have difficulty liquidating its positions due to existing or unforeseen market constraints to meet obligations associated with financial instruments. In respect of catastrophic events the Company is exposed to a liquidity risk associated with the timing differences between cash flows and expected reinsurance recoveries to meet its insurance liability obligation. The Company's investments are either in a market that is not highly active or do not have a market and therefore may not be readily realizable. As a result, the Company may not be able to quickly liquidate its investments at an amount close to their fair value in order to meet liquidity requirements. The Company mitigates this risk by maintaining significant holdings in cash and cash equivalents and also ensures that there are set guidelines for asset allocations, portfolio limit structures and maturity profiles of investments.

The following tables indicate the timing of undiscounted cash flows arising from financial liabilities as at December 31, 2017 and 2016.

2017	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
Financial liabilities				
Accrued expenses and other liabilities	\$ 2,443,933	\$ -	\$ -	\$ -
Payable to reinsurers	-	-	-	-
Unpaid claims	40,160,774	8,694,156	15,638,807	15,827,811
Less: unpaid claims recoverable from reinsurers	<u>(25,838,596)</u>	<u>(5,593,637)</u>	<u>(10,061,679)</u>	<u>(10,183,280)</u>
Total undiscounted cash flows	<u>\$ 16,766,111</u>	<u>\$ 3,100,519</u>	<u>\$ 5,577,128</u>	<u>\$ 5,644,531</u>

2016	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
Financial liabilities				
Accrued expenses and other liabilities	\$ 1,238,117	\$ 1,238,117	\$ -	\$ -
Payable to reinsurers	20,517,813	20,517,813		
Unpaid claims	80,909,177	51,259,499	17,135,583	12,514,095
Less: unpaid claims recoverable from reinsurers	<u>(65,332,883)</u>	<u>(46,683,199)</u>	<u>(11,045,578)</u>	<u>(7,604,106)</u>
Total undiscounted cash flows	<u>\$ 37,332,224</u>	<u>\$ 26,332,230</u>	<u>\$ 6,090,005</u>	<u>\$ 4,909,989</u>

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. Projections are based on assumptions implicit in the historic claims development. 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.

Sensitivity factor	Description of sensitivity factor applied
Interest rates- cash and cash equivalents	The impact of a change in market interest rates by 1%
Underwriting expenses	The impact of a change in underwriting expenses by 5%
Loss ratio	The impact of a change in loss ratio by 5%

December 31, 2017 in B\$	Interest rates		Underwriting Expenses		Loss ratio	
	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	117,827	(117,827)	(1,357,844)	1,357,844	(1,492,531)	1,492,531
Impact on equity	117,827	(117,827)	(1,357,844)	1,357,844	(1,492,531)	1,492,531
December 31, 2016 in B\$	Interest rates		Underwriting Expenses		Loss ratio	
	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	105,949	(105,949)	(1,262,133)	1,262,133	(1,395,853)	(1,395,853)
Impact on equity	105,949	(105,949)	(1,262,133)	1,262,133	(1,395,853)	(1,395,853)

Price risk arises primarily from changes in the value of equity investments that may be bought and sold. The Company is sensitive to price risk on its fair value through profit or loss and available-for-sale securities. These securities are managed according to the benchmarks as specified in the Company's statement of investment policy and guidelines. The effect of a 10% increase (2016: 10%) and a 10% decrease (2016: 10%) in prices at the date of the statement of financial position are set out below:

	Carrying value	Effect on total profit and equity +10%	Effect on total profit and equity -10%
At December 31, 2017			
Listed on stock exchanges / markets	\$ 17,160,100	\$ 1,716,010	\$ (1,716,010)
Listed mutual funds	<u>1,832,879</u>	<u>183,288</u>	<u>(183,288)</u>
Total	<u>\$ 18,992,979</u>	<u>\$ 1,899,298</u>	<u>\$ (1,899,298)</u>
At December 31, 2016			
Listed on stock exchanges / markets	\$ 13,094,949	\$ 1,309,495	\$ (1,309,495)
Listed mutual funds	<u>5,286,716</u>	<u>528,672</u>	<u>(528,672)</u>
Total	<u>\$ 18,381,665</u>	<u>\$ 1,838,167</u>	<u>\$ (1,838,167)</u>

CAPITAL MANAGEMENT

The Company's objectives when managing capital are as follows:

- To safeguard the Company's ability to continue as a going concern through prudent and sustainable growth, so that it can continue to maximize returns for shareholders;
- To ensure that it maintains a strong credit rating (minimum AM Best rating of A-Excellent) and healthy capital ratios in order to support its business objectives; and
- To comply with regulatory capital requirements stipulated in the jurisdiction in which the Company operates.

The Company actively monitors its capital requirements and is in compliance with all relevant laws, rules and regulations.

6. CASH

Cash consists of the following:

	2017	2016
Cash on hand	\$ 5,065	\$ 1,152
Cash at bank	<u>8,290,205</u>	<u>15,268,983</u>
	<u>\$ 8,295,270</u>	<u>\$ 15,270,135</u>

7. INVESTMENTS

	2017	2016
Held-to-maturity:		
Bahamas Government Registered Stock - at amortized cost		
Unrestricted	\$ 4,429,600	\$ 7,218,000
Restricted	<u>1,000,000</u>	<u>1,000,000</u>
Total held-to-maturity	<u>5,429,600</u>	<u>8,218,000</u>
At fair value through profit or loss:		
Commonwealth Bank Limited		
3,516,414 (2016: 1,247,138) common shares		
Cost \$1,450,666 (2016: \$1,543,488)	<u>17,160,100</u>	<u>13,094,949</u>
Total at fair value through profit or loss	<u>17,160,100</u>	<u>13,094,949</u>
Available-for-sale:		
Fixed income debt securities, at fair value;		
amortized cost \$5,102,445 (2016: \$5,233,874)	5,102,445	5,233,874
Mutual fund, at fair value;		
Cost \$1,618,937 (2016: \$4,847,310)	1,832,879	5,286,716
Preference shares, at fair value	<u>2,075,500</u>	<u>2,080,500</u>
Total available-for-sale	<u>9,010,824</u>	<u>12,601,090</u>
Total investments	<u>\$31,600,524</u>	<u>\$33,914,039</u>

Held-to-maturity investments are recorded at amortized cost based on the effective interest rate method. These investments are variable interest rate instruments tied to Bahamian Dollar Prime, with interest rates ranging from 4.00% to 4.94% per annum (2016: 4.00% to 4.94%) and scheduled maturities between 2018 and 2030 (2016: 2017 and 2030) at the date of the statement of financial position. The investments are carried at amortized cost as the Company has the intent and ability to hold them to maturity.

In 2011, in accordance with the Insurance Act 2005 (Amended 2009), and regulations 61 and 62 of the Insurance (General) Regulations 2010, the Company established a Trust Account (the "BFG Trust") in which \$1,000,000 of the Bahamas Government Registered Stocks have been placed in Trust. This amount is restricted for regulatory purposes but the interest income accrues to the Company.

At December 31, 2017, the Commonwealth Bank Limited's common shares were valued at \$4.88 (2016: \$10.50) after a 3-for-1 stock split, which was the price quoted at Bahamas International Securities Exchange at that date. As a result, the Company recorded an unrealized gain of \$4,165,119 (2016: \$3,317,387) for the year ended.

Reconciliation of movements in the balance of investments is provided below:

	<u>Held-to-maturity</u>	<u>Fair value through profit or loss</u>	<u>Available-for-sale</u>	<u>Total</u>
At December 31, 2015	\$ 8,218,000	\$ 11,345,562	\$ 13,315,130	\$ 32,878,692
Cost of investments purchased	-	-	1,917,505	1,917,505
Proceeds from sales and maturities	-	(1,750,282)	(2,828,063)	(4,578,345)
Realized gains on sales of investments (Note 16)	-	182,282	-	182,282
Increase in fair value of investments	-	3,317,387	196,518	3,513,905
At December 31, 2016	8,218,000	13,094,949	12,601,090	33,914,039
Cost of investments purchased	-	-	124,700	124,700
Proceeds from sales and maturities	(2,788,400)	(794,380)	(3,862,563)	(7,445,343)
Realized gains on sales of investments (Note 16)	-	694,412	28,775	723,187
Increase in fair value of investments	-	4,165,119	118,822	4,283,941
At December 31, 2017	<u>\$ 5,429,600</u>	<u>\$ 17,160,100</u>	<u>\$ 9,010,824</u>	<u>\$ 31,600,524</u>

The Company's portfolio of investments is located in The Bahamas.

Management believes that there is no objective evidence of impairment of its investment portfolio as there has not been a significant or prolonged decline in the fair value of any of its securities.

FAIR VALUE MEASUREMENT

In accordance with IFRS 13 Financial Instruments: Disclosure, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable:

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

In addition to the measurement hierarchy, financial instruments which have significant unobservable inputs (classified as Level 3) require the disclosures on the transfers into and out of Level 3, a reconciliation of the opening and closing balances, total gains and losses for the period split between those recognized in other comprehensive income (loss), purchases, sales, issues and settlements, and sensitivity analysis of reasonably possible changes in assumptions, if material. Disclosure is also required of the movements between different levels of the fair value hierarchy and the reason for those movements.

The following table presents the Company's financial assets measured at fair value at December 31, 2017, by the level in the fair value hierarchy into which the fair value measurement is categorized.

2017	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss:				
Equity securities	\$17,160,100	\$ -	\$ -	\$17,160,100
Total	<u>17,160,100</u>	<u>-</u>	<u>-</u>	<u>17,160,100</u>
Available-for-sale financial assets:				
Mutual fund	-	1,832,879	-	1,832,879
Preference shares	-	2,075,500	-	2,075,500
Fixed income debt securities	-	5,102,445	-	5,102,445
Total	<u>-</u>	<u>9,010,824</u>	<u>-</u>	<u>9,010,824</u>
Total assets measured at fair value	<u>\$17,160,100</u>	<u>\$ 9,010,824</u>	<u>\$ -</u>	<u>\$26,170,924</u>

There were no transfers between the various levels during the year.

The following table presents the Company's financial assets measured at fair value at December 31, 2016 by the level in the fair value hierarchy into which the fair value measurement is categorized.

2016	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss:				
Equity securities	\$13,094,949	\$ -	\$ -	\$13,094,949
Total	<u>13,094,949</u>	<u>-</u>	<u>-</u>	<u>13,094,949</u>
Available-for-sale financial assets:				
Mutual fund	-	5,286,716	-	5,286,716
Preference shares	-	2,080,500	-	2,080,500
Fixed income debt securities	-	5,233,874	-	5,233,874
Total	<u>-</u>	<u>12,601,090</u>	<u>-</u>	<u>12,601,090</u>
Total assets measured at fair value	<u>\$13,094,949</u>	<u>\$ 12,601,090</u>	<u>\$ -</u>	<u>\$25,696,039</u>

There were no transfers between the various levels during 2016.

8. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable, which is shown net of provision for bad debts, is comprised of amounts receivable from insurance agents that have signed agency agreements with the Company.

	2017	2016
Trade accounts receivable	\$10,827,249	\$13,735,430
Provision for bad debts:		
Balance at January 1	249,672	299,672
Bad debt written off during the year	(199,672)	-
Decrease in provision for the year	<u>(50,000)</u>	<u>(50,000)</u>
Balance at December 31	<u>-</u>	<u>249,672</u>
Trade accounts receivable, net	<u>\$10,827,249</u>	<u>\$13,485,758</u>

Ageing of trade accounts receivable, net is as follows:

	2017	2016
Less than 3 months	\$ 9,810,101	\$12,617,943
3-6 months	<u>1,017,148</u>	<u>867,815</u>
	<u>\$10,827,249</u>	<u>\$13,485,758</u>

9. DEFERRED/UNEARNED PREMIUMS AND COMMISSION COSTS

The movement in the deferred/unearned insurance assets and liabilities are as follows:

	<u>Insurance Assets</u>		<u>Insurance Liabilities</u>	
	<u>Deferred Reinsurance Premiums</u>	<u>Deferred Commission Costs</u>	<u>Unearned Premiums</u>	<u>Unearned Commission Income</u>
Balance at December 31, 2015	\$ 24,505,463	\$ 6,169,064	\$ (36,769,418)	\$ (6,160,450)
Portfolio transfer out	899,244	-	-	-
Movement during the year	<u>(9,021)</u>	<u>116,538</u>	<u>(193,434)</u>	<u>(330,074)</u>
Balance at December 31, 2016	25,395,686	6,285,602	(36,962,852)	(6,490,524)
Portfolio transfer out	(292,572)	-	-	-
Movement during the year	<u>(1,432,118)</u>	<u>70,119</u>	<u>1,260,807</u>	<u>167,109</u>
Balance at December 31, 2017	<u>\$ 23,670,996</u>	<u>\$ 6,355,721</u>	<u>\$ (35,702,045)</u>	<u>\$ (6,323,415)</u>

10. UNPAID CLAIMS AND CLAIMS INCURRED

	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
Unpaid claims at December 31, 2015	\$ 34,603,885	\$ (20,557,880)	\$ 14,046,005
Claims incurred	109,276,864	(91,786,665)	17,490,199
Claims paid	<u>(62,971,572)</u>	<u>47,011,662</u>	<u>(15,959,910)</u>
Unpaid claims at December 31, 2016	80,909,177	(65,332,883)	15,576,294
Claims incurred	17,402,809	(8,766,460)	8,636,349
Claims paid	<u>(58,151,212)</u>	<u>48,260,747</u>	<u>(9,890,465)</u>
Unpaid claims at December 31, 2017	<u>\$ 40,160,774</u>	<u>\$ (25,838,596)</u>	<u>\$ 14,322,178</u>

The table below shows the development of claims over a period of time on a gross basis. The table shows the cumulative incurred claims, including both notified and IBNR claims for each successive accident year.

	<u>Accident Years</u>					
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Gross claims incurred at end of reporting year	\$ 20,551,385	\$ 20,485,000	\$ 26,210,000	\$ 109,630,183	\$ 19,650,250	
One year later	25,247,112	19,731,876	25,383,189	103,764,574		
Two years later	24,564,659	20,457,546	23,466,145			
Three years later	24,574,161	18,502,121				
Four years later	23,591,177					
Total incurred to date	23,591,177	18,502,121	23,466,145	103,764,574	19,650,250	
Cumulative payments to date	<u>(21,375,438)</u>	<u>(15,823,804)</u>	<u>(20,770,749)</u>	<u>(95,455,310)</u>	<u>(12,189,201)</u>	
Liability included in statement of financial position	<u>\$ 2,215,739</u>	<u>\$ 2,678,317</u>	<u>\$ 2,695,396</u>	<u>\$ 8,309,264</u>	<u>\$ 7,461,049</u>	\$ 23,359,765
Reserves for prior years						<u>16,801,009</u>
Total unpaid claims including amounts recoverable from reinsurers in the statement of financial position						<u>\$ 40,160,774</u>

11. PROPERTY AND EQUIPMENT

The movement of property and equipment for the year is as follow:

		Leasehold Improvements, Furniture and Equipment	Total
2017	Land & Buildings		
COST/VALUATION:			
At January 1, 2017	\$ 10,634,153	\$ 316,789	\$ 10,950,942
Additions	-	16,890	16,890
At December 31, 2017	10,634,153	333,679	10,967,832
ACCUMULATED DEPRECIATION:			
At January 1, 2017	996,321	266,711	1,263,032
Charge for the year	248,662	12,425	261,087
At December 31, 2017	1,244,983	279,136	1,524,119
NET BOOK VALUE:			
At December 31, 2017	\$ 9,389,170	\$ 54,543	\$ 9,443,713
		Leasehold Improvements, Furniture and Equipment	Total
2016	Land & Buildings		
COST/VALUATION:			
At January 1, 2016	\$ 9,656,201	\$ 282,487	\$ 9,938,688
Revaluation of Land & Buildings (Note 15)	644,235	-	644,235
Additions	333,717	34,302	368,019
At December 31, 2016	10,634,153	316,789	10,950,942
ACCUMULATED DEPRECIATION:			
At January 1, 2016	747,657	254,480	1,002,137
Charge for the year	248,664	12,231	260,895
At December 31, 2016	996,321	266,711	1,263,032
NET BOOK VALUE:			
At December 31, 2016	\$ 9,637,832	\$ 50,078	\$ 9,687,910

In September 2016, the land and buildings were revalued to fair market value based on a valuation performed by an independent appraiser for financial statement purposes. The fair value of the land and buildings was based on the combined effect of the cost, income and sales comparison approach. There has been no change in the valuation technique during the year. The fair value measurement of the Company's land and building is categorized in Level 3 in the fair value hierarchy. There were no transfers between the various levels during the year.

The net book value of the land and buildings, ignoring effects of revaluations would have been \$2,493,750 and \$7,062,445 respectively.

12. INTANGIBLE ASSET

Intangible asset of \$2,692,559 as a result of the acquisition of an insurance portfolio is allocated to the Bahamas' General Insurance cash-generating unit. The Company performed its annual impairment test as at December 31, 2017. The recoverable amount of the cash-generating unit has been determined by the fair value less costs to sell calculation using an earnings approach based on a multiple of historical results. As the recoverable amount exceeded the carrying amount, management did not identify any impairment in the value of this asset.

	<u>Total</u>
Balance December 31, 2017	<u>\$ 2,692,559</u>
Balance December 31, 2016	<u>\$ 2,692,559</u>

13. SHARE CAPITAL

The authorized share capital is 10,000,000 shares (2016: 10,000,000) with a par value of \$1.00 each; while issued and fully paid is 7,500,000 shares (2016: 7,500,000).

Dividends are accounted for in the period in which they are declared by the Company's Board of Directors. During the year dividends of \$1.65 per common share (total dividends \$12,403,567) were declared and paid, by reducing BFG's receivables from related companies. During 2016, dividends of \$0.18 per common share (total dividends \$1,373,061) were declared and paid, by reducing BFG's receivables from related companies.

14. GENERAL RESERVE

The Company has established a general reserve from retained earnings in the amount of \$3,500,000 (2016: \$3,500,000), which the Board of Directors have determined is not available for distribution.

15. REVALUATION RESERVE

The movement in the revaluation reserve is as follows:

	<u>Land & Buildings</u>	<u>AFS Investments</u>	<u>Total</u>
Balance at December 31, 2015	\$ 1,501,125	\$ 242,888	\$ 1,744,013
Revaluation of Land and Buildings (Note 11)	644,235	-	644,235
Increase in fair value of AFS Investments	-	196,518	196,518
Other comprehensive income	644,235	196,518	840,753
Balance at December 31, 2016	2,145,360	439,406	2,584,766
Increase in fair value of AFS Investments	-	118,822	118,822
Other comprehensive income	-	118,822	118,822
Balance at December 31, 2017	<u>\$ 2,145,360</u>	<u>\$ 558,228</u>	<u>\$ 2,703,588</u>

In accordance with the Company's accounting policy, freehold land and buildings are subject to a revaluation exercise that is performed by an independent professional appraiser every three years. The freehold land and buildings were independently valued at September 13, 2016. The next appraisal is due in 2019.

16. OTHER INCOME

Other income is as follows:

	2017	2016
Investment income	\$ 1,208,577	\$ 1,339,860
Interest income	64,261	125,462
Rental income (Note 19)	319,445	319,025
Realized gains on sales of investments (Note 7)	723,187	182,282
Other income	7,783	333
	<u>\$ 2,323,253</u>	<u>\$ 1,966,962</u>

17. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a bonus payable to management and staff amounting to \$400,000 (2016: \$339,846). This bonus amount was approved by the Board of Directors.

18. PENSION PLAN

The majority of the Company's employees participate in a defined contribution pension plan into which the Company contributes 3% to 5% per annum of base salary. The Company paid contributions for the year amounting to \$81,449 (2016: \$72,165), which is included in salaries, benefits and bonuses in the statement of profit or loss.

19. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances and transactions are as follows:

	2017	2016
Gross premiums written for the year	<u>\$42,416,693</u>	<u>\$41,974,489</u>
Commission expense paid for the year	<u>\$ 8,531,959</u>	<u>\$ 7,573,099</u>
Management fees paid to Bahamas First Corporate Services Ltd.	<u>\$ 2,193,947</u>	<u>\$ 1,856,863</u>
Rental income received from NUA and FRL (Note 16)	<u>\$ 319,445</u>	<u>\$ 319,025</u>
Trade accounts (payable to) receivable from agents	<u>\$ 2,019,414</u>	<u>\$ 3,403,514</u>
Receivables from related companies	<u>\$14,423,002</u>	<u>\$21,387,251</u>

Receivables from related companies are interest free and unsecured with no fixed terms of repayment.

Key management personnel include members of the Company's management team having authority and responsibility for planning, directing and controlling the activities of the Company's operation. Compensation to key management personnel is included in salaries, benefits and bonuses in the statement of profit or loss as follows:

	2017	2016
Salaries and benefits	\$ 761,850	\$ 672,109
Post retirement benefits	<u>28,450</u>	<u>27,875</u>
	<u>\$ 790,300</u>	<u>\$ 699,984</u>
Receivables from key management personnel	<u>\$ -</u>	<u>\$ -</u>

Receivables from key management personnel are interest free and unsecured with no fixed terms of repayment and are included in sundry receivables and prepayments in the statement of financial position.

20. COMMITMENTS AND CONTINGENCIES

Commitments

The Company has commitments relating to a leased premise in Grand Bahama. The Company has leased office space with an expiration term and renewal term extending up to five years. The existing lease term expires in March 2017, and has been renewed for a further five years. Rent expense for the year ended December 31, 2017 totaled \$23,400 (2016: \$23,400).

Future lease payments under the operating lease are as follows:

2017	<1 year	1 - 5 years	Total
Operating lease agreement and rental payments	<u>\$ 23,400</u>	<u>\$ 117,000</u>	<u>\$ 140,400</u>
Total	<u>\$ 23,400</u>	<u>\$ 117,000</u>	<u>\$ 140,400</u>
2016	<1 year	1 - 5 years	Total
Operating lease agreement and rental payments	<u>\$ 23,400</u>	<u>\$ 117,000</u>	<u>\$ 140,400</u>
Total	<u>\$ 23,400</u>	<u>\$ 117,000</u>	<u>\$ 140,400</u>

Contingencies

In the course of its business, the Company is involved in various legal proceedings arising out of and incidental to its operations. Management of the Company does not anticipate that the losses, if any, incurred as a result of these legal proceedings will materially affect the financial position of the Company.

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