



Insurance Company
of The Bahamas

ANNUAL REPORT 2019

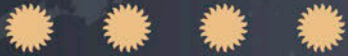




TABLE OF CONTENTS

CORPORATE INFORMATION	4
BOARD OF DIRECTORS	5
THE CHAIRMAN'S STATEMENT	6
MANAGERS AND STAFF	7
A PERSPECTIVE FROM THE GENERAL MANAGER	8
CORPORATE DONATIONS	9
INDEPENDENT AUDITORS' REPORT	10
STATEMENT OF FINANCIAL POSITION	12
STATEMENT OF COMPREHENSIVE INCOME	14
STATEMENT OF CHANGES IN EQUITY	15
STATEMENT OF CASH FLOWS	16
NOTES TO FINANCIAL STATEMENTS	18



CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

C.R. Bruce Fernie

EXECUTIVE COMMITTEE

CHAIRMAN

Alister I. McKellar, FCII

DIRECTORS

Tracy Knowles, ICAEW

Barrett H. McDonald, ACII

Thomas F. Hackett, CA

Marvin V. Bethell, MBE, FCII

Basil Christie, MBE

Terry L. Wilcox

GENERAL MANAGER

Tom Duff, ACII

SECRETARY

April N. Turner

HEAD OFFICE

33 Collins Avenue

P.O. Box N-8320

Nassau, Bahamas

REGISTERED OFFICE

McKinney Bancroft & Hughes

Mareva House

4 George Street

P.O. Box N-3937

Nassau, Bahamas

AUDITORS

Ernst & Young

One Montague Place

East Bay Street

P.O. Box N-3231

Nassau, Bahamas

PRINCIPAL AGENT

J.S. Johnson & Company Ltd.

34 Collins Avenue

P.O. Box N-8337

Nassau, Bahamas

BOARD OF DIRECTORS



C.R. Bruce Fernie
Chairman



Alister I. McKellar, FCII
Director



Thomas F. Hackett, CA
Director



Marvin V. Bethell, MBE, FCII
Director



Basil Christie, MBE
Director



Terry L. Wilcox
Director



Tracy Knowles, ICAEW
Director



Barrett H. McDonald, ACII
Director

THE CHAIRMAN'S STATEMENT



This year's cover picture captures a scene from Hurricane Dorian, a record-breaking monster of a storm that wreaked havoc over the islands of Abaco and Grand Bahama during the first two days of September 2019. The Hurricane, with sustained winds of 185 mph, gusts of up to 220 mph and sea surge of up to 23 feet brought an unimaginable toll of destruction and misery to the residents of these family islands and sadly resulted in a considerable loss of human life. The total economic loss from the storm is estimated to be in the region of \$3.4 billion. The insured loss is estimated to be in the range of \$1.5 billion - \$2 billion. Overall, this horrific backdrop sets the tone for a review of ICB's 2019 underwriting performance.

It is with some irony that I report that ICB was on track to deliver a considerably better than expected trading performance in 2019 until "Dorian" delivered its devastating blow. At gross level, the Company suffered a loss from the hurricane in the region of \$225 million. Thanks to our robust catastrophe reinsurance programme, however, we were able to absorb this event loss without suffering major erosion to our balance sheet. The fact that ICB was able to close the year with a small positive net income of \$125,421 (2018: \$1,728,751) was a testimony to the effectiveness of our reinsurance programme.

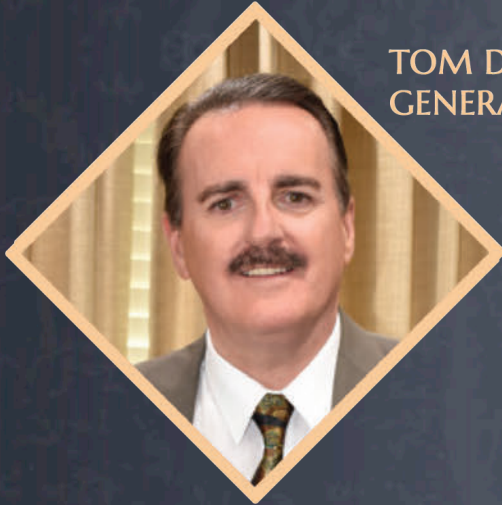
Although the loss from "Dorian" inevitably dominates any review of ICB's performance in 2019, it is encouraging to report that the Company achieved a healthy rate of growth in Gross Written Premium (GWP). Excluding premiums from fronting policies, GWP grew by a healthy 11% during the year. It is also pleasing to report that, if we exclude the losses from "Dorian", all the main classes of business would have made very satisfactory underwriting profits in 2019.

At the time of writing, the world economy has been thrown into chaos and confusion due to the global spread of the COVID-19 virus. In The Bahamas, the impact of this pandemic at personal, business and country level is likely to be huge. ICB, along with every other insurer, will have to revisit its financial budget and business plan in the context of an entirely new economic landscape. Once the immediate health crisis has been averted, government will face the enormous challenge of rebuilding the economy. For the next 18 months or so, Bahamian general insurers will likely be forced to operate in a severely depressed economic environment. Individuals and businesses may have to confront a new economic reality where disposable income is scarcer than at any time in the recent past. In this new context, the general insurance industry is going to have to work tirelessly to persuade customers of the importance of securing their assets through the purchase of insurance.

Although the road ahead will undoubtedly be challenging, I am confident that the professionalism and experience of the board, management and staff of both ICB and our agency partner, J.S. Johnson, will see us prevail. In closing, I would like to express our sincere condolences to the families and loved ones of those lost during Hurricane Dorian and the COVID-19 outbreak, and to wish everyone safe passage through these unprecedented times.

C.R. Bruce Fernie
Chairman

OUR MANAGERS AND STAFF



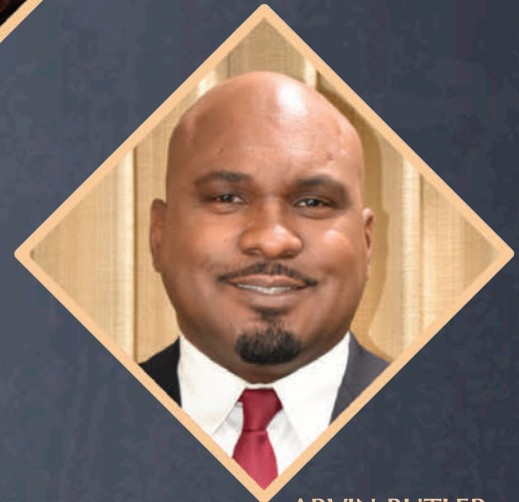
TOM DUFF, ACII
GENERAL MANAGER



KYJIA FERGUSON, CPA
FINANCIAL CONTROLLER



ANGELA RAHMING
ACCOUNTING/ADMIN. OFFICER



ARVIN BUTLER
STATISTICAL OFFICER



NICOL EDGECOMBE-CULMER
ACCOUNTING OFFICER

A PERSPECTIVE FROM THE GENERAL MANAGER



As we watched the distressing TV footage of Hurricane Dorian's relentless pounding of the islands of Abaco and Grand Bahama, it was evident to all of us that man is no match for the extremities of nature. "Dorian" was so powerful that the current highest category on the Saffir Simpson scale (category 5) seemed inadequate. Its 185 mph sustained winds were accompanied by a deadly sea surge making it the most destructive hurricane to strike The Bahamas since records began.

Whilst it will take residents of the affected islands some considerable time to recover from the trauma of this horrifying experience, those who chose to insure their property against hurricane damage will have the means to re-build their homes and businesses, and their lives. Once the storm had moved away from these shores and the level of destruction had become apparent, it was sad to learn that as many as 50% of homeowners in Abaco had no insurance against hurricane damage. As an industry we need to do better at convincing homeowners as to the benefits of protecting their property through insurance.

In total, it is estimated that Bahamas insurers will pay out somewhere in the region of \$1.5 - \$2.0 billion in gross claims from Hurricane Dorian, a new record for the Bahamas market. The previous record was set by Hurricane Matthew in 2016 with an estimated market loss in the range of \$500 to \$600 million. Thankfully, the industry is heavily protected by reinsurance placed overseas and insurers will be able to recover a large portion of the loss from our reinsurance partners across the world. As far as Insurance Company of The Bahamas (ICB or the Company) is concerned, the Company expects our final Hurricane Dorian pay out to be in the region of \$225 million before reinsurance. Our net loss from the event will be \$2,975,000 and this loss was incurred in full in our 2019 financial accounts.

The enormous scale of the loss from "Dorian" has caused insurers to reflect on how the industry can mitigate against future catastrophe event losses. It seems evident that climate change is playing a significant role in the creation of the "super storms" that have been spawning from the warmer than usual waters of the North Atlantic in recent years. Small low-lying island nations such as The Bahamas are particularly vulnerable to the threat caused by rising sea temperatures. The Bahamian insurance industry cannot simply rely on broad brush increases in policy rates and deductibles as its long-term loss mitigation strategy. Such a strategy will ultimately reduce the pool of customers willing and able to buy catastrophe insurance. In order to achieve any increased penetration in the Property class, insurers may need to consider becoming more creative in providing cover options for those customers who wish to buy at least some level of catastrophe protection. In the aftermath of "Dorian", however, insurers will be forced to focus more on construction standards, elevation and proximity to the sea when underwriting Property risks. In this regard, I am sure that my colleagues in the industry will share my desire to see government introduce a strengthening of the Bahamas building code as soon as other priorities allow.

Unfortunately, as I write, the world finds itself in the midst of a war against the COVID-19 virus. It is clear that the short to medium term loss of tourist income will have severe negative implications for The Bahamas economy. As such, like all businesses throughout the world, ICB will review its financial budget and plans in the wake of the pandemic. We will do so in close cooperation with our agents J.S. Johnson and we will be ably assisted by our reinsurance brokers, Aon in London, who we can trust to provide us with the best advice and service. Using our combined expertise, we will develop the strategies which will allow us to overcome the major challenges ahead and maintain ICB's position as one of the leading general insurers in The Bahamas.

Tom Duff
General Manager

DONATIONS

Through the year 2019, ICB has donated to over 50 individuals and organizations as a part of our corporate responsibility to assist the needs of our local civic, educational, religious, health and social welfare communities.

THE HOPE CENTRE



UNIVERSITY OF THE BAHAMAS



CHANCE FOUNDATION





Ernst & Young
One Montague Place
3rd Floor
East Bay Street
P.O. Box N-3231
Nassau, Bahamas

Tel: +242 502 6000
Fax: +242 502 6090
ey.com

Independent Auditors' Report

The Shareholders and Directors
Insurance Company of The Bahamas Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Insurance Company of The Bahamas Limited (the Company) which comprise the statement of financial position as at December 31, 2019, 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, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 the Audit Committee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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.



The Audit Committee is 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 management and the Audit Committee 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.

March 30, 2020

Insurance Company of The Bahamas Limited

Statement of Financial Position
(Expressed in Bahamian Dollars)

	December 31	
	2019	2018
ASSETS		
Cash and bank balances (Note 5)	\$ 14,148,842	\$ 5,940,954
Term deposits (Note 6)	6,875,210	5,784,642
Reinsurance recoverables (Note 4)	149,577,324	9,373,273
Due from agents (Note 7)	28,529,708	5,868,885
Deferred commission reserve (Note 7)	6,127,012	5,631,876
Prepaid reinsurance premiums (Note 12)	21,355,421	19,402,972
Prepayments and other receivables	29,912	162,070
Investments in securities:		
Fair value through profit or loss (Notes 7 and 8)	8,965,749	10,371,466
Amortized cost (Note 8)	11,810,813	11,242,588
Investment property (Note 9)	536,916	536,916
Property, plant and equipment (Note 10)	1,242,635	1,244,717
Total assets	\$ 249,199,542	\$ 75,560,359
LIABILITIES		
General insurance funds:		
Unearned premium reserve (Note 12)	\$ 25,298,812	\$ 22,897,180
Outstanding claims (Note 12)	146,289,255	10,101,411
	171,588,067	32,998,591
Other liabilities:		
Unearned commission reserve	5,725,488	5,243,608
Due to reinsurers (Notes 4, 7 and 14)	40,124,199	4,582,436
Accounts payable and accruals (Notes 7 and 16)	178,121	758,853
Total liabilities	\$ 217,615,875	\$ 43,583,488

See accompanying notes to financial statements.

Insurance Company of The Bahamas Limited

Statement of Financial Position (continued)
(Expressed in Bahamian Dollars)

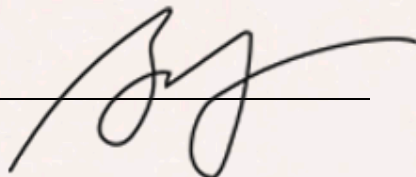
	December 31	
	2019	2018
EQUITY:		
Share capital		
Authorized, issued and fully paid:		
3,000,000 ordinary shares of \$1.00 each	\$ 3,000,000	\$ 3,000,000
General reserve (Note 13)	2,000,000	2,000,000
Retained earnings	26,583,667	26,976,871
Total equity	31,583,667	31,976,871
Total liabilities and equity	\$ 249,199,542	\$ 75,560,359

See accompanying notes to financial statements.

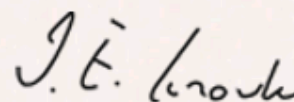
These financial statements were authorized for issue on behalf of the Board of Directors on March 30, 2020 by:

Approved by the Board:

Director



Director



Insurance Company of The Bahamas Limited

Statement of Comprehensive Income
(Expressed in Bahamian Dollars)

	Year Ended December 31	
	2019	2018
INCOME		
Gross written premiums (Note 7)	\$ 65,309,020	\$ 53,406,752
Premium tax	(1,523,808)	(1,371,771)
	63,785,212	52,034,981
Ceded to reinsurers	(56,036,088)	(44,912,369)
Net retained premiums	7,749,124	7,122,612
Change in unearned premium reserve (Note 12)	(449,183)	(136,601)
Net premiums earned	7,299,941	6,986,011
EXPENSES		
Net claims incurred (Notes 12 and 14)	4,785,760	1,506,917
Net commissions incurred (Notes 7 and 11)	156,027	297,775
Excess of loss reinsurance	2,882,378	3,025,991
	7,824,165	4,830,683
UNDERWRITING (LOSS)/PROFIT	(524,224)	2,155,328
OTHER INCOME		
Interest income (Notes 5, 6, and 8)	773,258	607,431
Dividend and other income (Note 7)	886,504	786,641
Change in net unrealized gains		
on investments in securities (Note 8)	295,046	(207,364)
Provision for Expected Credit Losses (Note 17)	(2,710)	(3,769)
Provision for Tax Assessment (Note 14)	-	(378,802)
	1,427,874	2,959,465
OPERATING EXPENSES		
Personnel expenses (Note 15)	(683,373)	(616,083)
Depreciation (Note 10)	(45,175)	(44,744)
General and administrative expenses (Note 7)	(573,905)	(569,887)
Total Operating Expenses	(1,302,453)	(1,230,714)
NET INCOME	125,421	\$ 1,728,751
TOTAL COMPREHENSIVE INCOME	\$ 125,421	\$ 1,728,751

See accompanying notes to financial statements.

Insurance Company of The Bahamas Limited

Statement of Changes in Equity
(Expressed in Bahamian Dollars)

Year Ended December 31, 2019 and 2018

	Share Capital	General Reserve	Retained Earnings	Total
Balance as at January 1, 2018	\$ 3,000,000	\$ 2,000,000	\$ 25,450,844	\$ 30,450,844
Total comprehensive income for the year:				
Net Income	-	-	1,728,751	1,728,751
Distributions to owners:				
Dividends (Notes 3 and 16)	-	-	(202,724)	(202,724)
Balance as at December 31, 2018	\$ 3,000,000	\$ 2,000,000	\$ 26,976,871	\$ 31,976,871
Total comprehensive income for the year:				
Net Income	-	-	125,421	125,421
Distributions to owners:				
Dividends (Notes 3 and 16)	-	-	(518,625)	(518,625)
Balance as at December 31, 2019	\$ 3,000,000	\$ 2,000,000	\$ 26,583,667	\$ 31,583,667

See accompanying notes to financial statements.

Insurance Company of The Bahamas Limited

Statement of Cash Flows
(Expressed in Bahamian Dollars)

	Year Ended December 31	
	2019	2018
Cash flows from operating activities		
Net income	\$ 125,421	\$ 1,728,751
Adjustments for:		
Unearned premium reserve change (Note 12)	449,183	136,601
Interest income (Notes 5, 6 and 8)	(773,258)	(607,431)
Dividend income and other income	(501,861)	(453,499)
Change in net unrealized gain on investments in securities	(295,046)	207,364
Depreciation (Note 10)	45,175	44,744
Provision for Tax Assessment (Note 14)	-	378,802
Impairment Loss (Note 17)	2,710	3,769
Operating (loss)/income before changes in operating assets and liabilities	(947,676)	1,439,101
(Increase) decrease in assets:		
Reinsurance recoverables	(140,204,051)	6,125,908
Due from agent	(22,660,822)	5,886,550
Deferred commission reserve	(495,136)	(237,508)
Prepaid reinsurance premiums	(1,952,449)	(981,876)
Prepayments and other receivables	132,158	1,281,575
Increase (decrease) in liabilities:		
Unearned premium reserve	1,952,450	981,874
Outstanding claims	136,187,844	(10,649,612)
Unearned commission reserve	481,880	259,118
Due to reinsurers	35,541,763	(2,621,900)
Accounts payable and accruals	(580,732)	(12,188)
Net cash provided by operating activities	\$ 7,455,229	\$ 1,471,042

See accompanying notes to financial statements.

Insurance Company of The Bahamas Limited

Statement of Cash Flows (continued)
(Expressed in Bahamian Dollars)

	Year Ended December 31	
	2019	2018
Investing activities		
Net placement of term deposits	\$ (1,070,601)	\$ (1,145,595)
Proceeds from sale of property, plant and equipment (Note 10)	22,000	-
Purchase of property, plant and equipment (Note 10)	(43,093)	(55,282)
Purchase of investments in securities	1,046,058	(1,408,748)
Proceeds from principal repayments	107,097	129,957
Interest received	729,963	728,629
Dividends received	479,860	453,499
Net cash provided/(used in) by investing activities	1,271,284	(1,297,540)
Financing activities		
Dividends paid	(518,625)	(202,724)
Net cash used in financing activities	(518,625)	(202,724)
Net increase/(decrease) in cash and cash equivalents	8,207,888	(29,222)
Cash and cash equivalents at beginning of year	5,940,954	5,970,176
Cash and cash equivalents at end of year	\$ 14,148,842	\$ 5,940,954
Supplemental information		
Premium tax paid	\$ 1,510,978	\$ 1,419,108

See accompanying notes to financial statements.

Insurance Company of The Bahamas Limited

Notes to Financial Statements

(Expressed in Bahamian Dollars)

December 31, 2019

1. Incorporation and Principal Activity

Insurance Company of The Bahamas Limited ("the Company") is incorporated under the Companies Act, 1992 of The Commonwealth of The Bahamas and is licensed to operate as a property and casualty insurance company in The Bahamas under the Insurance Act, 2005, as amended, and Turks & Caicos Islands, B.W.I. under the Insurance Ordinance, 1989, amended December 2014. The parent of the Company is J.S. Johnson & Company Limited ("J.S. Johnson") which holds 40% of the Company's issued shares. J.S. Johnson and its subsidiaries carry on business as agents and brokers in general insurance in The Bahamas and the Turks & Caicos Islands.

The registered office of the Company is situated at the offices of Messrs. McKinney, Bancroft & Hughes, Mareva House, 4 George Street, Nassau, The Bahamas. The Company's principal place of business is located at 33 Collins Avenue, Nassau, The Bahamas.

2. Basis of Preparation**(a) 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").

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for financial assets and financial liabilities that have been measured at fair value.

The methods used to measure fair value are discussed further in the significant accounting policies below.

(c) Functional and Presentation Currency

These financial statements are presented in Bahamian dollars, which is the Company's functional and reporting currency.

(d) Use of Estimates and Judgements

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which they are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Notes 3(a), 3(d), 3(e), 3(f), 3(g), 8, 9, 10, 12 and 17.

3. Summary of Significant Accounting Policies

The principal accounting policies set out below have been applied consistently by the Company and are consistent with those used in the previous year with the exception of Notes 3(f) and 3(g) due to change in accounting policy.

(a) Insurance Contracts

(i) *Classification, Recognition, and Measurement*

The Company issues contracts that transfer insurance risk and/or financial risk or both. The Company considers an insurance risk to be significant where the sum insured or limit of indemnity exceeds \$250,000. The classification of contracts identifies both the insurance and reinsurance contracts entered into by the Company.

Short term insurance contracts consist of Property, Casualty, Motor, and Marine insurance contracts.

Property insurance contracts, both personal and commercial, provide compensation for loss, or damage to property. Business Interruption coverage provides compensation for loss of earnings following physical damage to the insured premises.

Casualty/liability insurance contracts protect the insured against the risk of causing financial loss or injury to third parties following some act of negligence. Liability insurance contracts include both contractual and non-contractual protection. Two of the most common protections offered are "Employer's Liability", designed to indemnify employers who become legally liable to pay compensation to injured employees and "Public Liability", designed to indemnify individuals and businesses that become legally liable to pay compensation to third parties.

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 insurance contracts 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.

Premiums generated from insurance and inward reinsurance contracts are recognized as revenue (gross written premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as unearned premium reserve, calculated using net retained premiums. Gross written premiums are shown before deduction of premium tax, premiums ceded to reinsurers, and commissions. Premiums received prior to the year end and processed after the year end by the agents are recognized at the time of processing.

Claims and loss adjustment expenses are charged to income as incurred based on the known or estimated liability for compensation owed to policyholders or third parties. They include direct or indirect claims settlement costs and arise from events that have occurred up to the reporting date regardless of whether or not they have been reported. Gross outstanding claims comprise the estimated cost of all claims incurred but not settled as of the reporting date whether reported or not. The Company does not discount its liabilities for outstanding claims. Liabilities for outstanding claims are estimated using: (a) the judgement of the agency's claims manager for routine claims, (b) external legal opinion in connection with more complex claims, and (c) statistical analyses for claims incurred but not reported.

(ii) *Liability Adequacy Test*

At each reporting date, liability adequacy tests are performed by both the Company and an external actuary, to ensure the adequacy of the contract liabilities. Tests include reviewing original estimates of ultimate claims cost for each accident year against the current year-end estimates. These tests are carried out at the portfolio level for the classes of property, motor, casualty and marine business. Should any trend in reserve deficiency, at total portfolio level, become apparent, then the deficiency would immediately be charged to income by establishing a provision for losses arising from liability adequacy tests.

3. Summary of Significant Accounting Policies (continued)

(a) Insurance Contracts (continued)

(iii) *Reinsurance Contracts Held and Assumed*

The Company cedes (or assumes) reinsurance under a variety of formal treaty arrangements, with retention limits varying by the line of business. Under these treaties, which are classified as reinsurance contracts held (or assumed), the Company is compensated (or compensates) in respect of one or more losses under contracts that meet the classification requirements for insurance contracts.

Contracts that do not meet these classification requirements are classified as financial assets (or financial liabilities).

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets are classified as reinsurance recoverables and comprise:

- a) recoverables due from reinsurers in respect of claims paid, and
- b) the reinsured portion of the reserves for outstanding claims allocated in accordance with the treaty arrangements for the class of business in question.

Amounts paid to the reinsurers relating to the unexpired portion of reinsured contracts are classified as prepaid reinsurance premiums.

Reinsurance liabilities are classified as due to reinsurers and are primarily premiums payable under treaty reinsurance contracts after deduction of reinsurance recoverables on proportional contracts. Premiums to be ceded are recognized as an expense from the date the gross premiums are written and over the term of the reinsurance contract in the statement of comprehensive income.

Amounts shown as reinsurance recoverables, prepaid reinsurance premiums or due to reinsurers are measured consistently with the amounts associated with reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Company assesses its reinsurance assets for any indication of 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 comprehensive income.

(iv) *Portfolio Transfer*

At the anniversary date of the reinsurance agreements and at the Company's option, proportional reinsurers agree to assume the unexpired liability of all risks in force at such anniversary date. The unexpired liability is computed in accordance with the method outlined in the reinsurance agreement and accounted for when determined in the statement of comprehensive income.

(v) *Receivables and Payables Related to Insurance Contracts*

Receivables and payables are recognized when the contractual right to receive payment and contractual obligation to make payment arise, respectively. These include amounts due to and from agents and reinsurers and are assessed for impairment and doubtful accounts. As at December 31, 2019 and 2018, no provision was made for impairment or doubtful accounts in relation to insurance contracts.

(vi) *Fronting Arrangements*

Gross Written Premium includes the risk premium from fronting arrangements whereby the company reinsures one hundred percent of an individual risk to an insurer not licensed to transact business in The Bahamas. The reinsured amounts are included within the amount shown as "Ceded to reinsurers". For 2019, the total risk premium pertaining to such arrangements amounts to \$14,015,462 (2018: \$7,208,325).

(b) **Income and Expense Recognition**

Premiums are recognized as revenue over the periods covered by the related policies after allowing for premiums ceded.

3. Summary of Significant Accounting Policies (continued)

(b) Income and Expense Recognition (continued)

Commission expense is incurred on gross written premiums and commission income is received on premiums ceded, and these are recognized over the periods covered by the related policies.

Other revenues and expenses of the Company are recognized as follows:

- i. Dividend income – recognized when the Company's right to receive payment has been established.
- ii. Loyalty commission income and profit commission expense – recognized when the Company has right to receive, or obligation to make payment has been established.
- iii. Treaty profit commission income – recognized in the year in which it is paid by reinsurers.
- iv. Fronting fees – recognized when premiums are billed to customers as the Company has no further service obligations associated with these fees.

(c) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate prevailing at that date. Transactions in foreign currencies are translated to the functional currency at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and liabilities at year-end exchange rates are recognized in net income or loss in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rates ruling at the dates that the values were determined. All foreign currency exchange differences relating to monetary items, including cash and bank balances, are recognized in the statement of comprehensive income.

(d) Investment Property

The Company classifies property held for capital appreciation as investment property. Investment property is carried at cost and measured in accordance with IAS 40 Property, Plant, and Equipment, and is stated at historical cost less accumulated depreciation and impairment losses. No depreciation is taken on land. The carrying value of investment property is assessed annually for any impairment losses.

The Company performs annual impairment assessments based on fair value less cost to sell. The fair value of investment property is determined by third-party professional appraisals, which are performed every three to five years.

The fair value of the investment property is based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(e) Property, Plant, and Equipment

Property, plant, and equipment, except for land, are stated at historical cost less accumulated depreciation and impairment losses. Land is stated at cost and not subject to depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant, and equipment. The cost of replacing part of an item of property, plant, and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income or loss in the statement of comprehensive income as incurred.

3. Summary of Significant Accounting Policies (continued)

(e) Property, Plant, and Equipment (continued)

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of the assets, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives and depreciation rates for the current and corresponding period are as follows:

	Useful Lives Years	Depreciation Rates
Buildings	50	2%
Office furniture and equipment	6.67	15%
Computer equipment	5	20%
Motor vehicles	4	25%

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in other income on 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.

(f) Financial Instruments

A financial instrument is recognized when the Company becomes a party to the contractual provisions that give rise to a financial asset for one entity and the financial liability for another entity. Regular way purchases and sales of financial instruments are accounted for at trade date, that is, the date the Company commits itself to purchase or sell the asset. Financial instruments comprise investments in equity and debt securities, term deposits, loans and receivables, cash and bank balances and accounts payable and accruals.

Financial assets are initially measured at fair value. For assets not measured at fair value through profit or loss, any directly attributable transaction costs are added to the carrying value. Financial assets are subsequently measured into the below categories:

- Amortized cost
- Fair value through profit or loss
- Fair value through other comprehensive income

Each measurement category is determined by the business model for managing the asset and the asset's contractual terms. The assessment of the business model for financial instruments are performed at aggregate level groupings. The business model test aligns each instrument to the Company's business and operational objectives surrounding liquidity, risks and overall performance objectives. The assessment of the contractual cashflows are considered on an instrument by instrument basis and considers the timing and value of solely payments of principal and interest on the outstanding principal amount.

(i) Investments at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

3. Summary of Significant Accounting Policies (continued)

(f) Financial Instruments (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income. Financial assets classified as fair value through profit or loss include investments in common shares, preference shares and mutual funds.

(ii) Investments at Amortized Cost

The Company measures financial assets at amortized cost if it is both held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets classified as investments at amortized cost include all notes and bonds, loans and other receivables and term deposits.

(iii) Cash and Bank Balances

Cash and bank balances comprise cash and deposits held with financial institutions with original maturities of less than three months. Bank overdrafts and margin loans, if any, that are repayable on demand and form an integral part of the Company's cash management, are included as a component of cash and bank balances for the purpose of the statement of cash flows.

(iv) Financial Liabilities

Financial liabilities are initially classified at amortized cost using the effective interest method with specific exceptions. Financial liabilities may be subsequently measured at fair value through profit or loss by irrevocable option when permitted under the standard or when doing so results in more relevant information because it eliminates or reduces measurement or recognition inconsistency or if the financial liabilities performance is evaluated on a fair value basis.

The Company's financial liabilities are comprised of the accounts payable and accruals which are measured at amortized cost.

Financial liabilities arising from insurance contracts are measured at amortized cost.

(v) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(vi) Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either; in the principal or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible by the Company.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Any equity security that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses, if any. If a reliable measure of fair value becomes available subsequently, the instrument is measured at fair value.

3. Summary of Significant Accounting Policies (continued)

(f) Financial Instruments (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received). If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – quoted market price (unadjusted) in an active market for an identical instrument.

Level 2 – valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted market prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(g) Impairment

(i) Financial Assets

The Company recognizes a loss allowance for all debt securities measured at amortized cost or fair value through other comprehensive income using an expected credit loss model. The expected credit loss model uses forward looking information that is reasonable and supportable and does not depend solely on historical information. Expected credit losses (ECL) are the difference between the cashflows due in accordance with a contract and the cashflows that are expected to be received discounted using the effective interest rate. The expected credit loss model may assess financial assets on an individual basis or aggregated into groups with similar credit risk characteristics.

There are several approaches recommended for the calculations within the expected credit loss model including the below:

- General Approach

Under the general approach expected credit losses are categorized into one of three stages. Under stage 1 of the general approach, each financial asset or financial asset grouping will be measured for expected credit losses that result from default events that are possible within the 12 months subsequent to the current fiscal period (12-month ECL). Under stage 2 and 3 of the general approach, the financial asset or financial asset group must recognize an expected credit loss allowance for possible default events that may take place over the remaining life of the instrument (lifetime ECL). The categorization of an individual asset or asset group into stage 1, stage 2 or stage 3 is determined by whether there was a significant increase in credit risk since the initial recognition to the reporting date, with the exception of an asset that is categorized as low credit risk. The stage 1 ECL classification is used for low credit risk assets or assets that have shown significant improvement in credit quality and is reclassified from stage 2 or has had no significant change in credit risk since initial recognition. The stage 2 ECL classification is used for assets for which there has been a significant decrease in credit quality since initial recognition, or stage 3 assets that have shown significant improvement in credit quality. The stage 3 ECL is reserved for assets considered to be credit impaired.

3. Summary of Significant Accounting Policies (continued)

(g) Impairment (continued)

The Company considers an instrument to be in default when contractual payments are 90 days past due or when information obtained indicates that the debtor is unlikely to pay outstanding contractual amounts in full.

- Simplified Approach

The simplified approach is applied to trade receivables and contract assets under the scope of IFRS 15 and lease receivables under the scope of IFRS 16. The approach enforces a lifetime expected credit loss calculation if elected and allows the use of a provision matrix. The provision matrix makes use of historical default patterns adjusted for forward looking factors and the current economic environment. The simplified approach does not require an entity to track the changes in credit risk, but, instead, requires the entity to recognize a loss allowance based on lifetime ECLs at each reporting date. This approach is not used as the Company does not have qualifying assets.

- Purchased or Originated Credit-Impaired Assets Approach

This approach is reserved for financial assets with high credit risk at initial recognition and at initial recognition a lifetime credit loss must be recognized. At the reporting date, cumulative changes in the lifetime expected credit loss since initial recognition are to be recognized.

This approach is not used as the Company does not have qualifying assets.

- Calculation of Expected Credit Losses

The approach elected by the Company is the general approach and all eligible assets have been assessed on an instrument by instrument basis. The calculation method selected by the Company is the probability of default method. The expected credit loss calculation considers several possible outcomes upon default and within certain outcomes a recovery rate is incorporated. Under this method factors including the probability of default (PD), the exposure at default (EAD), the loss given default (LGD) and the effective interest rate (EIR) are determined.

- The Probability of Default is an estimate of the likelihood of default over a given time horizon. It is estimated with consideration of economic scenarios and forward-looking information.
- The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and accrued interest from missed payments.
- The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive. It is usually expressed as a percentage of the EAD.

For each eligible asset, supportable and relevant information that includes both historical and forward looking was evaluated to determine the credit risk at initial recognition and at the reporting date. Qualitative and quantitative information assessed included, debtor background, external and internal credit ratings, payment history, financial report releases and general macroeconomic conditions. The asset is then allocated into one of three stages where either the 12-month ECL or the lifetime-ECL calculation is selected. All expected credit losses calculated are then discounted using the effective interest rate.

(ii) Non-Financial Assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in income or loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 or amortization, if no impairment loss had been recognized.

3. Summary of Significant Accounting Policies (continued)

(h) Taxation

(i) Premium Tax

Premium tax is incurred at a rate of 3.00% of gross written premiums in The Commonwealth of The Bahamas and 2.50% of gross written premiums in the Turks & Caicos Islands, BWI. Premium tax is recognized when the Company's obligation to make payment has been established.

(ii) Value Added Tax

Value Added Tax ("VAT") is a consumption tax that is charged on most goods and services provided in The Bahamas from a registered business. Registration is required for all businesses that exceed \$100,000 in taxable activity for the past 12 months. The Company is a VAT registrant and is required to collect, file and remit VAT payments from all taxable activity within the prescribed due dates. The VAT charged on goods and services is either the standard rate of twelve percent (12%) or zero percent (0%). These do not include goods and services that are deemed exempt.

(i) Employee Benefits

The Company has a defined contribution pension plan for eligible employees whereby the Company pays contributions to a privately administered pension plan. The Company has no further payment obligations once the contributions have been paid. The plan requires participants to contribute 5.00% of their eligible earnings and such amounts are matched by the Company. The Company's contributions to the defined contribution pension plan are charged to income or loss in the year to which they relate.

(j) Related Parties

In accordance with IAS 24 Related party disclosures, all related entities, shareholders, directors, and key management personnel who have authority and responsibility for planning, directing, control, joint control and significant influence over the activities of the Company directly or indirectly through control or significant influence over the aforementioned parties are classified as related parties. See Note 7 for balance and transaction amounts.

(k) Dividends

Dividends proposed or declared after the reporting date are not recognized at the reporting date.

(l) New Standards, Interpretations, and Amendments to Published Standards Relevant to the Company that are Not Yet Effective

The standards and interpretations 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. The Company is currently assessing the impact of the new and revised standards.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

3. Summary of Significant Accounting Policies (continued)

(I) New Standards, Interpretations, and Amendments to Published Standards Relevant to the Company that are Not Yet Effective (continued)

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Company's consolidated financial statements.

4. Underwriting Policies and Reinsurance Agreements

The Company follows the policy of underwriting and reinsuring all contracts of insurance, which limit the retained liability of the Company. The reinsurance of contracts does not, however, relieve the Company of its primary obligation to the policyholders. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, the Company would also be liable for the reinsured amount. The Company's credit risk management procedures are detailed in Note 17.

Aon Limited, whose registered office is in London, England, a related party, is the Company's reinsurance broker and acts as the intermediary between the Company and the reinsurers. Reinsurance contracts between the Company and its reinsurers are renewable annually in accordance with the terms of the individual contracts.

	2019	2018
Recoverables under excess of loss reinsurance for claims paid and outstanding	\$ 15,812,425	\$ 829,116
Recoverables under proportional contracts for outstanding claims (Note 12)	133,764,899	8,544,157
	\$ 149,577,324	\$ 9,373,273

Amounts due to reinsurers of \$40,124,199 (2018 – \$4,582,436) represents advanced funding payments from reinsurers received by the Company in relation Hurricane Dorian settlements; in addition to any funding premiums to be ceded to the reinsurers, less reinsurance recoverables on proportional contracts.

5. Cash and Bank Balances

The Company earned no interest per annum on operating accounts denominated in Bahamian dollars. Interest earned on demand deposits amounted to \$-0 (2018-\$0).

6. Term Deposits

Term deposits with banks include accrued interest totaling \$58,420 (2018 – \$38,540). The term deposits are held for more than three months from the date of acquisition and have the following maturities and interest rates.

	Interest Rates – 2019	2019	Interest Rates – 2018	2018
3 months to one year	1.07%-2.00%	\$ 3,848,843	1.75%-2.00%	\$ 4,259,158
Over one to five years	2.00%-2.25%	3,028,733	1.75%-2.25%	1,527,938
Loss Allowance for Term Deposits		(2,366)		(2,454)
		\$ 6,875,210		\$ 5,784,642

To meet its requirement under the Insurance Act 2005 in The Bahamas, as outlined in Note 18 under capital management, the Company renewed its term deposit of \$1,251,267 (2018 – \$1,229,747) with a maturity date of December 21, 2020, and it is held with a recognized financial institution in The Bahamas.

The Company is also required under the Insurance Regulations in Turks and Caicos to meet certain capital requirements as outlined in Note 18, and as such holds a restricted deposit of \$527,888 (2018 – \$518,809), with a maturity date of December 7, 2020, with a recognized financial institution in Turks and Caicos.

7. Related Parties Balances and Transactions

J.S. Johnson, the Company's parent, serves as its sole agent (referred to as agents) in accordance with the Agency Agreement entered on January 1, 2000. The remaining shareholders of the Company represent certain shareholders and key management personnel of J.S. Johnson. The Company and J.S. Johnson also have certain directors in common. Aon UK Holdings Intermediaries Ltd. (formerly Bain Hogg Management Ltd.), a company incorporated in the United Kingdom, and a subsidiary of Aon Limited ("Aon"), is the principal shareholder of J.S. Johnson. Aon, through its subsidiaries, serves as the Company's reinsurance broker. Amounts due from agents are interest free and are settled over a 65-day period. Included in this balance is a \$500,000 reserve held for the purpose of settling claims.

7. Related Parties Balances and Transactions (continued)

The financial statements include the following balances and transactions with related parties:

Balances	2019	2018
<u><i>Parent Company</i></u>		
Due from agents	\$ 28,529,708	\$ 5,868,885
Deferred commission reserve	6,127,012	5,631,876
Investments in securities – fair value through profit or loss (Note 8)	420,000	390,300
<u><i>Related Entity</i></u>		
Due to reinsurers	(40,124,199)	(4,582,436)
<u><i>Directors</i></u>		
Directors fees payable	(23,000)	(20,000)
Transactions		
<u><i>Parent Company</i></u>		
Gross written premiums	65,309,020	53,406,752
Dividend income	18,600	18,000
Commission expense (Note 11)	(11,671,658)	(10,851,401)
Profit and loyalty commission	(584,469)	(102,067)
Management fees	(60,000)	(60,000)
Dividend paid	(207,450)	(81,090)
Advertisement expenses	(10,000)	(10,000)
<u><i>Other Shareholders</i></u>		
Dividend paid	(311,175)	(121,634)
<u><i>Directors</i></u>		
Directors fees	(103,000)	(95,500)

8. Investments in Securities

(i) Securities at Fair Value Through Profit or Loss

Securities at fair value through profit or loss principally comprise marketable equity securities. Movements during the year were as follows:

	2019	2018
As of beginning of year	\$ 10,371,466	\$4,823,631
Disposals	(1,700,762)	-
Impact of Adopting new accounting standards	-	5,755,199
Change in net unrealized gains during the year	295,046	(207,364)
As of end of year	\$ 8,965,749	\$10,371,466

As of December 31, 2019, the cost of securities fair valued through profit or loss was \$6,207,644 (2018 – \$7,809,407). The Company holds 30,000 (2018 – 30,000) shares of J.S. Johnson valued at \$420,000 (2018 – \$390,300) (Note 7) at a cost of \$211,500 (2018 – \$211,500).

(ii) Investments at Amortized Cost

Investments at Amortized cost consist of the following:

	Interest Rates	Maturity	Amortized Cost 2019	Interest Rates	Maturity	Amortized Cost 2018
Bahamas Electricity Corporation Bond	6.40%	2021	500,792	6.40%	2021	500,792
Bahamas Government Registered Stock	4.39% - 4.88%	2020-2049	6,513,853	4.39% - 4.88%	2019-2037	5,822,384
Bahamas Government Stock Tranche 1	6.25%	2044	501,370	6.25%	2044	501,370
Bahamas Government Stock Tranche 2	4.50%	2022	1,021,674	4.50%	2022	1,021,674
Clifton Heritage Authority	5.50%	2035	282,980	5.50%	2035	282,980
College of The Bahamas	7.00%	2026	250,000	7.00%	2026	285,769
Nassau Airport Dev. Co. Senior Notes	8.50%	2031	375,000	8.50%	2031	406,250
Nassau Airport Dev. Co. Senior Notes	7.50%	2035	1,503,750	7.50%	2035	1,503,750
The Bridge Authority Bond	6.25%	2024	130,078	6.25%	2024	130,078
Public Hospital Authority Ser A	6.00%	2033	747,984	6.00%	2033	801,412
Loss Allowance			(16,669)			(13,871)
			\$11,810,813			\$11,242,588

Included in investments at amortized cost is accrued interest totaling \$145,499 (2018 – \$122,084). As of December 31, 2019, the interest income for the investments at amortized cost was \$ 640,279 (2018 - \$521,837).

In accordance with the Note Purchase Agreement dated March 20, 2009, for Nassau Airport Development Company – Senior Secured Note, the issuer has exercised its rights under the Agreement to prepay the principal in a number of installments until the maturity date in 2031. During 2019, the Company received \$31,250 (2018 – \$18,750) towards the principal of the Secured Note.

In accordance with the Note Purchase Agreement dated June 24, 2011, for The College of The Bahamas, the issuer has exercised its rights under the Agreement to prepay the principal in a number of installments until the maturity date in 2026. During 2019, the Company received \$35,714 (2018 – \$35,714) towards the principal of the Secured Note.

8. Investments in Securities (continued)

(ii) *Investments at Amortized Cost (continued)*

In accordance with the Note Purchase Agreement dated November 13, 2013, for Public Hospital Authority, the issuer has exercised its rights under the Agreement to prepay the principal in a number of installments until the maturity date in 2033. During 2019, the Company received \$52,632 (2018 – \$52,632) towards the principal of the Secured Note. Included in prepayments and other receivables is \$5,180 (2018 – \$11,737) relating to dividends receivable at December 31, 2019.

(iii) *Fair Value Hierarchy*

Securities at fair value through profit or loss and available for sale securities are categorized as Level 2 as at December 31, 2019 and 2018. There has been no transfer of financial instruments between Level 1 and Level 2 during each of the years ended December 31, 2019 and 2018.

Fair Value of Financial Instruments:

The Company's financial instruments are either measured at fair value as of the reporting date or are carried at values that approximate fair value. Except for balances due from agents, fair value estimates are made at a specific point in time, based on market conditions, and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision.

Except as stated elsewhere in the Notes, the carrying amounts of the Company's financial assets and liabilities approximate their fair values due to one or both of the following reasons:

- immediate or short-term maturity;
- carrying amount approximates or equals market value.

Because of the interest-free nature and uncertainty surrounding the timing of the settlement of outstanding claims, management is unable to estimate the fair value of these financial instruments.

9. Investment Property

As at December 31, 2019, the Company's investment property is comprised of one parcel of land, with a carrying value of \$536,916 (2018 – \$536,916).

Investment property is assessed annually for any indication of impairment, one of the factors being considered is the estimated fair value. The Company has a policy in place to perform appraisals every three to five years for the purpose of facilitating impairment assessment only as the Company uses the cost method.

10. Property, Plant and Equipment

The Company recognized a \$22,000.00 gain on disposal of motor vehicles.

	Land	Building	Furniture & Equipment	Computer Equipment	Motor Vehicles	Total
Cost						
Balance as of January 1, 2019	\$ 467,704	\$ 953,379	\$ 218,713	\$ 155,985	\$ 46,795	\$ 1,842,576
Additions	-	-	4,705	-	38,388	43,093
Disposals	-	-	-	-	46,795	(46,795)
Balance as of December 31, 2019	\$ 467,704	\$ 953,379	\$ 223,418	\$ 155,985	\$ 38,388	\$ 1,838,874
Accumulated depreciation Balance as of January 1, 2019	\$	\$ 213,656	\$ 197,581	\$ 139,827	\$ 46,795	\$ 597,859
Disposals	-	-	-	-	(46,795)	(46,795)
Depreciation charge		27,116	6,978	5,483	5,598	45,175
Balance as of December 31, 2019	\$ -	\$ 240,772	\$ 204,559	\$ 145,310	\$ 5,598	\$ 596,239
Net carrying value as of:						
December 31, 2019	\$ 467,704	\$ 712,607	\$ 18,859	\$ 10,675	\$ 32,790	\$ 1,242,635
December 31, 2018	\$ 467,704	\$ 739,723	\$ 21,132	\$ 16,158	\$ -	\$ 1,244,717

	Land	Building	Furniture & Equipment	Computer Equipment	Motor Vehicles	Total
Cost						
Balance as of January 1, 2018	\$ 467,704	\$ 911,963	\$ 214,153	\$ 146,679	\$ 46,795	\$ 1,787,294
Additions	-	41,416	4,560	9,306	-	55,282
Balance as of December 31, 2018	\$ 467,704	\$ 953,379	\$ 218,713	\$ 155,985	\$ 46,795	\$ 1,842,576
Accumulated depreciation Balance as of January 1, 2018	\$	\$ 189,493	\$ 190,797	\$ 135,778	\$ 37,047	\$ 553,115
Depreciation charge		24,163	6,784	4,049	9,748	44,744
Balance as of December 31, 2018	\$ -	\$ 213,656	\$ 197,581	\$ 139,827	\$ 46,795	\$ 597,859
Net carrying value as of:						
December 31, 2018	\$ 467,704	\$ 739,723	\$ 21,132	\$ 16,158	\$ -	\$ 1,244,717
December 31, 2017	\$ 467,704	\$ 722,470	\$ 23,356	\$ 10,901	\$ 9,748	\$ 1,234,179

11. Net Commissions Incurred

	2019	2018
Commission earned from reinsurers	\$ (12,100,100)	\$ (10,655,694)
Commission expenses allocated to J.S. Johnson	12,256,127	10,953,468
	\$ 156,027	\$ 297,775

12. Outstanding Claims and Net Claims Incurred and Unearned Premiums

Included in the statement of comprehensive income is net claims incurred as follows:

	2019	2018
Claims incurred	\$ 234,163,385	\$ 11,476,279
Less: recoverable from insurers	229,377,625	(9,969,362)
	\$ 4,785,760	\$ 1,506,917

Assumptions, Change in Assumptions and Sensitivity*(i) Process Used to Decide on Assumptions*

The reserving process commences at the moment an insured reports a claim and there is prima facie evidence that the Company is liable under the policy. An initial reserve is established at that point based on the best information available. Assuming liability is subsequently confirmed, the reserve is revised whenever more detailed information becomes available concerning the nature of the injury or physical damage involved. The setting of reserves is the responsibility of the agency's claims manager who will use external legal or other expert advice where appropriate. Where the initial reserve exceeds the agency's claims settling threshold, the adequacy of the reserve will also be discussed with the Company. An established reserve is expected to be sufficient to meet the final cost of a claim whenever it is finally determined.

A provision for incurred but not reported ("IBNR") claims has been established for each class of business and is monitored for accuracy at each year end. In determining the accuracy of the provision, management reviews the historical cost of IBNR claims and amends the provision, where necessary, taking into account statistical trends, and changes in the shape and size of the portfolio. An additional provision for any inadequacy in case reserves, incurred but not enough reserved ("IBNER") may also be established following advice from the external actuary. Both provisions are combined to form the development IBNR balance.

All claims reserves are established on a gross basis and the Company accounts to proportional reinsurers for their share through quarterly returns. Claims recoverable against Excess of Loss reinsurers are made on a case by case basis on proof of payment being established.

12. Outstanding Claims and Net Claims Incurred and Unearned Premiums (continued)

(ii) Sensitivity Analysis – Claims Development

The development of long tail insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. Accurate claims reserving is crucial to the long-term health of the Company as it allows for more accurate pricing of products and also generates the necessary level of confidence on the part of both reinsurers and shareholders. Management uses a variety of statistical tools, including "Loss Triangulations" developed annually on an accident year basis to monitor the development of the Company's long tail liabilities.

The following table shows the development of the Company's claims costs by Accident year over the period of 2014 to 2019:

Insurance Claims - Gross Accident Year		2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate costs at end of accident year		\$ 10,929,613	12,532,624	70,176,155	22,949,341	11,847,932	238,746,786	367,182,451
		11,572,739	12,282,714	75,628,189	21,572,268	11,154,592		
		11,228,718	12,364,135	76,329,583	21,375,182			
		11,414,581	11,973,754	76,495,458				
		11,699,217	12,014,453					
		12,627,648						
Current estimate of cumulative claims		\$ 12,627,648	12,014,453	76,495,458	21,375,182	11,154,592	238,746,786	372,414,119
Cumulative payments to date		\$ (11,637,071)	(11,861,569)	(75,692,962)	(20,644,504)	(10,003,379)	(97,872,754)	(227,712,239)
Liability recognized in statement of financial position		\$ 990,577	152,884	802,496	730,678	1,151,213	140,874,032	144,701,880
Liability in respect of prior years (1997 to 2013)								1,587,375
Gross claims outstanding included in the statement of financial position								\$ 146,289,255

Insurance Claims - Net Retention Accident Year		2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate costs at end of accident year		\$ 1,738,553	2,065,023	13,409,386	3,811,300	1,936,539	25,674,981	48,635,781
		1,853,769	2,023,374	16,698,793	12,910,534	1,903,184		
		1,801,686	2,340,500	16,912,663	19,963,843			
		1,829,324	1,974,827	16,938,282				
		1,877,082	1,981,140					
		2,405,644						
Current estimate of cumulative claims		\$ 2,405,644	\$ 1,981,140	\$ 16,938,282	\$ 19,963,843	\$ 1,903,184	\$ 25,674,981	\$ 68,867,074
Cumulative payments to date		\$ (2,256,883)	(1,957,999)	(16,817,441)	(19,840,491)	(1,723,573)	(13,991,262)	(56,587,649)
Liability recognized in statement of financial position		\$ 148,761	23,141	120,841	123,352	179,611	11,683,719	\$ 12,279,425
Liability in respect of prior years (1997 to 2013)								244,931
Net claims outstanding included in the statement of financial position								\$ 12,524,356

12. Outstanding Claims and Net Claims Incurred and Unearned Premiums (continued)*(iii) Movements in Outstanding Claims*

As at December 31, 2019, outstanding claims of \$146,289,255 (2018 – \$10,101,411) are shown gross of reinsurance recoverable of \$133,764,899 (2018 – \$8,544,157) as disclosed in Note 4.

Included in gross outstanding claims is a provision of \$5,569,000 (2018 – \$1,100,000) for gross claims incurred but not reported as of the year end.

Reinsurance balances shown on the below table are shown net of recoverables under the excess of loss reinsurance for claims paid and outstanding.

Year Ended December 31	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims at January 1 consists of:						
Notified claims	\$ 9,001,411	\$ (7,618,857)	\$ 1,382,554	\$ 19,701,023	\$ (16,241,317)	\$ 3,459,706
Development Incurred but not reported	1,100,000	(925,300)	174,700	1,050,000	(879,050)	170,950
Total claims outstanding	\$ 10,101,411	\$ (8,544,157)	\$ 1,557,254	\$ 20,751,023	\$ (17,120,367)	\$ 3,630,656
Cash paid for claims settled in the year	(102,256,242)	97,940,973	\$ (4,315,269)	\$ (22,172,141)	\$ 18,706,632	\$ (3,465,509)
Increase in liabilities arising in current year claims	234,750,620	(218,104,498)	16,646,122	14,133,999	(12,220,041)	1,913,958
arising from prior years claims	(775,534)	(776,517)	(1,552,051)	(2,661,470)	2,135,869	(525,601)
movement in development IBNR	4,469,000	(4,280,700)	188,300	50,000	(46,250)	3,750
Total claims outstanding	\$ 146,289,255	\$ (133,764,899)	\$ 12,524,356	\$ 10,101,411	\$ (8,544,157)	\$ 1,557,254
Outstanding claims at December 31 consists of:						
Notified claims	\$ 140,720,255	\$ (128,558,899)	\$ 12,161,356	\$ 9,001,411	\$ (7,618,857)	\$ 1,382,554
Development Incurred but not reported	5,569,000	(5,206,000)	363,000	1,100,000	(925,300)	174,700
Total claims outstanding	\$ 146,289,255	\$ (133,764,899)	\$ 12,524,356	\$ 10,101,411	\$ (8,544,157)	\$ 1,557,254

12. Outstanding Claims and Net Claims Incurred and Unearned Premiums (continued)*(iv) Unearned Premium Reserve*

Year Ended December 31	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At beginning of the year	\$ 22,897,180	\$ (19,402,972)	\$ (3,494,208)	\$ 21,778,705	\$ (18,421,096)	\$ 3,357,609
Net (decrease)/increase in the year	2,401,632	(1,952,449)	449,183	1,118,475	(981,876)	136,599
Total at end of the year	\$ 25,298,812	\$ (21,355,421)	\$ 3,943,391	\$ 22,897,180	\$ (19,402,972)	\$ 3,494,208

Included in the statement of comprehensive income is the net increase in unearned premium reserve of \$449,183 (2018 – net increase of \$136,601).

These provisions represent the liability for short-term insurance contracts for which the Company's obligations are not expired at year-end.

13. General Reserve

The Company has made an appropriation to a general reserve for unforeseeable risks and future losses. The general reserve can only be distributed following approval by the Board of Directors.

14. Contingencies

The Company is currently engaged in a dispute with a third party and is exposed to a contingent liability. In the opinion of our legal counsel, it is more likely than not that the dispute will be resolved and if not that the Company has a strong arguable case. Moreover, management of the Company is confident that if legal efforts were unsuccessful the amounts in question would be recoverable under our reinsurance treaties and does not anticipate that the costs, including any legal expenses that might be incurred in resolving this matter, will materially affect the financial position of the Company further than those disclosed. The most likely outcome has been recorded in the 2018 statement of comprehensive income as a provision for tax assessment of \$378,802 and an offsetting reinsurance recoverable of \$318,564 as a reduction to net claims incurred. There has been no change to the provision for tax assessment and the offsetting reinsurance recoverable between the current and prior period.

15. Pension Plan

The Company's employees are members of J.S. Johnson Pension Plan, a defined contribution plan covering all eligible employees. This plan provides for benefits to be paid upon retirement. Employees are required to contribute an amount equal to 5.00% of their eligible earnings, which is matched by the Company. The amount charged to income or loss in the statement of comprehensive income during the year for pension costs was \$21,644 (2018 – \$17,230).

16. Dividends

During 2019, the Board of Directors declared dividends in the amount of \$518,625 (2018 – \$202,724). As of December 31, 2019, dividends payable amounted to \$28,049 (2018 – \$22,625) included in accounts payable and accruals in the statement of financial position.

17. Risk Management

The Company is exposed to insurance risk and financial risk through its insurance assets and insurance liabilities, financial assets and financial liabilities. The insurance risk covers such things as the vagaries of the weather, the unpredictability of serious injury losses and fortuitous events such as outbreaks of fire. The main components of the financial risk are credit risk, liquidity risk and interest-rate risk. The Company's financial performance is affected by its capacity to understand and effectively manage these risks. The Company's challenge is not only to measure and monitor these risks but also to manage them as profit opportunities. A critical goal of the Company is to ensure that its financial assets are always more than sufficient to fund the obligations arising from its insurance contracts. The following Notes expand on the nature of the aforementioned risks and the manner in which the Company manages them.

(a) Insurance Risk

Insurance risk is the risk that an insured event might occur. At the individual policy level and also at the portfolio level, there is uncertainty in terms of both frequency of occurrence and severity of loss. For any given portfolio of insurance contracts, where the theory of probability is applied to pricing and loss reserving, the principal risk that the Company faces is that claims and other costs might exceed premiums earned. This could occur because the frequency or severity of claims is greater than estimated or that estimated original policy rates prove not to be sustainable or a combination of both.

Experience shows that the greater the commonality of risk within a class of business, the smaller will be the relative variability in the expected outcome.

In addition, a more diversified portfolio is less vulnerable to a deterioration in the loss experience in any particular class of business. The Company has developed its underwriting strategy to produce a diversified portfolio of insurance risks. Within each of the individual classes of business it has sought to achieve, wherever possible, a sufficiently large population of risks to reduce the variability of the expected outcome.

At the macro level, the Company suffers from a lack of diversification in the sense that it only insures the non-life risks of individuals located in The Bahamas and Turks and Caicos; therefore, there is a concentration of insurance risk within the industry sector and territory in which the Company operates.

Casualty Insurance Risks

(i) Frequency and Severity of Claims

The frequency and severity of claims can be affected by several factors. Claims frequency can be influenced by changes in the size, composition, and quality of a portfolio. Changes in social/economic conditions can also severely impact claims frequency. Claim severity is impacted by such things as general inflation. In the case of liability claims, the most significant factor is the increasing level of awards for personal injury. Claims involving serious long-term injury can take five years or more to settle.

17. Risk Management (continued)

The Company manages these risks by means of its well-developed underwriting and reinsurance strategies and also by adopting a proactive approach to claims handling. The underwriting strategy attempts to ensure that the portfolio remains biased towards high quality risks. Underwriting guidelines are in place to enforce appropriate risk selection criteria. The reinsurance arrangements include both proportional and catastrophe excess of loss coverage. The effect of such reinsurance arrangements is to limit the total net insurance loss that the Company can suffer in any one year.

(ii) 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 occur 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 an element of the claims provision relates to IBNR claims and unexpired risks. Given the uncertainty in establishing claims provisions, it is likely in many cases that the final cost of a claim will vary significantly from the initial reserve. In calculating the estimated cost of outstanding claims (both reported or not), the Company uses various industry standard loss estimation techniques and the experience of its agents in settling claims of similar type.

Property Insurance Contracts

(i) Frequency and Severity of Claims

For property insurance contracts, climatic changes are giving rise to more frequent severe extreme weather events (e.g., hurricanes, flooding, etc.) and their consequences. The Company has the right to re-price each individual risk on renewal. It also has the ability to impose or increase deductibles. Contracts are priced on the basis of the commercial replacement value of the properties and contents insured. The sum insured represents the maximum amount payable under a policy. The cost of repairing or rebuilding properties, the cost of providing indemnity for damaged or stolen contents and the time taken to restart business operations (business interruption insurance) are the key factors that influence the value of claims under these policies. The most likely cause of major loss under the property portfolio arises from a hurricane or other serious weather-related event. The Company has reinsurance coverage in place to limit the impact of such losses in any one year.

The Company underwrites property insurance in The Bahamas and Turks and Caicos.

(ii) Sources of Uncertainty in the Estimation of Future Claim Payments

The development of large losses/catastrophes is analysed separately. Property claims can be estimated with greater reliability due to the shorter settlement period for these claims resulting in lesser amounts of IBNR held at year-end.

(b) Credit Risk

Credit risk arises from the failure of a counterparty to perform according to the terms of the contract. In the normal course of business, the Company seeks to limit its exposure to losses that may arise from any single occurrence. Reinsurance is primarily placed using a combination of proportional and excess of loss treaties. Obtaining reinsurance does not, however, relieve the Company of its primary obligations to the policyholders, therefore the Company is exposed to the risk that the reinsurers may be unable to fulfil their obligations under the contracts.

The Company seeks to mitigate this risk by placing its reinsurance coverage with large multi-national companies and syndicates. The Company, with the assistance of its reinsurance broker, also evaluates the financial condition of its reinsurers and monitors the credit risk of the reinsurers on an ongoing basis to minimize its exposure to significant losses from reinsurer insolvency. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The Company's main exposure to credit risk emanates from reinsurers in the form of prepaid premiums held or claims recoverables still to be made/paid under the various proportional and excess of loss treaties and is disclosed in total on the statement of financial position. It is the Company's policy that no single counterparty exposure should exceed 25% of the total reinsurance assets at any given time. In addition, the Company's proportional treaties contain a "Reinsurer Participation Review Clause", which provides the Company with the option of cancelling any individual reinsurer's participation whose financial strength rating (as determined by Standard & Poor's and/or A.M. Best) falls below A- or equivalent and to call for the return of prepaid premiums and loss reserves. The Company is required to serve notice of its intention within thirty days of the date of downgrade.

17. Risk Management (continued)**(b) Credit Risk (continued)**

The second largest concentration of credit risk outside of reinsurance contracts exist with the Company's investments categorized as debt securities. The Company invests solely in the Bahamas and Turks & Caicos geographic region. In order to ensure effective management of the investment assets, the Company has set in place an investment policy reviewed by the executive committee which defines the structure and procedures for the operation of the asset portfolio. Concentration of credit risk in relation to term deposits are mitigated by ensuring no more than 40% of all term deposits are in any one financial institution. All financial institutions used for term deposits and brokerage/custody services must be deemed reputable and credit worthy. Credit risk for loans and receivables are mitigated by ensuring sufficient and reasonable forms of secured collateral are set in place. Within the investment policy are portfolio allocation and tolerance ranges set out for each class of investment assets. This ensures that a higher allocation of funds available are invested in lower risk securities including bonds, government backed corporate entities and financially sound companies. There have been no changes to this policy from the previous period. The Summary of Significant Accounting Policies section (g) Impairment, covers further procedures used to identify and calculate expected credit losses.

	January 1, 2019 ECL	ECL Adjustment	December 31, 2019 ECL
Term Deposits	\$ 2,454	\$ (88)	\$ 2,366
Investments at Amortized Cost	13,871	2,798	16,669
	<u>\$ 16,325</u>	<u>\$ 2,710</u>	<u>\$ 19,035</u>

Credit Risk Exposure

As a part of the assessment of credit risk for debt securities, a combination of qualitative and quantitative information is assessed including debtor background, external and internal credit ratings, payment history, financial report releases and general macroeconomic conditions. The assets can then be categorized into three internal credit risk grades: low, medium and high. The low-grade rating entails evidence of impairment incurred such as default or delinquent payments of principal or interest, or evidence of other indicators such as bankruptcy, restructuring or poor fiscal performance. The high-grade rating is defined mostly by the lack of historical default, high quality external ratings and solid fiscal performance. The medium grade ratings may entail combination of previously mentioned factors. The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit risks grades:

	2019		2018	
	High Grade	Medium Grade	High Grade	Medium Grade
Cash and Cash Equivalents	\$ 14,148,842	\$ -	\$ 5,940,954	\$ -
Term Deposits	6,875,210	-	5,784,642	-
Due from agents	28,529,708	-	5,868,885	-
Other Receivables	-	-	133,418	-
Investments at Amortized Cost	-	11,810,813	-	11,242,588
Reinsurance Assets	149,577,324	-	9,373,273	-
Total Credit Risk Exposure	<u>\$ 199,131,084</u>	<u>\$ 11,810,813</u>	<u>\$ 27,101,172</u>	<u>\$ 11,242,588</u>

17. Risk Management (continued)**(b) Credit Risk (continued)**Credit Risk Exposure (continued)

The below table shows the gross carrying amount for financial assets for which the loss allowance is measured at an amount equal to 12-month expected credit losses and for which the loss allowance is measured at an amount equal to lifetime expected credit losses by credit risk grade:

	2019		2018	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL
High Grade	\$ 2,366	\$ -	\$ 2,454	\$ -
Medium Grade	16,669	-	13,871	-
Total Credit Risk Exposure	\$ 19,035	\$ -	\$ 16,325	\$ -

There are no credit impaired debt securities recognized at December 31, 2019.

Expected Credit Losses

The Company continuously monitors all assets subject to ECLs. In order to determine the stage of the ECL calculation under the general approach, the Company must assess whether there has been a significant increase in credit risk since initial recognition. Qualitative and quantitative information are used to analyze credit risk. These include a variety of sources such as multiple external credit rating sources like by Moody's and Standards and Poor ratings agencies, changes in general macroeconomic conditions including but not limited to the GDP, unemployment rates, interest rates and debt ratios, historical and current payment defaults and other financial information releases. There has been no significant increase in credit risk or default for financial assets during the year.

The following table reconciles the aggregate opening ECL allowances to the ending aggregate ECL allowances under IFRS 9.

	January 1, 2019 ECL		ECL Adjustment		December 31, 2019 ECL	
	12m ECL	LT ECL	12m ECL	LT ECL	12m ECL	LT ECL
Term Deposits	\$ 2,454	\$ -	\$ (88)	\$ -	\$ 2,366	\$ -
Investments at Amortized Cost	13,871	-	2,798	-	16,669	-
	\$ 16,325	\$ -	\$ 2,710	\$ -	\$ 19,035	\$ -

The following table is an analysis of changes in the gross carrying value which correspond to the above changes in ECL:

	January 1, 2019 Carrying Value		Carrying Value Adjustment		December 31, 2019 Carrying Value	
	12m ECL	LT ECL	12m ECL	LT ECL	12m ECL	LT ECL
Term Deposits	\$ 5,940,954	\$ -	\$ 934,256	\$ -	\$ 6,875,210	-
Investments at Amortized Cost	11,242,588	-	568,225	-	11,810,813	-
	\$ 17,183,542	\$ -	\$ 1,502,481	\$ -	\$ 18,686,023	-

(c) Liquidity Risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Company's financial commitments including claims. The Company maintains a level of liquid assets, which mature or could be sold immediately to meet cash requirements for normal operating purposes.

17. Risk Management (continued)**(c) Liquidity Risk (continued)**

The tables included in Note 6 for term deposits and Note 8 for investments in securities show the expected recovery or settlement of financial instruments held from the dates of acquisition. Cash and bank balances as disclosed in Note 5 have original maturities of less than three months.

The following summarizes the expected recovery or settlement of financial assets held (within 12 months from the reporting date) and the maturity profile of the Company's liabilities relating to financial instruments and insurance contracts:

The tables included in Note 6 for term deposits and Note 8 for investments in securities show the expected recovery or settlement of financial instruments held from the dates of acquisition. Cash and bank balances as disclosed in Note 5 have original maturities of less than three months.

The following summarizes the expected recovery or settlement of financial assets held (within 12 months from the reporting date) and the maturity profile of the Company's liabilities relating to financial instruments and insurance contracts:

Year Ended December 31	2019			2018		
	Current Less than 12 months	Non-current More than 12 months	Total	Current Less than 12 months	Non-current More than 12 months	Total
Cash and bank balances	\$ 14,148,842	\$ -	\$ 14,148,842	\$ 5,940,954	\$ -	\$ 5,940,954
Term deposits	3,848,843	3,026,367	6,875,210	4,259,158	1,525,484	5,784,642
Reinsurance recoveries	123,984,313	25,593,011	149,577,324	2,379,269	6,994,004	9,373,273
Due from agent	28,529,708	-	28,529,708	5,868,885	-	5,868,885
Investment in securities						-
Fair value through profit or loss	8,965,749	-	8,965,749	10,371,466	-	10,371,466
Amortized cost	-	11,810,813	11,810,813	-	11,242,588	11,242,588
Total	\$ 179,477,456	\$ 40,430,190	\$ 219,907,646	\$ 28,819,732	\$ 19,762,076	\$ 48,581,808

Financial liabilities	2019			2018		
	Current Less than 12 months	Non-current More than 12 months	Total	Current Less than 12 months	Non-current More than 12 months	Total
Outstanding claims	140,874,033	5,415,222	146,289,255	3,910,155	6,191,256	\$ 10,101,411
Due to reinsurers	40,124,199	-	40,124,199	4,582,436	-	4,582,436
Accounts payable and accruals	145,972	32,149	178,121	732,128	26,725	758,853
Total	\$ 181,144,204	\$ 5,447,371	\$ 186,591,575	\$ 9,224,719	\$ 6,217,981	\$ 15,442,700
Liquidity Gap	\$ (1,666,749)	\$ 34,982,819	\$ 33,316,071	\$ 19,595,013	\$ 13,544,095	\$ 33,139,108

The tables included in Note 6 for term deposits and Note 8 for investments in securities show the expected recovery or settlement of financial instruments held from the dates of acquisition. Cash and bank balances as disclosed in Note 5 have original maturities of less than three months.

17. Risk Management (continued)**(d) Market risk**

Market risk is the risk that changes in market prices, such as 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.

Interest Rate Risk

Interest rate risk for the Company is comprised of the risk that the value of financial assets may fluctuate significantly as a result of changes in market interest rates. The Company mitigates this risk by investing in interest-bearing assets with floating interest rates or investing for short time periods. The rates of interest on financial instruments are disclosed in Notes 5, 6, and 8 in the financial statements.

The table below summarizes the Company's exposure to interest rate risk. Included in the table are the Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

At December 31, 2019	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-Interest Bearing	Total
Assets						
Cash & bank balances	\$ -	\$ -	\$ -	\$ -	\$ 14,148,842	\$ 14,148,842
Term deposits	-	3,848,843	3,026,367	-	-	6,875,210
Reinsurance recoverables	-	-	-	-	149,577,324	149,577,324
Due from agent	-	-	-	-	28,529,708	28,529,708
Deferred commission reserve	-	-	-	-	6,127,012	6,127,012
Prepaid reinsurance premium	-	-	-	-	21,355,421	21,355,421
Prepayments and other receivables	-	-	-	-	29,912	29,912
Investments in securities						
Fair value through profit or loss	-	-	-	-	8,965,749	8,965,749
Amortized cost	-	-	1,522,466	10,288,347	-	11,810,813
	\$ -	\$ 3,848,843	\$ 4,548,832	\$ 10,288,347	\$ 228,733,968	\$ 247,419,991
Liabilities						
Unearned premium reserve	\$ -	\$ -	\$ -	\$ -	25,298,812	\$ 25,298,812
Outstanding claims	-	-	-	-	146,289,255	146,289,255
Unearned commission reserve	-	-	-	-	5,725,488	5,725,488
Due to reinsurers	-	-	-	-	40,124,199	40,124,199
Accounts payable and accruals	-	-	-	-	178,121	178,121
	\$ -	\$ -	\$ -	\$ -	217,615,875	\$ 217,615,875
Total interest sensitivity gap	\$ -	\$ 3,848,843	\$ 4,548,832	\$ 10,288,347	11,118,093	\$ 29,804,116

17. Risk Management (continued)**(d) Market risk (continued)**

At December 31, 2018	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-Interest Bearing	Total
Assets						
Cash & bank balances	\$ -	\$ -	\$ -	\$ -	\$ 5,940,954	\$ 5,940,954
Term deposits	-	4,259,158	1,525,484	-	-	5,784,642
Reinsurance recoverables	-	-	-	-	9,373,273	9,373,273
Due from agent	-	-	-	-	5,868,885	5,868,885
Deferred commission reserve	-	-	-	-	5,631,876	5,631,876
Prepaid reinsurance premium	-	-	-	-	19,402,972	19,402,972
Prepayments and other receivables	-	-	-	-	162,070	162,070
Investments in securities						
Fair value through profit or loss	-	-	-	-	10,371,466	10,371,466
Amortized cost	-	-	1,522,466	9,720,122	-	11,242,588
	\$ -	\$ 4,259,158	\$ 3,047,950	\$ 9,720,122	\$ 56,751,496	\$ 73,778,726
Liabilities						
Unearned premium reserve	\$ -	\$ -	\$ -	\$ -	22,897,180	22,897,180
Outstanding claims	-	-	-	-	10,101,411	10,101,411
Unearned commission reserve	-	-	-	-	5,243,608	5,243,608
Due to reinsurers	-	-	-	-	4,582,436	4,582,436
Accounts payable and accruals	-	-	-	-	758,853	758,853
	\$ -	\$ -	\$ -	\$ -	43,583,488	43,583,488
Total interest sensitivity gap	\$ -	\$ 4,259,158	\$ 3,047,950	\$ 9,720,122	13,168,008	\$ 30,195,238

At December 31, 2019, an increase of 25 basis points in interest rates with all other variables remaining constant, would have increased the net income of the Company by approximately \$46,715 (2018 – \$42,568). A decrease of 25 basis points would have an opposite effect with all other variables remaining constant.

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.

As the Company's investments in securities at fair value through profit or loss are carried at fair value with fair value changes recognized in income or loss in the statement of comprehensive income, all changes in market conditions will directly affect operating income.

The Company is exposed to price risks arising from equity investments. Price risk is mitigated by the Company by investing in a diversified portfolio of instruments. Equity investments are held for strategic rather than trading purposes and the Company does not actively trade these investments.

18. Capital Management

Externally imposed capital requirements are set by The Insurance Commission of the Bahamas (“the Commission”) and by the Financial Services Commission in Turks and Caicos Islands (“TCI”). These requirements are put in place to ensure that the Company meets the relevant capital and solvency margins under the respective laws of The Bahamas and TCI.

The Company is registered under the Insurance Act 2005 (“the Act”) and has met the required minimum paid up and unencumbered capital of \$2,000,000. The Company maintains a statutory deposit in respect of its insurance business in The Bahamas, in accordance with Section 43(2) of the Act and regulation 62 of the Insurance (General) Regulations, 2012 (“the Regulations”). The Company established a Statutory Deposit Trust (“the Trust”) in the sum of \$1,000,000 with a recognized financial institution appointed as trustees of the Trust and the Insurance Commission of the Bahamas (“the Commission”) as the protectors of the Trust; the deposit is included in the statement of financial position (refer to Note 6).

Solvency ratios are established on the basis of risk assessment for each particular entity. 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 regulation 70 of the Regulations.

Due to timing differences between the settlement of reinsurance recoverable and the unsettled outstanding claims after the passage of Hurricane Dorian in September 2019, the Company’s net worth as at December 31, 2019 did not meet the required solvency margin in the form of qualifying assets. However, the Company will meet the solvency margin requirements as this temporary timing difference is expected to be resolved by the second quarter of 2020. Additionally, due to extensive losses experienced by the entire industry, there is only a remote likelihood of negative consequences from the regulator.

The Company is registered as a Foreign Ordinary Company in accordance with the Insurance Ordinance 1989 (“Ordinance”) in TCI and as such the Company’s annual return, pursuant to section 4 of the Ordinance, includes the filing of the solvency margins on the consolidated business and TCI domestic business. The Company is required to maintain a minimum solvency margin relating to an excess of permitted assets over its liabilities. In addition, the Company is required to maintain a restricted deposit, as approved by the Financial Services Commission in TCI, with an approved financial institution in TCI, and as such \$500,000 is included in term deposits in the statement of financial position (refer to Note 6).

As at December 31, 2019, the Company has met the required restricted deposit and its solvency requirement in accordance with the Ordinance.

19. Subsequent Events

Subsequent to December 31, 2019, there has been a global outbreak of a corona virus disease 2019 (COVID-19), which the World Health Organization has declared a “Public Health Emergency of International Concern”. The effects of a public health emergency may materially and adversely impact the value and performance of the Company. The extent of the impact to the financial performance of the Company will depend on future developments, including (i) the duration and spread of the outbreak, (ii) the restrictions and advisories, (iii) the effects of the financial markets, and (iv) effects on the economy overall, all of which are highly uncertain and cannot be predicted. If the financial performance of the Company is impacted because of these things for an extend period, the Company’s financial performance may be materiality adversely affected. In addition, the operations of the Company, may be impacted as a result of the required office closures, government quarantine measures, voluntary and precautionary restrictions on travel or meetings and other facts related to a public health emergency, including COVID-19’s protentional adverse impact on the health of any such entity’s personnel.





**Insurance Company
of The Bahamas**