



Insurance Company
of The Bahamas



YEARS
ANNIVERSARY

ANNUAL
REPORT








CONTENTS

CORPORATE INFORMATION	4
BOARD OF DIRECTORS	5
THE CHAIRMAN'S STATEMENT	6
MANAGERS AND STAFF	7
A PERSPECTIVE FROM THE GENERAL MANAGER	8
INDEPENDENT AUDITORS' REPORT	10
STATEMENT OF FINANCIAL POSITION	13
STATEMENT OF COMPREHENSIVE INCOME	15
STATEMENT OF CHANGES IN EQUITY	16
STATEMENT OF CASH FLOWS	17
NOTES TO FINANCIAL STATEMENTS	19



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

Annamaria DeGregory

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



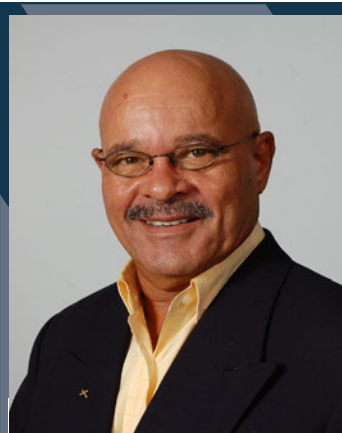
Alister I. McKellar, FCII
Director



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



Annamaria Degregory
Director

THE CHAIRMAN'S STATEMENT



I am delighted to report that Insurance Company of The Bahamas Limited (ICB or the Company) was able to produce a better-than-expected trading profit of \$3,791,386 for the 2021 year. This represents a return on equity of 10.79%. Given the volatility of trading results for general insurers due to the unpredictability of losses from major hurricanes, it is vital that insurers are able to post healthy profits in years when we are spared major weather event losses. With the impact of the devastating 2019 Hurricane Dorian still fresh in our minds, it was a relief that The Bahamas avoided a hurricane loss for the second consecutive year. Aside from the absence of any hurricane losses, the Company's bottom line profit was enhanced by ordinary claims costs being substantially lighter than normal.

In terms of premium volume, it was pleasing that the Company grew its Gross Written Premium during the year by 10.72% (excluding premium from fronted policies). This was in line with expectations but was nevertheless a welcome outcome given the depressed economy and the Covid 19 safety protocols the industry was required to work under during the year. The health and safety of our customers will always be a primary concern and both ICB and our agents will continue to operate with this in mind. I am hopeful, however, that it will not be too long before our agents can revert to full in-person interactions.

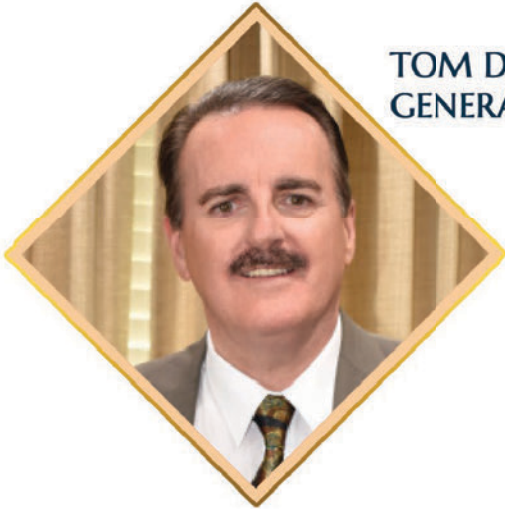
Returning to Hurricane Dorian, the total market insured loss from the hurricane is estimated at circa \$1.89 billion (\$48.5m after reinsurance recoveries) according to the 2020 Annual Report of the Insurance Commission. In dollar terms, this makes "Dorian" by far the costliest hurricane event in Bahamian history. Property rates have increased significantly over the last 12-18 months in response to the record claims pay-out from "Dorian" as insurers and reinsurers seek to restore their profitability. With concerns over global warming and the advent of the "super storm", it is hard to imagine that we will see, anytime soon, a softening in the underwriting approach of international reinsurers towards the provision and pricing of catastrophe cover. In the short to medium term, demand for reinsurance windstorm capacity throughout the Caribbean Region is expected to outstrip supply and the cost of reinsurance capital will likely remain high. Unfortunately, for our customers this translates to a continuation of the current high level of premium being charged for windstorm cover.

2021 proved to be a very challenging year for the local economy with Covid 19 travel restrictions depleting the country's income from tourism. By the end of the year, the National Debt had increased to just over 100% of GDP as government was forced to increase its borrowing to make up for the lost revenue. Thankfully, The Bahamas was able to relax travel restrictions during the second half of the year and the major hotels re-opened for the lucrative winter season bringing much needed tourist dollars and jobs. In September 2021 the country voted in a new government and there is no denying the major fiscal challenges facing the new administration. Clearly, some painful economic decisions will have to be made and non-essential public expenditure will likely be curtailed. The Covid-19 pandemic has taken its toll on the private sector with many private businesses being forced to close with the resultant loss of jobs. Against this backdrop, disposable income for many private and corporate citizens will be squeezed in the short to medium term. On a more positive note, however, overseas investment in The Bahamas appears to be on the increase and there are numerous new building projects underway. Also, a number of Bahamian realtors are reporting substantially increased demand from overseas for Bahamian land and high-end properties. Despite the challenging economic environment, ICB will continue placing a priority on providing a top-quality service to our customers whilst, at the same time, working closely with our agents to identify and explore opportunities for growth.

Finally, it gives me great pleasure to report that 2021 saw ICB complete its first 25 years as a Bahamian General Insurer. I wish to express my gratitude to our loyal customers for trusting us with their business throughout this period. I would also like to take this opportunity to say a special thank you to our agents, reinsurance partners, reinsurance brokers, directors, management and staff for playing their part in helping us reach this historic milestone.

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
ACCOUNTING OFFICER

A PERSPECTIVE FROM THE GENERAL MANAGER



With Insurance Company of The Bahamas Limited (ICB or the Company) having just completed its twenty-fifth year of operations, this is an opportune moment to reflect on the Company's journey since it commenced operations in January 1997. Since that start date, the Company has grown its balance sheet from its initial capital base of three million dollars to a capital and surplus position of just under thirty-seven million dollars. (See chart 1 below) During this time, the Company has grown its Gross Written Premium (excluding fronting premiums) from a first-year figure of approximately \$8.5 million to circa \$56 million.

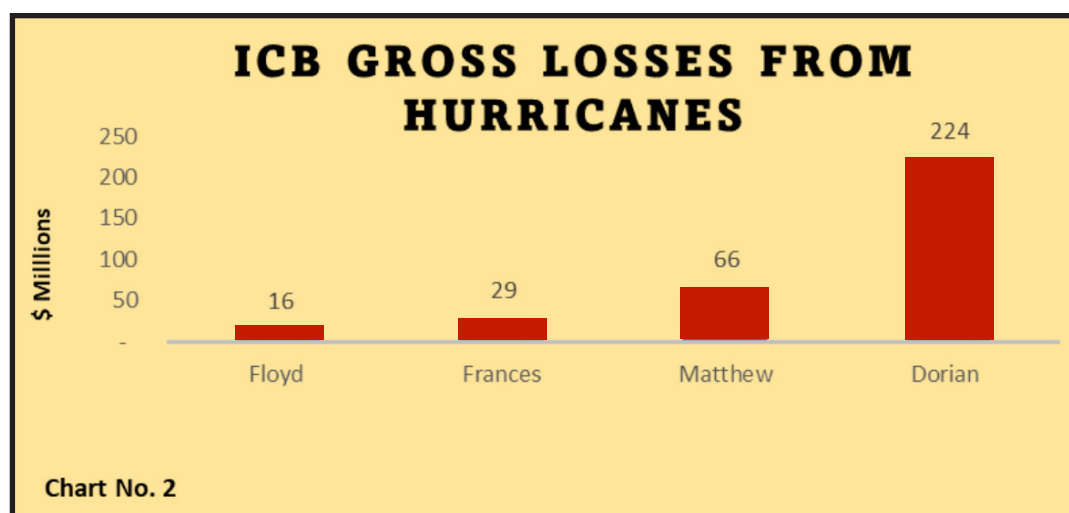
During
o u r
first 25
years,
I C B

has dealt with thirteen major weather event losses of which the most significant for the Company have been:

Hurricane Floyd 1999, Hurricane Frances 2004, Hurricane Matthew 2016, and Hurricane Dorian 2019. "Dorian" was by far the costliest event loss in the history of ICB and the Bahamian general insurance industry. Chart No 2 below shows the cost to ICB of each of these event losses (before reinsurance recoveries) and one can immediately see how the Hurricane Dorian loss dwarfs our other major event losses.

Thanks to the comprehensive nature of our catastrophe reinsurance programme, ICB has been able to absorb losses from these major events whilst at the same time achieving steady growth in equity.

Looking forward to 2022, the general insurance industry finds itself having to operate in a local economy recovering from the impact of Hurricane Dorian and, more recently, the Covid-19 pandemic. At the time of writing, further economic uncertainty lies ahead for The Bahamas, and the world at large, following the escalation of hostilities in the Ukraine. Another challenge for local insurers is that windstorm reinsurance capacity has become more difficult to obtain, and more costly, following the impact of the "super storms" of recent years. This has caused original Property rates to rise close to the highest they have ever been and there is little prospect of the trend reversing anytime soon. Against this



challenging backdrop, ICB and our exclusive agents J.S. Johnson and Company Limited, intend to work hard to re-emphasize to customers the value of having an insurance policy that can protect a home or a business against the devastating effect of loss by fire or major hurricane.

Also in 2022, the Bahamian insurance industry is challenged with preparing itself for the introduction of a new international accounting standard, IFRS 17, which comes into effect from the 1st January 2023. This standard will require both Life and General insurers to report financial results in a uniform fashion and therefore the presentation of our financial statements will contain significant changes. The Board and Management of ICB have given this task a top priority and we will be working diligently throughout the year to ensure we are on schedule to transition to the new reporting standard. Finally, as we celebrate our 25th full year of operations, it provides me with an opportunity to say thank you to those who have made substantial contributions to our success. My appreciation goes to:

- i) The directors, management and staff of J.S. Johnson and Company Limited, for the excellent level of support and co-operation they have given us from the beginning.
- ii) Our long-term reinsurance partners with special thanks for their support in the aftermath of major hurricane events.
- iii) Our brokers, Aon (London), for their sound advice and professionalism over the years.
- iv) The Board of Directors at ICB for their careful stewardship and direction.
- v) And last but not least, our loyal and conscientious employees at ICB, several of whom reached long service landmarks recently.

No one can know what the next 25 years will bring but I am confident that whatever challenges lie ahead, ICB has the partnerships in place to ensure that we remain one of the top General Insurers in The Bahamas focused on providing our customers with the high level of service they have come to expect.

Tom Duff
General Manager



Ernst & Young Ltd.
Caves Corporate Centre
West Bay Street & Blake Road
P. O. Box N-3231
The Bahamas

Tel: +242 502 6000
Fax: +242 502 6095
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Independent Auditor's 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, 2021, 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, 2021, 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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (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 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.

Management and the Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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.

Ernst & Young Ltd.

March 31, 2022

Insurance Company of The Bahamas Limited

Statement of Financial Position
(Expressed in Bahamian Dollars)

	2021	2020
ASSETS		
Cash and bank balances (Note 5)	\$ 3,139,187	\$ 5,962,647
Term deposits (Note 6)	10,577,782	6,983,607
Reinsurance recoverables (Note 4)	11,331,776	20,909,905
Due from agents (Note 7)	10,226,293	14,480,977
Deferred commission reserve (Note 7)	6,149,011	5,863,075
Prepaid reinsurance premiums (Note 12)	23,063,154	21,682,877
Prepayments and other receivables	30,406	27,100
Investments in securities:		
Fair value through profit or loss (Notes 7 and 8)	9,524,871	8,428,455
Amortized cost (Note 8)	10,731,218	11,015,510
Investment property (Note 9)	536,916	536,916
Property, plant and equipment (Note 10)	1,293,291	1,266,500
Total assets	\$ 86,603,905	\$ 97,157,569
LIABILITIES		
General insurance funds:		
Unearned premium reserve (Note 12)	\$ 26,733,994	\$ 25,314,896
Outstanding claims (Note 12)	12,441,000	21,050,996
	39,174,994	46,365,892
Other liabilities:		
Unearned commission reserve	5,723,247	5,431,639
Due to reinsurers (Notes 4 and 7)	4,136,453	9,015,906
Accounts payable and accruals (Notes 7 and 15)	839,634	2,825,431
Total liabilities	\$ 49,874,328	\$ 63,638,868

Insurance Company of The Bahamas Limited

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

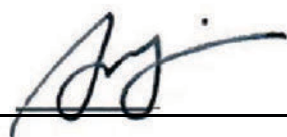
	2021	2020
EQUITY		
Share capital		
Authorized, issued and fully paid:		
3,000,000 ordinary shares of \$1.00 each	\$ 3,000,000	\$ 3,000,000
General reserve (Note 13)	2,000,000	2,000,000
Retained earnings	31,729,577	28,518,701
Total equity	36,729,577	33,518,701
Total liabilities and equity	\$ 86,603,905	\$ 97,157,569

See accompanying notes to financial statements.

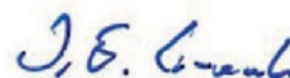
These financial statements were authorized for issue on behalf of the Board of Directors on March 31, 2022 by:

Approved by the Board:

Director



Director



Insurance Company of The Bahamas Limited

Statement of Comprehensive Income
(Expressed in Bahamian Dollars)

	Year Ended December 31	
	2021	2020
INCOME		
Gross written premiums (Note 7)	\$ 79,075,256	\$ 71,517,966
Premium tax	(1,661,644)	(1,497,233)
	77,413,612	70,020,733
Ceded to reinsurers	(69,594,829)	(63,027,401)
Net retained premiums	7,818,783	6,993,333
Change in unearned premium reserve (Note 12)	(38,821)	311,373
Net premiums earned	7,779,962	7,304,705
EXPENSES		
Net claims incurred (Notes 12)	1,205,178	1,839,199
Net commissions incurred (Notes 7 and 11)	(311,731)	324,684
Excess of loss reinsurance	3,317,247	3,176,222
	4,210,694	5,340,105
UNDERWRITING PROFIT	3,569,268	1,964,600
OTHER INCOME		
Interest income (Notes 5, 6, and 8)	603,345	693,262
Dividend and other income (Note 7)	991,751	835,519
Reversal of Provision for Tax Assessment	-	378,802
Change in net unrealized gains		
on investments in securities (Note 8)	226,854	(518,329)
Provision for Expected Credit Losses (Note 16)	(181,730)	(146,608)
	5,209,488	3,207,246
OPERATING EXPENSES		
Personnel expenses (Note 14)	(778,541)	(700,475)
Depreciation (Note 10)	(46,267)	(49,445)
General and administrative expenses (Note 7)	(593,294)	(522,292)
Total Operating Expenses	(1,418,102)	(1,272,213)
NET INCOME	3,791,386	1,935,034
TOTAL COMPREHENSIVE INCOME	\$ 3,791,386	\$ 1,935,034

See accompanying notes to financial statements.

Insurance Company of The Bahamas Limited

Statement of Changes in Equity
(Expressed in Bahamian Dollars)

	Share Capital	General Reserve	Retained Earnings	Total
Balance as at January 1, 2020	\$ 3,000,000	\$ 2,000,000	\$ 26,583,667	\$ 31,583,667
Total comprehensive income for the year:				
Net Income	-	-	1,935,034	1,935,034
Distributions to owners:				
Dividends (Notes 3 and 15)	-	-	-	-
Balance as at December 31, 2020	\$ 3,000,000	\$ 2,000,000	\$ 28,518,701	\$ 33,518,701
Total comprehensive income for the year:				
Net Income	-	-	3,791,386	3,791,386
Distributions to owners:				
Dividends (Notes 3 and 15)	-	-	(580,510)	(580,510)
Balance as at December 31, 2021	\$ 3,000,000	\$ 2,000,000	\$ 31,729,577	\$ 36,729,577

See accompanying notes to financial statements.

Insurance Company of The Bahamas Limited

Statement of Cash Flows
(Expressed in Bahamian Dollars)

	Year Ended December 31	
	2021	2020
Cash flows from operating activities		
Net income	\$ 3,791,386	\$ 1,935,034
Adjustments for:		
Interest income (Notes 5, 6 and 8)	(603,345)	(693,262)
Dividend income and other income	(340,505)	(295,609)
Change in net unrealized (gain)/loss on investments in securities (Note 8)	(226,854)	518,329
Depreciation (Note 10)	46,267	49,445
Modification gain on investment (Note 8)	(120,083)	(53,027)
Provision for Expected Credit Loss (Note 16)	181,730	146,608
Operating income before changes in operating assets and liabilities	2,728,596	1,607,518
(Increase) decrease in operating assets:		
Reinsurance recoverables	9,578,129	128,667,419
Due from agent	4,254,684	14,048,730
Deferred commission reserve	(285,936)	263,936
Prepaid reinsurance premiums	(1,380,277)	(327,456)
Prepayments and other receivables	(3,306)	2,812
Increase (decrease) in operating liabilities:		
Unearned premium reserve	38,821	16,084
Outstanding claims	(7,229,719)	(125,238,258)
Unearned commission reserve	291,607	(293,849)
Due to reinsurers	(4,879,452)	(31,108,293)
Accounts payable and accruals	(1,991,867)	2,647,310
Net cash provided by (used in) operating activities	\$ 1,121,280	\$ (9,714,047)

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	
	2021	2020
Investing activities		
Net placement of term deposits	\$ (3,629,957)	\$ (68,532)
Purchase of property, plant and equipment <i>(Note 10)</i>	(73,058)	(73,310)
Purchase of investments in securities	(1,816,004)	598,815
Proceeds from principal repayments	1,169,787	119,596
Interest received	638,427	655,674
Dividends received	340,505	295,609
Net cash (used in)/provided by investing activities	(3,370,300)	1,527,852
Financing activities		
Dividends paid	(574,440)	-
Net cash used in financing activities	(574,440)	-
Net decrease in cash and cash equivalents	(2,823,460)	(8,186,195)
Cash and cash equivalents at beginning of year	5,962,647	14,148,842
Cash and cash equivalents at end of year	\$ 3,139,187	5,962,647
Supplemental information		
Premium tax paid	\$ 2,078,298	\$ 1,461,868

See accompanying notes to financial statements.

Insurance Company of The Bahamas Limited

Notes to Financial Statements
(Expressed in Bahamian Dollars)

December 31, 2021

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 16.

(e) COVID-19 Considerations

The Company's results and operations have been and may continue to be impacted by the COVID -19 pandemic and the recent economic environment. The effects include but are not limited to significant volatility in equity markets, decline in interest rates, increase in credit risk, fluctuations in the frequency of insurance claims, persistency and redemptions, and disruption of business operations. The breadth and depth of these events and their duration contribute additional uncertainty around estimates used in determining the carrying value of certain assets and liabilities included in these Financial Statements. Management has considered the effect of COVID-19 to the extent possible in its estimates and assumptions.

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.

(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.

(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, 2021 and 2020, 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 2021, the total risk premium pertaining to such arrangements amounts to \$23,205,795 (2020: \$21,059,900).

(b) Income and Expense Recognition

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

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. Motor sliding scale commission income - recognized when the Company's right to receive payment has been established.
- v. 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.

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.

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 derecognised, 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.

'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.

(vi) Fair Value Measurement

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.

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.

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.

(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. 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

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. The Company intends to apply on the effective date and is currently in preparations for its adoption.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. This standard will have limited impact to the Company.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.

(m) Change in Accounting Policy

Recognition of Motor Sliding Scale Commission

Management has applied a change in accounting policy in relation to the timing of recognition of the motor sliding scale commission income. During the year ended December 31, 2021, management obtained additional information from the reinsurers and the calculation of the motor sliding scale commission was estimated for the 2021 year. In previous years, the commission was recognized in the year of settlement as the amount could not be reasonably measured until collection of payment was reasonably assured. There was no motor sliding scale commission earned in the year 2020. Management affirms that this change in accounting policy will more reliably reflect the Company's financial position and performance. The net motor sliding scale commission recognized in 2021 was \$846,239 (2020 – \$nil).

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.

	2021	2020
Recoverables under excess of loss reinsurance for claims paid and outstanding	\$ 556,588	\$ 2,523,680
Recoverables under proportional contracts for outstanding claims (Note 12)	10,775,188	18,386,225
	\$ 11,331,776	\$ 20,909,905

Amounts due to reinsurers of \$4,136,453 (2020 – \$9,015,906) 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 \$nil (2020 – \$nil).

6. Term Deposits

Term deposits with banks include accrued interest totalling \$ 62,501 (2020 – \$98,284). 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 – 2021	2021	Interest Rates – 2020	2020
3 months to one year	0.22%-2.25%	\$ 9,571,579	0.22%-2.00%	\$ 5,977,404
Over one to five years	2.25%	1,008,569	2.25%	1,008,569
Loss Allowance for Term Deposits		(2,366)		(2,366)
		\$ 10,577,782		\$ 6,983,607

To meet its requirement under the Insurance Act 2005 in The Bahamas, as outlined in Note 17 under capital management, the Company renewed its term deposit of \$1,279,591 (2020 – \$1,273,225) with a maturity date of December 21, 2022, 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 17, and as such holds a restricted deposit of \$ 534,726 (2020 – \$533,552), with a maturity date of December 7, 2022, 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. The financial statements include the following balances and transactions with related parties:

Balances	2021	2020
<u>Parent Company</u>		
Due from agents	\$ 10,226,293	\$ 14,480,977
Deferred commission reserve	6,149,011	5,863,075
Investments in securities – fair value through profit or loss (Note 8)	465,000	456,000
<u>Related Entity</u>		
Due to reinsurers	(4,136,453)	(9,015,906)
<u>Directors</u>		
Directors fees payable	(25,500)	(25,500)
Transactions		
<u>Parent Company</u>		
Gross written premiums	79,075,256	71,517,966
Gross Premiums written - fronting arrangements		
Dividend income	16,800	17,400
Commission expense (Note 11)	(12,216,728)	(11,764,491)
Profit and loyalty commission	(1,153,645)	(38,043)
Management fees	(50,000)	(50,000)
Dividend paid	(232,204)	-
Advertisement expenses	(10,000)	(10,000)
<u>Other Shareholders</u>		
Dividend paid	(348,306)	-
<u>Directors</u>		
Directors fees	(128,000)	(116,000)

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:

	2021	2020
As of beginning of year	\$ 8,428,455	\$ 8,965,749
Additions	1,316,003	-
Disposals	(446,441)	(18,965)
Change in net unrealized gains/(losses) during the year	226,854	(518,329)
As of end of year	\$ 9,524,871	\$ 8,428,455

As of December 31, 2021, the cost of securities fair valued through profit or loss was \$7,058,241 (2020 – \$6,188,679).

The Company holds 30,000 (2020 – 30,000) shares of J.S. Johnson valued at \$465,000 (2020 – \$456,000) (Note 7) at a cost of \$211,500 (2020 – \$211,500).

Included in prepayments and other receivables is \$5,180 (2020 – \$5,180) relating to dividends receivable at December 31, 2021.

(ii) Investments at Amortized Cost

Investments at Amortized cost consist of the following:

	Interest Rates	Maturity	Amortized Cost		Interest Rates	Maturity	Amortized Cost	
			2021				2020	
Bahamas Electricity Corporation Bond	-	-	-	6.40%	2021	500,790		
Bahamas Government Registered Stock	4.39% - 5.60%	2022-2049	6,328,526	4.39% - 5.60%	2020-2049	5,931,234		
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	178,605	7.00%	2026	214,327		
Nassau Airport Dev. Co. Senior Notes	8.50%	2031	315,000	8.50%	2031	345,000		
Nassau Airport Dev. Co. Senior Notes	7.50%	2035	1,676,861	7.50%	2035	1,556,777		
The Bridge Authority Bond	6.25%	2024	130,078	6.25%	2024	130,078		
Public Hospital Authority Ser A	6.00%	2033	641,130	6.00%	2033	694,557		
Loss Allowance			(345,007)			(163,277)		
			\$ 10,731,218			\$ 11,015,510		

Included in investments at amortized cost is accrued interest totalling \$143,924 (2020 – \$143,223). For the year ended December 31, 2021, the interest income for the investments at amortized cost was \$486,669 (2020 - \$562,305).

In accordance with the Note Purchase Agreement dated December 31, 2018 for Nassau Airport Development Company – 7.5% Participating Debt Note, the issuer exercised its rights under the Agreement to capitalize any unpaid interest due on the Quarterly Date and increase the principal amount of the Participating Debt Note by the amount equal to such capitalized interest. In accordance with IFRS 9, when modifying debt, the Company must determine whether the change in carrying value is substantial or replaced by new debt with substantially different terms. In accordance with the reporting standard, these contractual cash

flows have been modified and did not result in derecognition, as such the Company has recognized a modification gain of \$120,083 (2020 - \$55,037) within in the statement of comprehensive income.

In accordance with the Note Purchase Agreement dated March 20, 2009, for Nassau Airport Development Company – 8.5% Senior Secured Note, the issuer has exercised its rights under the Agreement to prepay the principal in a number of instalments until the maturity date in 2031. During 2021, the Company received \$30,000 (2020 – \$30,000) 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 instalments until the maturity date in 2026. During 2021, the Company received \$35,714 (2020 – \$35,714) towards the principal of the Secured Note.

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 instalments until the maturity date in 2033. During 2021, the Company received \$52,632 (2020 – \$52,632) towards the principal of the Secured Note.

(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, 2021 and 2020. There has been no transfer of financial instruments between Level 1 and Level 2 during each of the years ended December 31, 2021 and 2020.

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, 2021, the Company's investment property is comprised of one parcel of land, with a carrying value of \$536,916 (2020 – \$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

	Land	Building	Furniture & Equipment	Computer Equipment	Motor Vehicles	Total
Cost						
Balance as of January 1, 2021	\$ 467,704	\$ 953,379	\$ 223,418	\$ 229,295	\$ 38,388	\$ 1,912,184
Additions	-	-	-	73,058	-	73,058
Disposals	-	-	-	-	-	-
Balance as of December 31, 2021	\$ 467,704	\$ 953,379	\$ 223,418	\$ 302,353	\$ 38,388	\$ 1,985,242
Accumulated depreciation						
Balance as of January 1, 2021	\$ -	\$ 268,156	\$ 211,394	\$ 150,939	\$ 15,195	\$ 645,684
Disposals	-	-	-	-	-	-
Depreciation charge	-	27,385	5,160	4,125	9,597	46,267
Balance as of December 31, 2021	\$ -	\$ 295,541	\$ 216,554	\$ 155,064	\$ 24,792	\$ 691,951
Net carrying value as of:						
December 31, 2021	\$ 467,704	\$ 657,838	\$ 6,864	\$ 147,289	\$ 13,596	\$ 1,293,291
December 31, 2020	\$ 467,704	\$ 685,223	\$ 12,024	\$ 78,356	\$ 23,193	\$ 1,266,500

	Land	Building	Furniture & Equipment	Computer Equipment	Motor Vehicles	Total
Cost						
Balance as of January 1, 2020	\$ 467,704	\$ 953,379	\$ 223,418	\$ 155,985	\$ 38,388	\$ 1,838,874
Additions	-	-	-	73,310	-	73,310
Disposals	-	-	-	-	-	-
Balance as of December 31, 2020	\$ 467,704	\$ 953,379	\$ 223,418	\$ 229,295	\$ 38,388	\$ 1,912,184
Accumulated depreciation						
Balance as of January 1, 2020	\$ -	\$ 240,772	\$ 204,559	\$ 145,310	\$ 5,598	\$ 596,239
Disposals	-	-	-	-	-	-
Depreciation charge	-	27,384	6,835	5,629	9,597	49,445
Balance as of December 31, 2020	\$ -	\$ 268,156	\$ 211,394	\$ 150,939	\$ 15,195	\$ 645,684
Net carrying value as of:						
December 31, 2020	\$ 467,704	\$ 685,223	\$ 12,024	\$ 78,356	\$ 23,193	\$ 1,266,500
December 31, 2019	\$ 467,704	\$ 712,607	\$ 18,859	\$ 10,675	\$ 32,790	\$ 1,242,635

The Company did not have any disposals during the period (2020 - \$nil).

11. Net Commissions Incurred

	2021	2020
Commission earned from reinsurers	\$ (13,682,104)	\$ (11,477,850)
Commission expenses allocated to J.S. Johnson	13,370,373	11,802,534
	\$ (311,731)	\$ 324,684

12. Outstanding Claims and Net Claims Incurred and Unearned Premiums

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

	2021	2020
Claims incurred	\$ 13,066,668	\$ 4,031,134
Less: recoverable from insurers	(11,861,490)	(2,191,935)
	\$ 1,205,178	\$ 1,839,199

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.

(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 2016 to 2021:

Insurance Claims - Gross Accident Year	2016	2017	2018	2019	2020	2021	Total
Estimate of ultimate costs at end of accident year	\$ 70,176,155	22,949,341	11,847,932	238,746,786	10,649,200	9,781,200	
One year later	75,628,189	21,572,268	11,154,592	228,868,843	9,178,693		
Two years later	76,329,583	21,375,182	11,101,755	233,341,280			
Three years later	76,495,458	21,365,088	11,082,220				
Four years later	76,522,442	21,351,708					
Five years later	76,479,105						
Total Incurred to date	\$ 76,479,105	21,351,708	11,082,220	233,341,280	9,178,693	9,781,200	\$ 361,214,206
Cumulative payments to date	\$ (75,835,520)	(20,911,553)	(10,449,387)	(230,204,309)	(7,541,103)	(5,509,744)	(350,451,616)
Liability recognized in statement of financial position	\$ 643,585	440,155	632,833	3,136,971	1,637,590	4,271,456	10,762,590
Liability in respect of prior years (1997 to 2015)							1,678,410
Gross claims outstanding included in the statement of financial position							\$ 12,441,000

Insurance Claims - Net Retention Accident Year	2016	2017	2018	2019	2020	2021	Total
Estimate of ultimate costs at end of accident year	\$ 13,409,386	3,811,300	1,936,539	25,674,981	1,738,095	1,523,799	
One year later	16,698,793	12,910,534	1,903,184	38,757,126	1,653,470		
Two years later	16,912,663	19,963,843	1,904,532	40,424,778			
Three years later	16,938,282	20,758,848	2,123,338				
Four years later	16,939,684	20,990,150					
Five years later	17,061,181						
Total Incurred to date	\$ 17,061,181	\$ 20,990,150	\$ 2,123,338	\$ 40,424,778	\$ 1,653,470	\$ 1,523,799	\$ 83,776,716
Cumulative payments to date	\$ (16,964,155)	(20,915,277)	(2,028,413)	(40,170,718)	(1,389,916)	(900,240)	(82,368,718)
Liability recognized in statement of financial position	\$ 97,026	74,874	94,924	254,060	263,554	623,559	\$ 1,407,997
Liability in respect of prior years (1997 to 2015)							257,814
Net claims outstanding included in the statement of financial position							\$ 1,665,811

(iii) Movements in Outstanding Claims

As at December 31, 2021, outstanding claims of \$12,441,000 (2020 – \$21,050,996) are shown gross of reinsurance recoverable of \$ 10,957,365 (2020 – \$18,386,225) as disclosed in Note 4.

Included in gross outstanding claims is a provision of \$2,294,259 (2020 – \$2,496,082) 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.

	2021			2020		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims at January 1 consists of:						
Notified claims	\$ 18,554,914	\$ (16,244,964)	\$ 2,309,950	\$ 140,720,255	\$ (128,558,899)	\$ 12,161,356
Development Incurred but not reported	2,496,082	(2,141,261)	354,821	5,569,000	(5,206,000)	363,000
Total claims outstanding	\$ 21,050,996	\$ (18,386,225)	\$ 2,664,771	\$ 146,289,255	\$ (133,764,899)	\$ 12,524,356
Cash paid for claims settled in the year	(21,494,491)	20,000,762	\$ (1,493,729)	\$ (126,204,654)	\$ 124,864,432	\$ (1,340,222)
Increase/(Decrease) in liabilities						
arising in current year claims	4,126,664	(4,396,434)	(269,769)	3,330,779	(2,751,366)	579,413
arising from prior years claims	8,959,654	(8,175,470)	784,184	708,534	(9,799,131)	(9,090,597)
movement in development IBNR	(201,823)	182,178	(19,645)	(3,072,918)	3,064,739	(8,179)
Total claims outstanding	\$ 12,441,000	\$ (10,775,188)	\$ 1,665,811	\$ 21,050,996	\$ (18,386,225)	\$ 2,664,771
	2021			2020		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims at December 31 consists of:						
Notified claims	\$ 10,146,741	\$ (8,816,105)	\$ 1,330,636	\$ 18,554,914	\$ (16,244,964)	\$ 2,309,950
Development Incurred but not reported	2,294,259	(1,959,083)	335,176	2,496,082	(2,141,261)	354,821
Total claims outstanding	\$ 12,441,000	(10,775,188)	\$ 1,665,811	\$ 21,050,996	\$ (18,386,225)	\$ 2,664,771

(iv) *Unearned Premium Reserve*

Year Ended December 31	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At beginning of the year	\$ 25,314,896	\$ (21,682,877)	\$ 3,632,019	\$ 25,298,812	\$ (21,355,421)	\$ 3,943,391
Net increase/(decrease) in the year	1,419,098	(1,380,277)	38,821	16,084	(327,456)	(311,372)
Total at end of the year	\$ 26,733,994	\$ (23,063,154)	\$ 3,670,840	\$ 25,314,896	\$ (21,682,877)	\$ 3,632,019

Included in the statement of comprehensive income is the net increase in unearned premium reserve of \$38,821 (2020 – net decrease of \$311,372).

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. 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 \$23,518 (2020 – \$22,903).

15. Dividends

During 2021, the Board of Directors declared dividends in the amount of \$580,510 (2020 – \$nil). As of December 31, 2021, dividends payable amounted to \$34,119 (2020 – \$28,049) included in accounts payable and accruals in the statement of financial position.

16. 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.

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.

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, 2021 ECL	ECL Adjustment	December 31, 2021 ECL
Term Deposits	\$ 2,366	\$ -	\$ 2,366
Investments at Amortized Cost	163,277	181,730	345,007
	<u>\$ 165,643</u>	<u>\$ 181,730</u>	<u>\$ 347,373</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

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:

	2021		2020	
	High Grade	Medium Grade	High Grade	Medium Grade
Cash and Cash Equivalents	\$ 3,139,187	\$ -	\$ 5,962,647	\$ -
Term Deposits	10,577,782	-	6,983,607	-
Due from agents	10,226,293	-	14,480,977	-
Investments at Amortized Cost	-	10,731,218	-	11,015,510
Reinsurance Assets	11,331,776	-	20,909,905	-
Total Credit Risk Exposure	\$ 35,275,037	\$ 10,731,218	\$ 48,337,137	\$ 11,015,510

The below table shows the carrying value of the loss allowances measured at an amount equal to the 12-month expected credit losses and the loss allowances measured at an amount equal to lifetime expected credit losses by credit risk grade:

	2021		2020	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL
High Grade	\$ 2,366	\$ -	\$ 2,366	\$ -
Medium Grade	-	345,007	-	163,277
Total Credit Risk Exposure	\$ 2,366	\$ 345,007	\$ 2,366	\$ 163,277

There are no credit impaired debt securities recognized at December 31, 2021.

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. During 2020, the nation underwent a dramatic shift in economic status due to the outbreak of the COVID-19 global pandemic. The credit rating of the nation's sovereign debt weakened, unemployment levels increased and the gross domestic product linked to the country's main industry of tourism faced historic pressures as a result of government mandated restrictions. Since this time, the nation has shown slight signs of economic recovery with some ease of government mandated restrictions although the credit ratings further lowered in 2021. As a result of this analysis, the Company has determined that there remains a significant increase in credit risk for all Bahamas Government Registered Stock and government affiliated bonds and notes. Due to the increased risk, the expected credit loss for these investments will remain at the Stage 2: lifetime credit loss calculation.

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

	January 1, 2021 ECL		ECL Adjustment		December 31, 2021 ECL	
	12m ECL	LT ECL	12m ECL	LT ECL	12m ECL	LT ECL
Term Deposits	\$ 2,366	\$ -	\$ -	\$ -	\$ 2,366	\$ -
Investments at Amortized Cost	-	163,277	-	181,730	-	345,007
	<u>\$ 2,366</u>	<u>\$ 163,277</u>	<u>\$ -</u>	<u>\$ 181,730</u>	<u>\$ 2,366</u>	<u>\$ 345,007</u>

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

	January 1, 2021 Carrying Value		Carrying Value Adjustment		December 31, 2021 Carrying Value	
	12m ECL	LT ECL	12m ECL	LT ECL	12m ECL	LT ECL
Term Deposits	\$ 6,983,607	\$ -	\$ 3,594,174	\$ -	\$ 10,577,782	\$ -
Investments at Amortized Cost	-	11,015,510	-	(284,292)	-	10,731,218
	<u>\$ 6,983,607</u>	<u>\$ 11,015,510</u>	<u>\$ 3,594,174</u>	<u>\$ (284,292)</u>	<u>\$ 10,577,782</u>	<u>\$ 10,731,218</u>

(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.

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	2021			2020		
	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	\$ 3,139,187	\$ -	\$ 3,139,187	\$ 5,962,647	\$ -	\$ 5,962,647
Term deposits	9,571,579	1,006,203	10,577,783	5,977,404	1,006,203	6,983,607
Reinsurance recoveries	11,331,776	-	11,331,776	20,909,905	-	20,909,905
Due from agent	10,226,293	-	10,226,293	14,480,977	-	14,480,977
Investment in securities			-			
Fair value through profit or loss	9,524,871	-	9,524,871	8,428,455	-	8,428,455
Amortized cost	-	10,731,218	10,731,218	-	11,015,510	11,015,510
Total	\$ 43,793,706	\$ 11,737,421	\$ 55,531,127	\$ 55,759,388	\$ 12,021,713	\$ 67,781,102

	2021			2020		
	Current Less than 12 months	Non-current More than 12 months	Total	Current Less than 12 months	Non-current More than 12 months	Total
Financial liabilities						
Outstanding claims	\$ 12,441,000	\$ -	\$ 12,441,000	\$ 21,050,996	\$ -	\$ 21,050,996
Due to reinsurers	4,136,453	-	4,136,453	9,015,906	-	9,015,906
Accounts payable and accruals	801,415	38,219	839,634	2,793,282	32,149	2,825,431
Total	\$ 17,378,869	\$ 38,219	\$ 17,417,087	\$ 32,860,184	\$ 32,149	\$ 32,892,333
Liquidity Gap	\$ 26,414,838	\$ 11,699,202	\$ 38,114,041	\$ 22,899,204	\$ 11,989,564	\$ 34,888,768

(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, 2021

	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	\$ -	\$ -	\$ -	\$ -	\$ 3,139,187	\$ 3,139,187
Term deposits	-	9,571,579	1,006,203	-	-	10,577,782
Reinsurance recoverables	-	-	-	-	11,331,776	11,331,776
Due from agent	-	-	-	-	10,226,293	10,226,293
Deferred commission reserve	-	-	-	-	6,149,011	6,149,011
Prepaid reinsurance premium	-	-	-	-	23,063,154	23,063,154
Prepayments and other receivables	-	-	-	-	30,406	30,406
Investments in securities						
Fair value through profit or loss	-	-	-	-	9,524,871	9,524,871
Amortized cost	-	-	1,021,674	9,891,274	-	10,912,948
	\$ -	\$ 9,571,579	\$ 2,027,877	\$ 9,891,274	\$ 63,464,698	\$ 84,955,429
Liabilities						
Unearned premium reserve	\$ -	\$ -	\$ -	\$ -	26,733,994	\$ 26,733,994
Outstanding claims	-	-	-	-	12,441,000	12,441,000
Unearned commission reserve	-	-	-	-	5,723,247	5,723,247
Due to reinsurers	-	-	-	-	4,136,453	4,136,453
Accounts payable and accruals	-	-	-	-	839,634	839,634
	\$ -	\$ -	\$ -	\$ -	49,874,328	\$ 49,874,328
Total interest sensitivity gap	\$ -	\$ 9,571,579	\$ 2,027,877	\$ 9,891,274	13,590,371	\$ 35,081,100

At December 31, 2020

	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	\$ -	\$ -	\$ -	\$ -	\$ 5,962,647	\$ 5,962,647
Term deposits	-	5,977,404	1,006,203	-	-	6,983,607
Reinsurance recoverables	-	-	-	-	20,909,905	20,909,905
Due from agent	-	-	-	-	14,480,977	14,480,977
Deferred commission reserve	-	-	-	-	5,863,075	5,863,075
Prepaid reinsurance premium	-	-	-	-	21,682,877	21,682,877
Prepayments and other receivables	-	-	-	-	27,100	27,100
Investments in securities						-
Fair value through profit or loss	-	-	-	-	8,428,455	8,428,455
Amortized cost	-	-	1,522,464	9,493,047	-	11,015,511
	\$ -	\$ 5,977,404	\$ 2,528,667	\$ 9,493,047	\$ 77,355,037	\$ 95,354,156
Liabilities						
Unearned premium reserve	\$ -	\$ -	\$ -	\$ -	25,314,896	\$ 25,314,896
Outstanding claims	-	-	-	-	21,050,996	21,050,996
Unearned commission reserve	-	-	-	-	5,431,639	5,431,639
Due to reinsurers	-	-	-	-	9,015,906	9,015,906
Accounts payable and accruals	-	-	-	-	2,825,431	2,825,431
	\$ -	\$ -	\$ -	\$ -	63,638,869	\$ 63,638,869
Total interest sensitivity gap	\$ -	\$ 5,977,404	\$ 2,528,667	\$ 9,493,047	13,716,168	\$ 31,715,287

At December 31, 2021, 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 \$53,727 (2020 – \$44,998). 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.

17. 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.

As at December 31, 2021, the Company has complied with the regulatory imposed capital requirement, met the required restricted deposit and exceeded the minimum margin of solvency required under the Act.

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, 2021, the Company has met the required restricted deposit and its solvency requirement in accordance with the Ordinance.

18. Subsequent Events

Subsequent to December 31, 2021 up to the date of these financial statements, no events other than as set out in note 2(e) have occurred that would significantly impact these financial statements.

