



Financial Statements of

**THE INSURANCE COMPANY OF THE
WEST INDIES LIMITED (BAHAMAS
BRANCH)**

Year ended December 31, 2016

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Financial Statements

Year ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of
The Insurance Company of the West Indies Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Insurance Company of the West Indies Limited (Bahamas Branch) ("the Branch"), which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in home office account and reserves and cash flows for the year then ended, and notes, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or



Auditors' Responsibilities for the Audit of the financial statements (continued)

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 Branch'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 Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Nassau, Bahamas
May 5, 2017



APPOINTED ACTUARY'S REPORT TO THE BOARD OF DIRECTORS

We have valued the gross policy liabilities of \$895,929 of The Insurance Company of the West Indies Limited (Bahamas Branch) for its statement of financial position as at December 31, 2016 and their change in net income or loss in the statement of comprehensive income for the year then ended in accordance with generally accepted actuarial practice.

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

A handwritten signature in black ink that reads "Josh Worsham". The signature is written in a cursive style with a large, sweeping initial "J" and "W".

Mid Atlantic Actuarial Services LLC

18816 Hammock Lane
Davidson, NC 28036
U.S.A.

May 5, 2017

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Statement of Financial Position

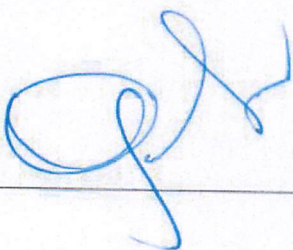
December 31, 2016, with corresponding figures for 2015

(Expressed in Bahamian dollars)

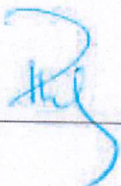
	Note	2016	2015
ASSETS			
Cash on hand and at bank	6, 15	\$ 408,127	3,009,690
Investments	6, 15	3,181,102	500,399
Accrued investment income	6, 15	15,596	33
Other accounts receivable and prepayments	15	16,955	24,622
Deferred commission expense	9	197,264	180,850
Premiums receivable	8, 15	79,588	176,429
Reinsurance assets	7	1,175,038	847,244
Property, plant and equipment	5	41,886	77,023
Total assets		\$ 5,115,556	4,816,290
LIABILITIES AND RESERVES			
Liabilities:			
Accounts payable and accrued charges	10, 15	\$ 159,152	446,944
Insurance payables	11, 15	74,643	414,101
Insurance contracts provisions	7, 15	2,020,944	1,508,791
		2,254,739	2,369,836
Reserves:			
Head Office account	12	2,831,163	2,340,056
Revenue reserve		29,654	106,398
		2,860,817	2,446,454
Commitments and contingencies	4(n) (ii), 18		
Total liabilities and reserves		\$ 5,115,556	4,816,290

See accompanying notes to financial statements.

These financial statements were approved by the Board of Directors on May 5, 2017 and signed on its behalf by:



Director



Director

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Statement of Comprehensive Income

Year ended December 31, 2016, with corresponding figures for 2015

(Expressed in Bahamian dollars)

	Note	2016	2015
Gross premiums written	7	\$ 2,932,108	3,199,173
Change in gross provision for unearned premiums	7	(100,491)	(82,268)
Gross insurance premium revenue	7	2,831,617	3,116,905
Written premiums ceded to reinsurers	7	(1,640,476)	(1,888,134)
Excess of loss reinsurance		(213,744)	(196,168)
Reinsurers' share of change in provision for unearned premiums	7	40,304	42,192
Net insurance premium revenue		1,017,701	1,074,795
Underwriting expenses:			
Claims paid - net	7	(797,890)	(534,240)
Change in claims outstanding provision	7	411,662	216,587
Reinsurers' share of claims and benefits incurred	7	(287,490)	(184,727)
Net insurance claims and benefits incurred		(673,718)	(502,380)
Commission income	11	636,486	702,434
Premium tax		(87,963)	(95,975)
Commission expenses	9	(494,426)	(543,204)
Total underwriting expenses		(619,621)	(439,125)
Underwriting profit before other income and expenses		398,080	635,670
Operating income and expenses:			
Interest on investments	6	28,497	20,417
Miscellaneous		62,054	18,963
Foreign exchange loss		(4,833)	(3,040)
Operating expenses	5, 17, 18	(560,542)	(565,612)
		(474,824)	(529,272)
Net (loss)/income and total comprehensive (loss)/income for the year		\$ (76,744)	106,398

See accompanying notes to financial statements.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED
Bahamas Branch

Statement of Changes in Head Office Account and Reserves

Year ended December 31, 2016, with corresponding figures for 2015
(Expressed in Bahamian dollars)

	Head Office Account	Revenue Reserve	Total
Balance as at January 1, 2015	\$ —	—	—
Transactions with head office: Contribution (note 12)	2,340,056		2,340,056
Total comprehensive income for the year: Net income for the year	—	106,398	106,398
Balance as at December 31, 2015	2,340,056	106,398	2,446,454
Transactions with head office: Contribution (note 12)	491,107	—	491,107
Total comprehensive loss for the year: Net loss for the year	—	(76,744)	(76,744)
Balance at December 31, 2016	\$ 2,831,163	29,654	2,860,817

See accompanying notes to financial statements.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Statement of Cash Flows

Year ended December 31, 2016, with corresponding figures for 2015

(Expressed in Bahamian dollars)

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss)/income		\$ (76,744)	106,398
Adjustments for:			
Depreciation on property, plant and equipment	5	36,086	39,576
Change in unearned premium reserve		100,491	82,268
Interest income		(28,497)	(20,417)
Bad debt expense	8	17,740	17,436
Loss on disposal of property, plant & equipment		–	3,039
Operating cash flow before changes in working capital		49,076	228,300
(Increase)/decrease in assets:			
Premiums receivable		79,101	(148,219)
Reinsurance assets		(327,794)	142,535
Deferred commission expense		(16,414)	(14,398)
Due (from)/to related parties - net		–	(26,110)
Other accounts receivable and prepayments		7,667	(10,745)
Increase/(decrease) in liabilities:			
Accounts payable and accrued charges		(287,792)	33,994
Insurance payables		(339,458)	(70,937)
Insurance contracts provisions		411,662	(216,587)
Net cash used in operating activities		(423,952)	(82,167)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		12,934	26,866
(Placement)/maturity of investments		(1,896,303)	1,071,250
Additions to property, plant and equipment	5	(949)	(1,190)
Net cash (used in)/provided by investing activities		(1,884,318)	1,096,926
CASH FLOWS FROM FINANCING ACTIVITIES			
Contributed surplus	12	–	(50,534)
Contributions from Head Office	12	491,107	–
Net cash provided by/(used in) financing activities		491,107	(50,534)
Net (decrease)/increase in cash and cash equivalents		(1,817,163)	964,225
Cash and cash equivalent at beginning of year		3,510,089	2,545,864
Cash and cash equivalent at end of year		\$ 1,692,926	3,510,089
Cash and cash equivalents comprise:			
Cash on hand and at bank		\$ 408,127	3,009,690
Investments maturing within 3 months of origination	6	1,284,799	500,399
		\$ 1,692,926	3,510,089
Supplemental information:			
Premium tax paid		\$ 87,963	95,975

See accompanying notes to financial statements.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Notes to Financial Statements

Year ended December 31, 2016

(Expressed in Bahamian dollars)

1. Corporate structure and nature of business

The Insurance Company of the West Indies (Bahamas) Limited (“the Company”) was incorporated on October 8, 2007 in The Bahamas under the Companies Act. It is domiciled in The Bahamas and is a wholly owned subsidiary of ICWI Bahamas Limited, which is also incorporated in The Bahamas. ICWI Bahamas Limited is a wholly-owned subsidiary of ICWI Group Limited, “the Parent”, which is incorporated in Jamaica. The ultimate parent is Atlantic and Caribbean Sea Development Limited, which is incorporated in Jamaica.

On August 1, 2008, the Company started writing insurance business in The Bahamas previously written by the Insurance Company of the West Indies Limited (“ICWI Jamaica”), a fellow subsidiary of ICWI Group Limited. At that date, all assets and liabilities relating to the business conducted in The Bahamas were transferred from ICWI Jamaica to the Company.

On January 1, 2015 the Company ceased writing insurance business and transferred all assets and liabilities relating to the business to ICWI Jamaica, and now operates as a branch of ICWI Jamaica (“the Branch”).

2. Insurance licence

The Branch is licensed under the Insurance Act, 2005 to underwrite general insurance business.

3. Roles of the actuary and external auditors

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

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

4. Statement of compliance, basis of preparation and significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The principal accounting policies set out below have been applied consistently by the Branch and are consistent with those used in the previous year.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Notes to Financial Statements

Year ended December 31, 2016

(Expressed in Bahamian dollars)

4. Statement of compliance, basis of preparation and significant accounting policies *(continued)*

(b) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(i) Allowance for impairment losses on receivables

In determining amounts recorded for impairment losses in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, based on default and adverse economic conditions. Management makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows.

(ii) Outstanding claims

Management believes that the provision for outstanding losses and loss expenses will be adequate to cover the ultimate net cost of losses incurred up to the reporting date. However, the provision is necessarily an estimate and may ultimately be settled for a significantly greater or lesser amount. Any subsequent differences arising are recorded in the period in which they are determined.

(iii) In addition to the above, other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 4(d) – *Property, plant and equipment – expected useful lives*, 4(f) *Financial instruments – determination of fair values*, 4(h) - *Provisions*, 4(k) - *Impairment*, 5, 8, 9, and 15.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Notes to Financial Statements

Year ended December 31, 2016
(Expressed in Bahamian dollars)

4. Statement of compliance, basis of preparation and significant accounting policies (continued)

(c) Basis of measurement and functional and presentation currency

Basis of measurement

The financial statements are prepared on the historical cost basis.

Functional and presentation currency

These financial statements are presented in Bahamian dollars (\$), which is the Branch's functional and reporting currency.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. 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 recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Branch and its cost can be measured reliably. The cost of the day to day servicing of property, plant and equipment is recognised in the statement of comprehensive income.

Property, plant and equipment are depreciated using the straight-line method at annual rates estimated to write-off the assets, less their estimated residual values, over their expected useful lives, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset, and is recognised in the statement of comprehensive income. The depreciation rates are as follows:

Furniture, fixtures and equipment	10% & 20%
Motor vehicles	20%

Building leasehold improvements are amortised over the shorter of the lease term or the estimated useful life, currently five years.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the statement of comprehensive income. Repairs and maintenance are charged in the statement of comprehensive income when the expenditure is incurred.

(e) Related parties

A party is related to an entity, if:

- (i) directly, or indirectly through one or more intermediaries, the party:

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Notes to Financial Statements

Year ended December 31, 2016
(Expressed in Bahamian dollars)

4. Statement of compliance, basis of preparation and significant accounting policies (continued)

(e) Related parties (continued)

- (a) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
- (b) has an interest in the entity that gives it significant influence over the entity; or
- (c) has joint control over the entity;
- (ii) the party is an associate of the entity;
- (iii) the party is a joint venture in which the entity is a venturer;
- (iv) the party is a member of the key management personnel of the entity or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (ii) or (iii), or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

(f) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial assets have been determined to include cash and cash equivalents, investments, accrued interest income, premium receivables, and other accounts receivable. Financial liabilities include accounts payable, and accrued charges and insurance payables.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

A financial instrument is recognised when the Branch becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are accounted for at the trade date, that is, the date the Branch commits itself to purchase or sell the asset. Financial assets are derecognised when the Branch's contractual rights to the cash flows from the financial assets expire or when the Branch transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised when the Branch's obligations specified in the contract expire or are discharged or cancelled.

Determination of fair values

'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 in the principal or, in its absence, the most advantageous market to which the Branch has access at that date. The fair value of a liability reflects its non-performance risk.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Notes to Financial Statements

Year ended December 31, 2016

(Expressed in Bahamian dollars)

4. Statement of compliance, basis of preparation and significant accounting policies (continued)

(f) Financial instruments (continued)

Determination of fair values (continued)

When available, the Branch 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.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – that is, the fair value of the consideration given or received. If the Branch 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 recognised 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 Branch measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Investments held-to-maturity

Financial assets for which the Branch has the positive intent and ability to hold to maturity, are classified as held-to-maturity, and are measured initially at cost and subsequently at amortised cost using the effective interest method less impairment losses. Financial assets classified as held-to-maturity include investments held with banks.

Any sale or reclassification of more than an insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale, and prevent the Branch from classifying investment securities as held-to-maturity for the current and the following two financial years.

Available for sale investments

Available for sale investments are financial assets and liabilities that are either designated in this category or are not classified as loans and receivables, held-to-maturity investments, or investments at fair value through profit or loss.

Available for sale investments are measured at fair value less impairment losses. The determination of fair values is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. Any equity security that does not have a quoted market price in an active market and whose fair value cannot be reliably measured

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Notes to Financial Statements

Year ended December 31, 2016

(Expressed in Bahamian dollars)

4. Statement of compliance, basis of preparation and significant accounting policies (continued)

(f) Financial instruments (continued)

Available for sale investments (continued)

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. Changes in fair value are recognised directly in other comprehensive income in the statement of comprehensive income, except for impairment losses, which are recognised in net income or loss in the statement of comprehensive income. When an investment is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is transferred to net income or loss.

Fair value measurement principles

The Branch 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.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Receivables arising from insurance contracts, and other receivables are classified in this category.

Other

Other financial instruments are measured at amortised cost using the effective interest method, less impairment losses.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Notes to Financial Statements

Year ended December 31, 2016

(Expressed in Bahamian dollars)

4. Statement of compliance, basis of preparation and significant accounting policies (continued)

(f) Financial instruments (continued)

Offsetting financial instruments

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

Impairment – financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Branch on terms that the Branch would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in net income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income or loss in the statement of comprehensive income.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, to net income or loss. The cumulative loss that is removed from other comprehensive income and recognised in net income or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in net income or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and short term investments held with financial institutions with original maturities of less than three months.

(h) Provisions

A provision is recognised in the statement of financial position if, as a result of a past event, the Branch has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

Notes to Financial Statements

Year ended December 31, 2016

(Expressed in Bahamian dollars)

4. Statement of compliance, basis of preparation and significant accounting policies (continued)

(h) Provisions (continued)

flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligations.

(i) Foreign currencies

Transactions in foreign currencies are converted at the rates of exchange prevailing at the dates of those transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are converted at the rates of exchange prevailing on that date. Gains and losses arising from fluctuations in exchange rates are recognised in the statement of comprehensive income.

For the purpose of the statement of cash flows, all foreign currency gains and losses recognised in the statement of comprehensive income are treated as cash items and included in cash flows from operating or financing activities along with movements in the principal balances.

(j) Interest income

Interest income is recognised on an accrual basis using the effective interest rate method.

(k) Impairment – non-financial assets

The carrying amount of the Branch's assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at the reporting date. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in net income or loss in the statement of comprehensive income. Impairment losses recognised 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 recognised.

Calculation of recoverable amount:

The recoverable amount of an asset is the greater of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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Bahamas Branch

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Year ended December 31, 2016
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4. Statement of compliance, basis of preparation and significant accounting policies (continued)

(l) Revenue recognition

Revenue is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the policyholder. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

Revenue comprises the following:

(i) Gross written premiums:

The accounting policies for the recognition of revenue from insurance contracts are disclosed in note 4(m) (i).

(ii) Commission income:

Reinsurance commission is recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts (see note 4(m)(i)).

Profit commission in respect of reinsurance contracts is recognised in the year in which the profit commission is crystallized.

(m) Insurance contracts

(i) Classification, recognition and measurement

The Branch issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer insurance risks. Such contracts may also transfer financial risk. The Branch considers an insurance risk to be significant where the sum insured or limit of indemnity is in excess of the maximum amount on any one loss as stated in note 14. The classification of contracts includes both the insurance and reinsurance contracts that the Branch enters into.

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

Insurance contracts are accounted for in compliance with the recommendations and practices of the insurance industry. The underwriting results are determined after making provision for, inter alia, unearned premiums, outstanding claims, unexpired risks, deferred commission expense and deferred commission income.

Gross written premiums

Gross premiums reflect business written during the period. The earned portion of premiums is recognised as revenue and is shown before deduction of premium tax, premiums ceded to reinsurers and commissions. Premiums are recognised proportionally over the period of coverage. Premiums received prior to the year end and processed after the year end by the agents are recognised by the Branch at the time of processing.

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4. Statement of compliance, basis of preparation and significant accounting policies (continued)

(m) Insurance contracts (continued)

(i) Classification, recognition and measurement (continued)

Unearned premiums

Unearned premiums represent the portion of premiums received on in-force contracts that relates to unexpired risks at the reporting date and is calculated on the “three sixty fifths” basis on the total premiums written.

Outstanding claims

Outstanding claims comprise estimates of the amount of reported losses and loss expenses plus a provision for losses incurred but not reported based on the historical experience of the Branch. The loss and loss expense reserves have been reviewed by the Branch’s actuary using the past loss experience of the Branch and industry data. The Branch does not discount its liabilities for outstanding claims. Amounts recoverable in respect of claims from reinsurers are estimated in a manner consistent with the underlying liabilities.

Liability adequacy test

At each reporting date, liability adequacy tests are performed 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 each main category of business. Should any trend in reserve deficiency, at total portfolio level, become apparent then the deficiency would be immediately charged to net income or loss by establishing a provision for losses arising from liability adequacy tests.

Commission income and expense

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

(ii) Reinsurance assets

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with reinsured policies. Unearned reinsurance premiums on business ceded up to the reporting date which are attributable to subsequent periods are calculated substantially on the “three sixty fifth” basis on the total premiums ceded.

In the normal course of business the Branch seeks to reduce the loss that may result from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers (see note 14).

Reinsurance ceded does not discharge the Branch’s liability as the principal insurer. Failure of reinsurers to honour their obligations could result in losses to the Branch.

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Bahamas Branch

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4. Statement of compliance, basis of preparation and significant accounting policies (continued)

(m) Insurance contracts (continued)

(ii) Reinsurance assets (continued)

Consequently, a contingent liability exists in the event that an assuming reinsurer is unable to meet its obligations.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Branch may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Branch will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in the statement of comprehensive income.

(iii) Insurance receivables and insurance payables

Insurance receivables and payables are recognised when the contractual right to receive payment and contractual obligation to make payment arise, respectively.

Amounts due from and to policyholders, brokers, agents and reinsurers are financial instruments and are included in insurance receivables and payables. Gross claims provisions and gross unearned premiums reserve are included in insurance contracts provisions and the related reinsurance recoveries are included in reinsurance assets on the statement of financial position. Insurance receivables are assessed for impairment in accordance with the note 4(f) above as it relates to impairment on financial assets.

(n) Premium tax

Premium tax is incurred at a rate of 3% of gross premiums written in The Commonwealth of The Bahamas and is recognised when the Branch's obligation to make payment has been established.

(o) Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plan

The Branch has set up a defined contribution pension plan for eligible employees whereby the Branch pays contributions to a privately administered pension plan. The Branch has no further payment obligations once the contributions have been paid. The plan requires participants to contribute a minimum of 5% of their eligible earnings and such amounts are matched by the Branch. The Branch's contributions to the defined contribution pension plan are charged to net income or loss in the year to which they relate (see note 17).

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4. Statement of compliance, basis of preparation and significant accounting policies (continued)

(p) *New standards, interpretations and amendments to published standards*

Up to the date of issue of these financial statements, the International Accounting Standards Board has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2016 and which have not been adopted in the preparation of these financial statements.

Those which may be relevant to the Branch are set out below. The Branch does not plan to adopt these standards early.

(i) *IFRS 9 Financial Instruments*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

(ii) *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

(iii) *IFRS 16 Leases*

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after January 1, 2019.

The Branch is in the process of making an assessment of what the impact of these new standards, interpretations and amendments to published standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Branch's financial position.

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(Expressed in Bahamian dollars)

5. Property, plant and equipment

	Building leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
Cost:				
Balance at December 31, 2014	\$ 81,760	102,035	63,495	247,290
Additions	–	1,190	–	1,190
Disposals	–	(3,506)	–	(3,506)
Balance at December 31, 2015	81,760	99,719	63,495	244,974
Additions	–	949	–	949
Balance at December 31, 2016	\$ 81,760	100,668	63,495	245,923
Accumulated depreciation:				
Balance at December 31, 2014	\$ 41,062	49,117	38,663	128,842
Charge for the year	16,352	10,525	12,699	39,576
Disposals	–	(467)	–	(467)
Balance at December 31, 2015	57,414	59,175	51,362	167,951
Charge for the year	16,352	9,335	10,399	36,086
Balance at December 31, 2016	\$ 73,766	68,510	61,761	204,037
Net book value:				
December 31, 2016	\$ 7,994	32,158	1,734	41,886
December 31, 2015	\$ 24,346	40,544	12,133	77,023

Included in operating expenses in the statement of comprehensive income is depreciation expense of \$36,086 (2016 - \$36,087).

6. Investments and cash at bank

Investments comprise:

	2016	2015
Certificates of deposit:		
maturing within 3 months from the date of acquisition and earning interest at the rate of 0.35% - 0.85% per annum (2015 – 0.20% - 0.25%)	\$ 1,284,799	500,399
maturing more than 3 months from the date of acquisition and earning interest at the rate of 1.00% - 1.75% per annum (2015 – Nil%)	1,896,303	–
	\$ 3,181,102	500,399

As at December 31, 2016 interest accrued on certificates of deposit amounted to \$15,596 (2015 - \$33).

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Notes to Financial Statements

Year ended December 31, 2016

(Expressed in Bahamian dollars)

6. Investments and cash at bank *(continued)*

Included in deposits maturing more than 3 months from the date of acquisition at December 31, 2015 is \$1,000,000 placed in trust with the Company's banker, a recognised financial institution, to meet the requirements of the Insurance Act 2005, as outlined in note 16 (e) *capital risk management*. The deposit matured on March 17, 2017.

Cash at bank of \$408,127 (2015 - \$3,009,690) is held in current accounts bearing interest at rates of 0% (2015 – 0% to 0.5%).

7. Reinsurance assets and insurance contracts provisions

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims outstanding (note 14 & 15)	\$ 895,929	540,066	355,863	484,267	252,576	231,691
Unearned premiums reserve	1,125,015	634,972	490,043	1,024,524	594,668	429,856
	\$2,020,944	1,175,038	845,906	1,508,791	847,244	661,547

Analysis of movement in claims outstanding:

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance at January 1	\$ 484,267	252,576	231,691	700,854	437,303	263,551
Claims expenses incurred	2,591,158	1,669,096	922,062	1,085,420	583,040	502,380
Claims paid in the year	(2,179,496)	(1,381,606)	(797,890)	(1,302,007)	(767,767)	(534,240)
Change in outstanding Claims provision	411,662	287,490	124,172	(216,587)	(184,727)	(31,860)
Balance at December 31	\$ 895,929	540,066	355,863	484,267	252,576	231,691

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims notified	\$ 738,890	443,899	294,991	286,085	141,258	144,827
Claims incurred but not reported	157,039	96,167	60,872	198,182	111,318	86,864
Balance at December 31	\$ 895,929	540,066	355,863	484,267	252,576	231,691

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7. Reinsurance assets and insurance contracts provisions

Unearned premiums reserve:

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance at January 1	\$1,024,524	594,668	429,856	942,256	552,476	389,780
Premiums written during the year	2,932,108	1,640,476	1,291,632	3,199,173	1,888,134	1,311,039
Premiums earned during the year	(2,831,617)	(1,600,172)	(1,231,445)	(3,116,905)	(1,845,942)	(1,270,963)
Change in provision for unearned premiums	100,491	40,304	60,187	82,268	42,192	40,076
Balance at December 31	\$1,125,015	634,972	490,043	1,024,524	594,668	429,856

Gross unearned premiums are analysed as follows:

	2016	2015
Accident	\$ 3,118	727
Liability, engineering, bond and marine	38,217	25,137
Motor vehicle	925,198	817,161
Fire	158,482	181,499
	\$ 1,125,015	1,024,524

8. Premiums receivable

	2016	2015
Premiums receivable, net	\$ 79,588	176,429

Premiums receivable is shown net of allowance for bad debts of \$299 (2015 - \$8,673). The Branch's exposure to credit and impairment losses related to premiums and other receivables are disclosed in note 15 (a).

The movement during the year in the provision for doubtful accounts is as follows:

	2016	2015
Balance of beginning of the year	\$ 8,673	12,836
Decrease in allowance	(8,374)	(4,163)
	\$ 299	8,673

9. Deferred commission expense

	2016	2015
Balance at January 1	\$ 180,850	166,452
Commissions paid during the year	510,840	557,602
Amounts recognised in income during the year	(494,426)	(543,204)
Balance at December 31	\$ 197,264	180,850

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

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10. Accounts payable and accrued charges

	2016	2015
Accrued charges	\$ 66,006	72,511
Other payables	93,146	374,433
Balance at December 31	\$ 159,152	446,944

Included in other payables is \$77,657 (2015 - \$320,918) representing policyholders' accounts with credit balances. These credit balances comprise funds received from policyholders for policies that were processed subsequent to the year-end or amounts due to customers as returned premiums for cancelled or amended policies.

11. Insurance payables

	2016	2015
Payables arising from insurance and reinsurance		
contracts due to other insurance companies	\$ (148,965)	206,910
Deferred commission income	223,608	207,191
Balance at December 31	\$ 74,643	414,101

The analysis of the movement in deferred commission income is as follows:

	2016	2015
Balance at January 1	\$ 207,191	188,026
Commissions received during the year	652,903	721,599
Amounts recognised in income during the year	(636,486)	(702,434)
Balance at December 31	\$ 223,608	207,191

12. Reserves

On July 2, 2014, The Insurance Company of the West Indies (Bahamas) Limited ("ICWI Bahamas") received approval from The Insurance Commission of the Bahamas to convert to a branch of ICWI Jamaica. Approval was obtained from the Financial Service Commission to convert the subsidiary of the ICWI Group Limited, located in the Bahamas, (ICWI Bahamas) into a branch operation of ICWI Jamaica on October 2, 2014. The conversion was effected on January 1, 2015 (refer to note 1).

On January 1, 2015, the asset and liabilities of the Company in the amount of \$2,390,590 was transferred to ICWI Jamaica, of which \$2,340,056 was established as the Head Office account.

During the year ended December 31, 2016 ICWI Jamaica made contributions to the Branch in the amount of \$491,107.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Bahamas Branch

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13. Underwriting policy and reinsurance ceded

The Branch follows the policy of underwriting and reinsuring all contracts of insurance, which limit the retained liability of the Branch. The reinsurance of contracts does not, however, relieve the Branch of its primary obligation to the policyholders. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, the Branch would also be liable for the reinsured amount. The Branch's credit risk management procedures are detailed in note 15.

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

In accordance with its treaty agreement, the Branch limits its net exposure to a maximum amount on any one loss of US\$750,000 (2015 - US\$750,000) for Public Liability, US\$50,000 (2015 - US\$50,000) for Marine and Accident, US\$30,000 (2015 - US\$30,000) on Engineering, US\$16,250 (2015 - US\$16,250) for Property claims, US\$50,000 (2015 - US\$50,000) on Motor and US\$125,000 (2015 - US\$125,000) for Bonds and Fidelity Guarantee for the year ended December 31, 2016. On its local facultative reinsurance the Branch does not have specified limits on its net exposures and the Branch's exposure is based on a portion of the individual risk offered to the facultative reinsurer on the terms and conditions of the original policy. Premiums ceded and claim recoveries are based on the percentage of the sum insured accepted by the local reinsurers.

The Branch has catastrophe reinsurance on which its liability in respect of each event is limited to US\$225,000 (2015 - US\$225,000). The reinsurers determine the total excess of loss reinsurance based on the aggregates for each territory where the Group's entities operate. The Branch's excess of loss reinsurance allocation is determined by the Parent based on a percentage of the total aggregates.

14. Insurance risk management

Risk management objectives and policies for mitigating insurance risk:

The Branch's management of insurance risk is a critical aspect of the business.

The primary insurance activity carried out by the Branch is the transfer of risk from persons or entities that are directly subject to the risk, by means of the sale of insurance policies. As such, the Branch is exposed to uncertainty surrounding the timing, frequency and severity of claims under these policies.

The principal types of policies written by the Branch are as follows:

- Liability insurance
- Property insurance
- Motor insurance

The Branch manages its insurance risk through its underwriting policy which includes, inter alia, authority limits, approval procedures for transactions that exceed set limits, pricing guidelines and the centralised management of reinsurance.

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Bahamas Branch

Notes to Financial Statements

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14. Insurance risk management *(continued)*

Risk management objectives and policies for mitigating insurance risk (continued):

The Branch actively monitors insurance risk exposures primarily for individual types of risks. These methods include internal risk measurement, portfolio modeling and scenario analyses.

Underwriting strategy:

The Branch seeks to underwrite a balanced portfolio of risks at rates and terms that will produce an underwriting result consistent with its long term objectives.

The Board of Directors of ICWI Jamaica approves the underwriting strategy which is part of the annual budgeting exercise and management is responsible for the attainment of the established objectives.

Reinsurance strategy:

The Branch reinsures a portion of the risks it underwrites in order to protect capital resources and to limit its exposure to variations in the projected frequency and severity of losses.

Ceded reinsurance includes credit risk, and the Branch monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Board of Directors of ICWI Jamaica is responsible for setting the minimum security criteria for monitoring the purchase of reinsurance against those criteria. They also monitor its adequacy on an ongoing basis. Credit risk on reinsurance is discussed in more detail in note 15.

Terms and conditions of general insurance contracts:

The table below provides an overview of the terms and conditions of general insurance contracts written by the Branch and the key factors upon which the timing and uncertainty of future cash flows of these contracts depend.

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Bahamas Branch

Notes to Financial Statements

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14. Insurance risk management (continued)

Terms and conditions of general insurance contracts: (continued):

Type contract	Terms and conditions	Key factors affecting future cash flows
Liability	Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of the public. The main liability exposures are in relation to bodily injury.	<p>The timing of claim reporting and settlement is a function of factors such as the nature of the coverage and the policy provisions.</p> <p>The majority of bodily injury claims have a relatively short tail. In general, these claims involve lower estimation uncertainty.</p>
Property	Property insurance indemnifies, subject to any limits or excesses, the policyholder against the loss or damage to their own material property and business interruption arising from this damage.	<p>The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property.</p> <p>The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. Therefore, claims are generally notified promptly and can be settled without delay. Property business is therefore classified as “short-tailed” and expense deterioration and investment return is of less importance in estimating provisions.</p> <p>The cost of repairing or rebuilding assets, of replacement or indemnity for contents and the time taken to restart or resume operations to original levels for business interruption losses are the key factors influencing the level of claims under these policies.</p>
Motor	Motor insurance contracts provide cover in respect of policyholders’ motor vehicles and their liability to third parties in respect of damage to property and injury. The exposure on motor insurance contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage.	<p>In general, claims reporting lags are minor and claim complexity is relatively low. The frequency of claims is affected by excessive speeding, and failure by some motorists to obey traffic signals. The number of claims is also correlated with economic activity, which also affects the amount of traffic activity.</p>

Liability contracts:

Risks arising from liability insurance are managed primarily through pricing, product design, risk selection, adopting an appropriate investment strategy, rating and reinsurance. The Branch monitors and reacts to changes in the general economic and commercial environment in which it operates to ensure that only liability risks which meet its criteria for profitability are underwritten. In pricing contracts, the Branch makes assumptions that costs will increase in line with the latest available financial and actuarial forecasts.

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14. Insurance risk management (continued)

Property contracts:

The risks relating to property contracts are managed primarily through the pricing process. The Branch uses strict underwriting criteria to ensure that the risk of losses is acceptable. Furthermore, the Branch accepts property insurance risks for one year so that each contract can be re-priced on renewal to reflect the continually evolving risk profile.

Motor contracts:

The risks relating to motor contracts are managed primarily through the pricing process. The Branch monitors and reacts to changes in trends of injury awards, litigation and the frequency of claims appeal.

Risk exposure and concentration of risks:

The following table shows the Branch's exposure to general insurance risk (based on the carrying value of insurance provisions at the reporting date, as disclosed in note 7) per major category of business.

	Liability	Property	Motor	Other	Total
At December 31, 2016					
Gross	\$ –	164,233	721,196	10,500	895,929
Net of reinsurance	\$ –	15,099	335,264	5,500	355,863
At December 31, 2015					
Gross	\$ –	20,491	453,594	10,182	484,267
Net of reinsurance	\$ –	350	226,563	5,048	231,961

The Branch aims to maintain adequate reserves in respect of its general insurance business in order to protect against unreported claims as well as development on known claims. As claims develop and the ultimate cost of claims becomes more certain, the chance of unreported claims or development on known claims becomes less likely, which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Branch transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

The Branch uses a combination of the following methods to estimate ultimate loss reserves: reported loss development method, paid loss development method, Bornhuetter-Ferguson reported losses method and Bornhuetter-Ferguson paid losses method.

The following table shows the claims development by Accident year over the period from 2011 to 2016:

Insurance claims – gross:

Accident Year	2011	2012	2013	2014	2015	2016	Total
	\$	\$	\$	\$	\$	\$	\$
Original estimate of ultimate claims cost at end of accident year	776,000	888,000	858,000	1,169,000	938,020	1,530,482	6,159,502

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14. Insurance risk management (continued)

Risk exposure and concentration of risks: (continued)

Insurance claims – gross:

Accident Year	2011	2012	2013	2014	2015	2016	Total
	\$	\$	\$	\$	\$	\$	\$
Original estimate of ultimate claims cost at end of accident year	776,000	888,000	858,000	1,169,000	938,020	1,530,482	6,159,502
Current estimate of cumulative claims	685,127	630,917	783,299	1,396,079	1,101,064	1,293,485	5,889,971
Cumulative payments to date	(668,600)	(626,000)	(782,735)	(1,311,988)	(889,637)	(720,282)	(4,999,242)
Liability recognised in statement of financial position	16,527	4,917	564	84,091	211,427	573,203	890,729
Liability in respect of years prior to 2011							5,200
Gross claims outstanding per note 8							895,929

Insurance claims – net retention:

Accident Year	2011	2012	2013	2014	2015	2016	Total
	\$	\$	\$	\$	\$	\$	\$
Original estimate of ultimate claims cost at end of accident year	603,000	411,000	405,000	467,000	529,632	521,806	2,937,438
Current estimate of cumulative claims	486,952	440,076	351,105	563,295	543,190	(87,400)	2,297,218
Cumulative payments to date	(486,630)	(438,000)	(350,867)	(523,174)	(444,280)	(296,396)	(1,946,555)
Liability recognised in statement of financial position	322	2,076	238	40,121	98,910	208,996	350,663
Liability in respect of years prior to 2010							5,200
Net claims outstanding per note 8							355,863

15. Financial risk management

The Branch has exposure to the following financial risks from its use of financial instruments and its insurance contracts:

- Credit risk
- Liquidity risk
- Market risk

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15. Financial risk management *(continued)*

Risk management framework:

This note presents information about the Branch's exposure to each of the above risks, the Branch's objectives, policies and processes for measuring and managing risk, and the Branch's management of capital.

The Board of Directors of ICWI Jamaica has overall responsibility for the establishment and oversight of the Branch's financial risk management framework. The Branch's risk management policies are established to identify and analyse the risks faced by the Branch, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The focus of financial risk management for the Branch is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance and investment contracts. The goal of the investment management process is to optimise the risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

The asset/liability matching process is largely influenced by estimates of the timing of payments required in terms of insurance. These estimates are re-evaluated on a regular basis.

There are also criteria for ensuring the matching of assets and liabilities as investment markets change.

Firstly, the risk is managed through the establishment of an appropriate underwriting strategy and its implementation by means of the Branch's underwriting policy.

Secondly, the risk is managed through the use of reinsurance. The Branch arranges proportional reinsurance at the risk level and purchases excess of loss cover for liability and property business. The Branch assesses the costs and benefits associated with the reinsurance programme on a regular basis.

(a) Credit risk

Credit risk is the risk of financial loss to the Branch if a counterparty fails to meet its contractual obligations.

The Branch's key areas of exposure to credit risk include:

- cash and cash equivalents
- amounts due from policyholders
- amounts due from intermediaries
- amounts due from reinsurers in respect of payments already made to policyholders.

Management of credit risk

The Branch's exposure to individual policyholders and groups of policyholders is monitored as part of its credit control process. Financial analyses are conducted for significant exposures to individual policyholders or homogenous groups of policyholders.

All intermediaries must meet minimum requirements that are established and enforced by the Branch's management. The payment histories of intermediaries are monitored on a regular basis.

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Bahamas Branch

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Year ended December 31, 2016

(Expressed in Bahamian dollars)

15. Financial risk management *(continued)*

Risk management framework: (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

The Branch also operates a policy to manage its reinsurance counterparty exposures. The Branch assesses the credit worthiness of all reinsurers by reviewing public rating information and from internal investigations. The impact of reinsurer default is measured regularly and managed accordingly.

The Branch's credit risk exposure from reinsurers is in the form of prepaid premiums held or claims recoveries 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 Group's policy that no single counterparty exposure with specific reinsurers should exceed 40% of the total reinsurance assets at any given time. In 2016, premiums ceded to Munich Re were 50 % (2015 – 50%) of total reinsurance premiums. However, the Branch does not consider this a potential risk as at December 31, 2016, based on the AM Best's rating of Munich Re and the monitoring processing the Branch has in place.

Going forward the Group intends to review its risk level with each reinsurer that the Branch and the Group will be contracting and will make the policy changes necessary.

In addition, the Branch's proportional treaties contain a "Reinsurer Participation Review Clause", which provides the Branch with the option of cancelling any individual reinsurer's participation whose financial strength rating (as determined by Standard & Poor and/or A.M. Best) falls below A- or equivalent and to call for the return of prepaid premiums and loss reserves. The Branch is required to serve notice of its intention within thirty days of the date of downgrade.

(i) Exposure to credit risk:

The Branch's maximum credit exposure, that is, the total amount of loss the Branch would suffer if every counter-party to the Branch's financial assets were to default at once, is represented by the carrying amount of the financial assets shown on the statement of financial position:

	2016	2015
Cash at bank	\$ 408,127	3,009,690
Investments	3,181,102	500,399
Premiums receivable	79,588	176,429
Other accounts receivable and accrued investment income	16,531	24,655

Assets are considered to be impaired when they are deemed to be unrealizable or uncollectible.

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15. Financial risk management (continued)

(a) Credit risk (continued)

(i) Exposure to credit risk (continued):

The Branch has no financial assets or reinsurance assets that would be past due or impaired whose terms have been renegotiated.

The Branch does not hold any collateral as security or any credit enhancements, credit derivatives and netting arrangements that do not qualify for offset.

(ii) Concentrations of credit risk:

The Branch does not have any specific concentration of risk from counterparties where gross receivables for any one counterparty or group of connected counterparties is \$100,000 or more or 10% of the Branch's reserves at the year end.

(iii) Assets that are past due

Based on the Branch's current aging procedure, all trade balances over 90 days are considered to be past due but not impaired. All receivable balances which have been outstanding for more than 90 days and have had no activity within the past 90 days are considered to be past due and impaired. Cancellation or extension of the terms of the credit is instituted on a case by case basis. Specific provisions are made against trade balances based on the above aging procedure.

The Branch has insurance and other receivables that include balances that are past due but not impaired at the reporting date (as indicated by the overall credit risk exposure analysis). All of the balances have been assessed for impairment on an individual basis after considering factors such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties.

An age analysis of the carrying amounts of insurance receivable is presented below.

	Less than 46 days	Between 46 and 90 days	More than 90 days	Total
2016	\$	\$	\$	\$
Receivables arising from insurance and reinsurance contracts – agents, brokers and intermediaries	36,553	42,375	959	79,887
Past due and impaired	–	–	(299)	(299)
	36,553	42,375	660	79,588
2015				
Receivables arising from insurance and reinsurance contracts – agents, brokers and intermediaries	99,145	56,240	29,717	185,102
Past due and impaired	–	–	(8,673)	(8,673)
	99,145	56,240	21,044	176,429

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15. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations from its financial and insurance liabilities. The Branch is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of claims.

Management of liquidity risk

The Branch's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

Consequently, the Branch invests in short term certificates of deposits that can be readily realised as its obligations under insurance contracts fall due, and in the event of reasonably foreseeable abnormal circumstances. An analysis of the contractual maturities of the Branch's financial and insurance contract liabilities is presented below. The analysis provided is by estimated timing of the amounts recognised in the statement of financial position.

	Contractual undiscounted cash flows			
	Carrying Amount	Total cash outflow	Less than 1 year	More than 1 year
December 31, 2016				
Financial liabilities:				
Accounts payable & accrued charges	\$ 159,152	159,152	159,152	–
Insurance payables (note 11)	(148,965)	(148,965)	(148,965)	–
Total financial liabilities	10,187	10,187	10,187	–
Insurance contract liabilities:				
Claims outstanding (note 7)	895,929	895,929	895,929	–
	\$ 906,116	906,116	906,116	–

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Year ended December 31, 2016

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15. Financial risk management (continued)

(b) Liquidity risk (continued)

Management of liquidity risk (continued)

	Contractual undiscounted cash flows			
	Carrying Amount	Total cash outflow	Less than 1 year	More than 1 year
December 31, 2015				
Financial liabilities:				
Accounts payable & accrued charges	\$ 446,944	446,944	446,944	–
Insurance payables (note 11)	206,910	206,910	206,910	–
Total financial liabilities	653,854	653,854	653,854	–
Insurance contract liabilities:				
Claims outstanding (note 7)	484,267	484,267	484,267	–
	\$ 1,138,121	1,138,121	1,138,121	–

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the value of the Branch's assets, the amount of its liabilities and/or the Branch's income. Market risk arises in the Branch due to fluctuations in the value of liabilities and the value of investments held. The Branch is exposed to market risk on its financial assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Investment Committee manages market risk in accordance with its asset/liability management framework. The Committee reports regularly to the Board of Directors of ICWI Jamaica on its activities. For each of the major components of market risk the Branch has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these components of major risk and the exposure of the Branch at the reporting date to each major risk are addressed below.

(i) Interest rate risk

Interest rate risk arises primarily from the Branch's investments. However, changes in investment values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of insurance provisions.

The Branch manages its interest rate risk by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements.

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Year ended December 31, 2016

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15. Financial risk management (continued)

(c) Market risk (continued)

Management of market risks (continued)

(i) Interest rate risk(continued)

Interest bearing financial assets is primarily represented by short term investments, which have been contracted at fixed interest rates for the duration of the term. The Branch mitigates its interest rate risk in the fixed rate financial assets by investing for short time periods.

At the reporting date the interest profile of the Branch's interest-bearing financial instruments was:

	2016	2015
Fixed rate instruments		
Investments – carrying amount	\$ 3,181,102	500,399

(ii) Currency risk

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

(iii) Price risk

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

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Branch's processes, personnel, technology and infrastructure, and from external factors other than financial risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Branch's senior management team.

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Notes to Financial Statements

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15. Financial risk management *(continued)*

(e) Capital risk management

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

The Company is required to establish and maintain a statutory deposit in respect of its insurance business in The Bahamas, such deposit to be held in trust pursuant to Section 43(2) of the Act and regulation 62 of the Insurance (General) Regulations, 2010 (“the Regulations”). In 2011 a Statutory Deposit Trust (“the Trust”) was established in the sum of \$1,000,000 with a recognised financial institution appointed as trustees of the Trust and the Commission as the protectors of the Trust.

As at December 31, 2015, the Trust in the amount of \$1,000,000 was held in the name of The Insurance Company of the West Indies (Bahamas) Ltd., now inactive but still a subsidiary of the ICWI Group Ltd. The Trust was established in the name of ICWI Jamaica on March 17, 2016.

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

As at December 31, 2016 the Branch met the minimum margin of solvency required under the Act.

16. Fair value of financial instruments

All of the Branch’s financial instruments are carried at values which approximate fair value. 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 judgment and therefore, cannot be determined with precision.

The Branch currently has no financial assets or liabilities which are measured at fair value, and are therefore not disclosed within the fair value hierarchy as disclosed in note 4(f).

The fair values of financial assets and financial liabilities are broadly equivalent to the carrying amounts shown in the statement of financial position due to one or all of the following reasons:

- (a) Immediate or short-term maturity;
- (b) Carrying amount approximates or equals market value.

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17. Employee costs

The aggregate payroll costs included in operating expenses in the statement of comprehensive income are as follows:

	2016	2015
Salaries	\$ 238,681	237,426
Staff welfare	1,561	1,488
National Insurance	10,570	10,049
Group medical insurance	30,871	30,315
Pension plan	10,455	10,102
Staff training	1,684	3,893
Staff uniforms	1,159	–
Staff rental	26,000	24,000
	\$ 320,981	317,273

18. Commitments and contingencies

Commitments

On March 28, 2012 the Company entered into a new lease agreement to rent office space for the period from October 1, 2012 to March 31, 2015. In December 2016 the Branch extended the lease for another 3 years from April 2015 to March 2018. The future minimum lease payments inclusive of common area maintenance charges per the lease agreement are as follows:

- Within one year \$ 43,920
- More than one year 10,980

Contingencies

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

19. Subsequent events

The Branch has evaluated subsequent events from the reporting date to May 5, 2017, the date at which the financial statements were available to be issued, and determined that there are no items to adjust or disclose.