Financial Statements of

The Insurance Company of the West Indies Limited (Dominica Branch)

December 31, 2021

The Insurance Company of the West Indies Limited (Dominica Branch)

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of The Insurance Company of the West Indies Limited (Dominica Branch)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Insurance Company of the West Indies Limited (Dominica Branch) ("the Branch"), which comprise the statement of financial position as at December 31, 2021, the statements of profit or loss and other comprehensive income, changes in head office account and cash flows for the year then ended, and notes, comprising 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, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Eastern Caribbean and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholder of The Insurance Company of the West Indies Limited (Dominica Branch)

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 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.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholder of The Insurance Company of the West Indies Limited (Dominica Branch)

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- 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.

KPMG

Chartered Accountants
Antigua and Barbuda
April 21, 2022

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED (DOMINICA BRANCH)

Statement of Financial Position

As at December 31, 2021
With comparatives as at December 31, 2020

(Expressed in Eastern Caribbean dollars)

	Notes	2021 $	2020 $
ASSETS			
Property, plant and equipment	6	522,002	702,818
Right-of-use assets	7	466,454	266,934
Premiums receivable	8	1,297,475	894,432
Investments	9	5,000,000	4,000,000
Reinsurance assets	10	2,589,710	2,081,948
Deferred commission expense	11	118,529	81,778
Other accounts receivable	12	29,070	69,214
Accrued investment income		31,426	20,767
Cash and cash equivalents	13	1,703,840	1,354,821
Total assets		11,758,506	9,472,712
LIABILITIES			
Other payables and accrued charges	14	294,707	184,247
Taxation payable	19	1,523	-
Insurance payables	15	1,765,316	1,527,965
Lease liabilities	7	478,998	280,802
Insurance contract provisions	10	5,965,986	5,095,701
Total liabilities		8,506,530	7,088,715
HEAD OFFICE EQUITY			
Due to head office	16	3,388,635	2,965,601
Accumulated deficit		(136,659)	(581,604)
Total head office equity		3,251,976	2,383,997
Total liabilities and head office equity		11,758,506	9,472,712

See accompanying notes to the financial statements.

Approved by the Board of Directors:

M. Roberts Director

Director

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED (DOMINICA BRANCH)

Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2021
With comparatives for the year ended December 31, 2020

(Expressed in Eastern Caribbean dollars)

	Notes	2021 $	2020 $
Gross premiums written	10	10,091,550	9,197,281
Written premiums ceded to reinsurers	10	(5,123,797)	(4,132,371)
Unearned premiums		(279,680)	(1,982,380)
Net insurance premium revenue	10	4,688,073	3,082,530
Claims expenses incurred		(2,365,757)	(1,491,839)
Net insurance claims		(2,365,757)	(1,491,839)
Commission income	15	870,398	559,406
Commission expenses	11	(237,055)	(168,649)
Net commission income		633,343	390,757
Operating expenses	17 (c)	(2,556,194)	(2,036,349)
Underwriting profit/(loss) before other income, expenses and taxation		399,465	(54,901)
Interest expense on lease liabilities	7 (b)	(34,999)	(35,972)
Investment income	18	105,659	49,521
Other expense		(23,657)	(14,379)
Profit/(loss) before taxation		446,468	(55,731)
Taxation	19	(1,523)	-
Profit/(loss) for the year, being total comprehensive income/(loss) for the year		444,945	(55,731)

See accompanying notes to the financial statements.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED (DOMINICA BRANCH)

Statement of Changes in Head Office Account

Year ended December 31, 2021
With comparatives for the year ended December 31, 2020

(Expressed in Eastern Caribbean dollars)

	Due to Head Office $	Accumulated Deficit $	Total $
Balances at January 1, 2020	2,600,043	(525,873)	2,074,170
Advances from head office	365,558	-	365,558
Loss for the year, being total comprehensive loss	-	(55,731)	(55,731)
Balances at December 31, 2020	2,965,601	(581,604)	2,383,997
Balances at January 1, 2021	2,965,601	(581,604)	2,383,997
Advances from head office	423,034	-	423,034
Profit for the year, being total comprehensive income	-	444,945	444,945
Balances at December 31, 2021	3,388,635	(136,659)	3,251,976

See accompanying notes to the financial statements.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED (DOMINICA BRANCH)

Statement of Cash Flows

Year ended December 31, 2021
With comparatives for the year ended December 31, 2020

(Expressed in Eastern Caribbean dollars)

	Notes	2021 $	2020 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the year		444,945	(55,731)
Adjustments for:			
Depreciation on property, plant and equipment	6	87,100	140,181
Write-offs of property, plant and equipment		159,082	-
Depreciation on right-of-use assets	7 (a)	176,225	149,883
Interest income	18	(105,659)	(49,521)
Interest expense on lease liabilities	7 (b)	67,865	29,936
		829,558	214,748
Changes in:			
Deferred commission expense		(36,751)	(69,025)
Other accounts receivable		40,144	(16,190)
Other payables and accrued charges		110,460	101,284
Taxation payable		1,523	-
Insurance payables		237,351	273,280
Premiums receivable		(403,043)	(280,440)
Reinsurance assets		(507,762)	(835,522)
Insurance contract provisions		870,285	3,345,434
		1,141,765	2,733,569
Interest received		95,000	32,535
Interest paid		(67,865)	(29,936)
Net cash provided by operating activities		1,168,900	2,736,168
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	(65,366)	(199,347)
Additions to right-of-use assets	7 (a)	(529,130)	-
Write-offs of right-of-use assets	7 (a)	153,385	-
Purchase of investments		(1,000,000)	(3,000,000)
Net cash used in investing activities		(1,441,111)	(3,199,347)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances from head office	16	423,034	365,558
Principal portion of lease liabilities	7	198,196	(138,507)
Net cash provided by financing activities		621,230	227,051
Increase (Decrease) in cash and cash equivalents		349,019	(236,128)
Cash and cash equivalents at beginning of year		1,354,821	1,590,949
Cash and cash equivalents at end of year		1,703,840	1,354,821

See accompanying notes to the financial statements.

1. Corporate structure and nature of business

The Insurance Company of the West Indies Limited (Dominica Branch) ("the Branch"), was registered on September 27, 2019 as an external company under the Companies Act of Dominica and is domiciled in Dominica. The Branch operates as a branch of The Insurance Company of the West Indies Ltd., which is a wholly owned subsidiary of ICWI Group Limited (immediate parent), which is incorporated in Jamaica. The ultimate holding company is Atlantic and Caribbean Sea Development Company Limited which is owned by Caribbean Sea Development Limited and Hon. Dennis Lalor O.J. and it is controlled by Hon. Dennis Lalor O.J.

The principal activity of the Branch is underwriting general insurance business. The registered office of the Branch is located at 19–21 King George V Street, Roseau, Dominica. The Branch commenced writing insurance business in November 2019.

2. Insurance licence

The Branch is registered under the Insurance Act 2012 (the Act).

3. Roles of the actuary and auditors

The actuary has been appointed by the Board of Directors pursuant to the Act. With respect to the preparation of financial statements, the actuary is required to carry out an actuarial valuation of management's estimate of the Branch's policy liabilities and report thereon to the shareholder. Actuarially determined policy liabilities consist of the provisions for, and reinsurance recovery of, unpaid claims and adjustment expenses on insurance policies in force, including provisions for salvage and subrogation, and future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs.

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, in his verification of the management information provided by the Branch and used in the actuarial valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the shareholder pursuant to the Dominica Companies Act to conduct an independent audit of the financial statements of the Branch in accordance with International Standards on Auditing and to report thereon to the shareholder. In carrying out their audit, the auditors also make use of the work of the actuary and his 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 and basis of preparation

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and their interpretations issued by the International Accounting Standards Board.

New and amended standards and interpretations that came into effect during the current financial year:

Certain new and amended standards and interpretations came into effect during the current financial year, none of which had any significant impact on these financial statements.

New and amended standards and interpretations not yet effective:

At the date of approval of the financial statements, there were certain new and amended standards and interpretations to existing standards, which were in issue, but were not yet effective and had not been early adopted by the Branch. Those which management considered may be relevant to the Branch are as follows:

- IFRS 17 – *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2023, replaces IFRS 4 *Insurance Contracts* and provides three models to apply to all insurance contracts: the general model, the variable fee approach and the premium allocation approach.

  The key principles in IFRS 17 are that an entity:

  - Identifies insurance contracts as those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
  - Separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts.
  - Recognises and measures groups of insurance contracts at:

    a) a risk - adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset); and

    b) an amount representing the unearned profit in the group of contracts (the contractual service margin)
  - Recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group contract is or becomes loss-making, an entity recognizes the loss immediately.
  - Presents separately insurance revenue (that excludes the receipt of repayment of any investment components) and insurance finance income or expenses;
  - Includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts where the coverage period is less than a year or where there are no significant expected changes in estimates before the claims are incurred.

4. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd):

New and amended standards and interpretations not yet effective (cont'd):

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- Many of the disclosures of IFRS 4 are kept in IFRS 17. The general model requires disclosure and reconciliation of the expected present value of future cash flows, risk adjustment and contractual service margin. No reconciliation is required under the variable fee approach.

- IFRS 9 *Financial Instruments* - As an insurance company, the Branch has exercised the option to defer the effective date of the new standard to January 1, 2023, in line with IFRS 17 *Insurance Contracts* [See note 5(m)(iv)]. The standard includes requirements for recognition and measurement, impairment, derecognition of financial instruments and general hedge accounting.

- Amendments to IFRS 9 *Financial Instruments,* effective retrospectively for annual reporting periods beginning on or after January 1, 2020 clarifies the treatment of:

  (i) Prepayment features with negative compensation:

  Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

  (ii) Modifications to financial liabilities:

  If the initial application of IFRS 9 results in a change in accounting policy arising from modified or exchanged fixed rate financial liabilities, retrospective application is required, subject to particular transitional reliefs. There is no change to the accounting for costs and fees when a liability has been modified, but not substantially. These are recognised as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

  The Branch is assessing the impact that these new and amended standards, and interpretations will have on its financial statements when they become effective.

(b) Basis of preparation and measurement:

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in Eastern Caribbean dollars, the Branch's functional currency.

4. Statement of compliance and basis of preparation (cont'd)

(d) Use of estimates and judgements:

The preparation of the financial statements to conform to IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, contingent assets and contingent liabilities at the reporting date, and the income and expense for the year then ended. Actual amounts could differ from these estimates.

The 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 or 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 [see note 5(m)(i)].

5. Significant accounting policies

(a) Property, plant and equipment:

(i) Property, plant and equipment are measured at cost or deemed cost, less accumulated depreciation and any accumulated impairment losses [see accounting policy 5(i)].

(ii) Depreciation:

Property, plant and equipment with the exception of freehold land and work-in-progress, on which no depreciation is provided, are depreciated using the straight-line method at annual rates estimated to write-off the property, plant and equipment over their expected useful lives.

The annual depreciation rates are as follows:

Buildings	2½%
Leasehold improvements	10%
Furniture, fixtures and equipment	10% & 20%
Computers	20%

The depreciation methods, useful lives and residual values are reassessed annually at each reporting date and adjusted as appropriate.

(b) Investments:

Investments with fixed or determinable payments and which are not quoted in an active market are classified as loans and receivables, and are measured at amortised cost less impairment losses.

Other investments are recognised or derecognised on the day they are transferred to/by the Branch.

(c) Related parties:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 – Related Party Disclosures as the “reporting entity”).

(a) A person or a close member of that person’s family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

5. Significant accounting policies (cont'd)

(c) Related parties: (cont'd)

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity or any member of a group which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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

The Branch has a related party relationship with its ultimate and intermediate holding companies, the directors of the Branch and those of its holding companies, its key management personnel, companies with common directors and pension plans established for the benefit of its employees. "Key management personnel" represents certain senior officers of the Branch.

(d) Insurance and other accounts receivables:

Insurance and other accounts receivables are measured at cost less impairment losses [see accounting policy 5(i)].

(e) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances and are measured at amortised cost.

(f) Insurance and other payables:

Insurance and other payables are measured at amortised cost.

5. Significant accounting policies (cont'd)

(g) Provisions:

A provision is recognised in the statement of financial position when the Branch has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligations.

(h) Foreign currencies:

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Eastern Caribbean dollars at the rates of exchange ruling on that date. Gains and losses arising from fluctuations in exchange rates are recognised in profit or loss.

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

(i) Impairment:

Objective evidence that financial assets are impaired can include default or delinquency by a customer, indications that a customer will enter bankruptcy and changes in the payment status of customers.

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 profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is recognised in profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less impairment loss on that financial asset previously recognised in profit or loss.

5. Significant accounting policies (cont'd)

(i) Impairment (cont'd):

(i) Calculation of recoverable amount:

The recoverable amount of the Branch's loans and receivables is calculated as the present value of the expected future cash flows, discounted at the original effective interest rate inherent in the assets.

Receivables with a short duration are not discounted. Impairment losses in respect of an available-for-sale investment is calculated by reference to its current fair value.

The recoverable amount of the other assets is the greater of their net selling price 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.

(ii) Reversal of impairment:

An impairment loss in respect of loans and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale investment recognised previously in other comprehensive income is transferred to profit or loss. For available-for-sale equity securities, the reversal is recognised in other comprehensive income.

In respect of other assets, an impairment loss is reversed if there is an indication that the impairment loss no longer exists and there has been a change in the estimate 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, if no impairment loss had been recognised.

(j) Employee benefits:

Employee benefits are all forms of consideration given by the Branch in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, statutory contributions, annual vacation leave and non-monetary benefits such as post-employment benefits related to pension and health and life insurance.

Employee benefits that are earned as a result of past or current service are recognised in the following manner:

5. Significant accounting policies (cont'd)

(j) Employee benefits: (cont'd):

(i) Post retirement health and life insurance benefits:

The Branch does not provide post retirement health and life insurance benefits to retirees.

(ii) Defined contribution pension plan:

The Branch participates in a defined contribution pension plan, the assets of which are held separately from those of the Branch. The plan does not expose the Branch to actuarial risk, and as such, pension contributions are expensed as and when incurred.

(iii) Short-term employee benefits:

Short-term employee benefits are expressed as the related service is provided. Employee entitlements to leave are recognised when they accrue to employees. A provision is made for the estimated liability for vacation leave, as a result of services rendered by employees up to the reporting date. The Branch recognises a provision for bonuses and other short-term employee benefits based on contractual or constructive obligations to pay these amounts as a result of past services provided by the employee and the obligation can be estimated reliably.

(k) Taxation:

Taxation on profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date. For investment properties that are measured at fair value, the presumption that the carrying amount of the investment properties will be recovered through sale has not been rebutted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the Branch is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

5. Significant accounting policies (cont'd)

(l) Revenue recognition:

Revenue is recognised in the statement of profit or loss 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 premiums written:

The accounting policy for the recognition of revenue from insurance contracts is disclosed in note 5(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 5(m)(i)]. Profit commission in respect of reinsurance contracts is recognised on the accrual basis.

(iii) Investment income:

Investment income arises from financial assets and is comprised of interest and dividends and realised gains/losses on financial assets. Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Rental income from investment properties under operating leases is recognised in profit or loss on a straight line basis over the term of each lease.

(m) Insurance contract recognition and measurement:

(i) Insurance contracts:

Insurance contracts are accounted for in compliance with recommendations and practices of the insurance industry, and comply with provisions of the Insurance Act 2012. The underwriting results are determined after making provision for, inter alia, unearned premiums, outstanding claims, deferred commission expense and deferred commission income.

Short term insurance contracts consist of property, liability, motor and marine insurance contracts.

Gross premiums written:

Gross premiums reflect business written during the year, and include adjustments to premiums written in previous years. The earned portion of premiums is recognised as revenue. Premiums are earned from the effective date of the policy.

Unearned premiums:

Unearned premiums represent that proportion of the premiums written up to the reporting date which is attributable to subsequent periods and is calculated on the "three sixty fifth" basis on the total premiums written.

5. Significant accounting policies (cont'd)

(m) Insurance contract recognition and measurement (cont'd):

(i) Insurance contracts (cont'd):

Outstanding claims:

Outstanding claims represents insurance contract provisions on the statement of financial position, which 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 estimated by the Branch's actuary using the past loss experience of the Branch and industry data. Amounts recoverable in respect of claims from reinsurers are estimated in a manner consistent with the underlying liabilities.

Management believes, based on the analysis completed by the actuary, 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 are recorded in the period in which they are determined.

Deferred acquisition cost and deferred commission income:

Commission income and expense are deferred on a basis consistent with that used for deferring premium income.

(ii) Reinsurance assets:

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with reinsured policy. Unearned reinsurance premiums on business ceded up to the accounting 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 21). 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. 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 profit or loss.

5. Significant accounting policies (cont'd)

(m) Insurance contract recognition and measurement (cont'd):

(iii) Insurance receivables and insurance payables:

Amounts due from and to policyholders, brokers, agents and reinsurers are financial instruments and are included in insurance receivables and payables and not in insurance contract provisions or reinsurance assets.

(iv) Temporary exemption to defer the implementation of IFRS 9 *Financial Instruments*:

The Branch has applied the temporary exemption to defer the implementation of IFRS 9 *Financial Instruments*, as its activities met the requirements to demonstrate that they are predominantly in connection with issuing insurance contracts within the scope of IFRS 17 *Insurance contracts*.

(n) Leases:

At inception of a contract, the Branch assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Branch uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Branch allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Branch has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Branch recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Branch by the end of the lease term.

5. Significant accounting policies (cont'd)

(n) Leases (cont'd):

As a lessee (cont'd)

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Branch's incremental borrowing rate. Generally, the Branch uses its incremental borrowing rate as the discount rate.

The Branch determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Branch is reasonably certain to exercise, lease payments in an optional renewal period if the Branch is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Branch is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Branch's estimate of the amount expected to be payable under a residual value guarantee, if the Branch changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Branch presents right-of-use assets and lease liabilities separately in the statement of financial position.

5. Significant accounting policies (cont'd)

(n) Leases (cont'd):

As a lessee (cont'd)

Short-term leases and leases of low-value assets

The Branch has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and low-value assets. The Branch recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(o) 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. For the purpose of these financial statements, financial assets have been determined to include cash and cash equivalents, investments, resale agreements and insurance receivables, other accounts receivables (excluding prepayments), amounts due from other insurance companies and related party balances. Financial liabilities include other payables and accrued charges, amounts due to other insurance companies, related party balances and lease liabilities.

(p) Determination of fair value:

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. Some financial instruments lack an available trading market. These instruments have been valued using present value or other valuation techniques and the fair value shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

(q) Dividends:

Dividends are recognised as a liability in the period in which they are declared.

(r) Expenses:

Expenses are recognised in profit or loss on the accrual basis.

6. Property, plant and equipment

	Land, building and leasehold improvements $	Furniture, fixtures, equipment and computers $	Total $
Cost			
Balance at beginning of year	187,889	473,125	661,014
Additions	54,895	144,452	199,347
Balance at December 31, 2020	242,784	617,577	860,361
Cost			
Balance at beginning of year	242,784	617,577	860,361
Additions	50,362	15,004	65,366
Write-offs	(191,479)	-	(191,479)
Balance at December 31, 2021	101,667	632,581	734,248
Accumulated Depreciation			
Balance at beginning of year	2,586	14,776	17,362
Charge for the year	22,133	118,048	140,181
Balance at December 31, 2020	24,719	132,824	157,543
Accumulated Depreciation			
Balance at beginning of year	24,719	132,824	157,543
Charge for the year	18,693	68,407	87,100
Write-offs	(32,397)	-	(32,397)
Balance at December 31, 2021	11,015	201,231	212,246
Carrying Amounts			
Balance at December 31, 2021	90,652	431,350	522,002
Balance at December 31, 2020	218,065	484,753	702,818

7. Leases

The Branch leases property for its branch operations. The term of the leases run for the period of one (1) to five (5) years. Some of these include an option to renew for an additional of the same or shorter duration after the end of the contract term, which the Branch is expected to exercise the renewal option. The Branch has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and/or leases for which the lease term ends within 12 months.

Information about leases for which the Branch is a lessee is presented below.

(a) Right-of-use assets

	2021 $	2020 $
Balance at beginning of year	266,934	416,817
Additions	529,130	-
Write-offs	(153,385)	-
Depreciation charge for the year	(176,225)	(149,883)
Balance at December 31	466,454	266,934

(b) Lease liabilities

Maturity analysis – contractual undiscounted cash flows:

	2021 $	2020 $
Less than one year	235,020	174,479
One to five years	311,843	136,259
Total undiscounted lease liabilities at December 31	546,863	310,738
Less: future interest expense	67,865	29,936
	478,998	280,802
Current	197,009	154,636
Non-current	281,989	126,166
	478,998	280,802

8. Premiums receivable

	2021 $	2020 $
Premiums receivable	1,297,475	894,432

9. Investments

	2021 $	2020 $
Loans and receivables:		
Certificates of deposit	5,000,000	4,000,000
	5,000,000	4,000,000

Investments, excluding interest receivable, are due from the reporting date as follows:

	2021 $	2020 $
ECHMB Corporate Paper	3,000,000	3,000,000
Government of Dominica Securities:		
From 3 months to 1 year	1,000,000	1,000,000
Certificate of deposits	1,000,000	-
	5,000,000	4,000,000

The fair value of the Eastern Caribbean Home Mortgage Bank corporate paper classified under loans and receivables amounts to $3,000,000.

The fair value of the Government of Dominica Securities classified under loans and receivables amounts to $1,000,000.

The fair value of the Certificate of deposits classified under loans and receivables amounts to $1,000,000.

The following table presents the fair value and the amount of change in the fair value of the Branch's financial assets as at and for the year ended December 31, 2021 showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("non-SPPI"):

	2021				
Financial assets	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
		Fair value	Change in fair value	Fair value	Change in fair value
	$	$	$	$	$
Certificates of deposit	5,000,000	5,000,000	-	-	-

	2020				
Financial assets	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
		Fair value	Change in fair value	Fair value	Change in fair value
	$	$	$	$	$
Certificates of deposit	4,000,000	4,000,000	-	-	-

9. Investments (cont'd)

The following table presents the credit risk ratings of SPPI financial assets as at December 31, 2021:

	2021		
	Carrying value $	**Fair value $**	**% of fair value**
Credit rating			
Certificates of deposit:			
Ba3	5,000,000	5,000,000	100%

	2020		
	Carrying value $	**Fair value $**	**% of fair value**
Credit rating			
Certificates of deposit:			
Ba3	4,000,000	4,000,000	100%

10. Reinsurance assets and insurance contract provisions

(a) Analysis of movements in reinsurance assets and insurance contract provisions for 2021:

	2021		
	Gross $	**Reinsurance $**	**Net $**
Unearned premiums	5,355,611	2,589,710	2,765,901
Claims provision	610,375	-	610,375
	5,965,986	2,589,710	3,376,276

	2020		
	Gross $	**Reinsurance $**	**Net $**
Unearned premiums	4,568,169	2,081,948	2,486,221
Claims provision	527,532	-	527,532
	5,095,701	2,081,948	3,013,753

10. Reinsurance assets and insurance contract provisions (cont'd)

(b) Unearned premiums:

	2021 Gross $	2021 Reinsurance $	2021 Net $
Balance at beginning of year	4,568,169	2,081,948	2,486,221
Premiums written during the year	10,091,550	5,123,797	4,967,753
Premiums earned during the year	(9,304,108)	(4,616,035)	(4,688,073)
Balance at December 31	5,355,611	2,589,710	2,765,901

	2020 Gross $	2020 Reinsurance $	2020 Net $
Balance at beginning of year	1,750,267	1,246,426	503,841
Premiums written during the year	9,197,281	4,132,371	5,064,910
Premiums earned during the year	(6,379,379)	(3,296,849)	(3,082,530)
Balance at December 31	4,568,169	2,081,948	2,486,221

(c) Net unearned premiums are analysed as follows:

	2021 $	2020 $
Accident	5,876	3,729
Liability, engineering, bond and guarantee	183,169	148,093
Marine, aviation and transportation	5,960	2,142
Motor vehicle	2,529,411	2,294,919
Fire	41,485	37,338
	2,765,901	2,486,221

11. Deferred commission expense

	2021 $	2020 $
Balance – beginning of year	81,778	12,753
Commission paid during the year	273,806	237,674
Amounts recognised in profit or loss during the year	(237,055)	(168,649)
Balance – December 31	118,529	81,778

12. Other accounts receivable

	2021 $	2020 $
Prepayments	6,670	6,720
Deposits	22,400	29,469
Facultative Agreement FDIC / ICWI	-	33,025
	29,070	69,214

No impairment losses have been recognised in the statement of profit or loss relating to other accounts receivable.

13. Cash and cash equivalents

Cash and cash equivalents include amounts as follows:

	2021 $	2020 $
Cash in hand	2,000	2,200
Cash at bank	1,701,840	1,352,621
	1,703,840	1,354,821

14. Other payables and accrued charges

	2021 $	2020 $
Accrued charges	273,909	170,645
Other payables	20,798	13,602
	294,707	184,247

15. Insurance payables

	2021 $	2020 $
Due to reinsurers	1,157,736	1,050,767
Deferred commission income	607,580	477,198
	1,765,316	1,527,965

15. Insurance payables (cont'd)

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

	2021 $	2020 $
Balance – beginning of year	477,198	283,926
Commission received during the year	1,000,780	752,678
Amounts recognised in profit or loss during the year	(870,398)	(559,406)
Balance – December 31	607,580	477,198

16. Capital and reserves

Due to Head Office

	2021 $	2020 $
Head office account	3,388,635	2,965,601

17. Disclosure of income and expenses

(a) Underwriting profit/(loss) before other income, expenses and taxation for the year is stated after charging:

	2021 $	2020 $
Depreciation and write-offs	422,407	290,064
Auditors' remuneration	37,971	17,594

(b) Transactions with key management personnel:

Compensation of key management personnel is as follows:

	2021 $	2020 $
Short term employment benefits:		
Salary	212,000	200,004

17. Disclosure of income and expenses (cont'd)

(c) Operating expenses:

	2021 $	2020 $
Audit and accounting fees	37,971	17,594
Subscriptions	-	174
Data maintenance	5,987	5,983
Legal and professional fees	44,469	15,154
Salaries and wages	671,924	640,511
Other staff related costs	199,415	80,670
Travelling and entertainment	6,220	74,312
Bank interest and other charges	27,219	20,462
Printing and stationary	19,735	28,992
Security and Courier Services	74,354	62,697
Repairs and maintenance	98,516	83,648
Depreciation – Property, plant and equipment	235,190	140,181
– Right-of-use assets	187,217	149,883
Utilities	86,589	79,841
Advertising and promotion	112,235	148,876
Office supplies	25,788	14,396
Referral fees	505,876	458,456
Management fees	202,500	-
Registration fees	8,000	-
Other	6,989	14,519
	2,556,194	2,036,349

18. Investment income

	2021 $	2020 $
Interest income:		
Loans and receivables - Investments	105,659	49,521
	105,659	49,521

19. Taxation

(a) Taxation is based on the profit/(loss) for the year adjusted for tax purposes and is made up as follows:

	2021 $	2020 $
Current tax expense:		
Income tax – current year	1,523	-
Deferred tax expense:		
Origination and reversal of temporary differences	-	-
Total tax expense	1,523	-

(b) Reconciliation of expected tax expense and actual tax expense:

	2021 $	2020 $
Profit/(loss) before taxation for the year	446,468	(55,731)
Computed "expected" tax expense @ 25%	111,617	(13,933)
Difference between profit for financial statements and tax reporting purposes on		
Depreciation charge and capital allowances	86,014	48,775
Expenses not allowed for tax purposes	(49,548)	
Tax losses utilized	(146,560)	(34,842)
	1,523	-

(c) A deferred tax asset of $ Nil (2020: $146,559) has not been recognised as management does not believe that the asset will be realised in the foreseeable future. At December 31, 2021, taxation losses amounting to $ Nil (2020: $586,236) are available for set-off against future taxable profits subject to agreement by tax authorities.

(d) At December 31, 2021, the Branch had a deferred tax liability of $18,012 (2020: $ 12,529) which had not been recognized in the financial statements as it was not material.

The deferred tax liability not recognized is comprised as follows:

	2021 $	2020 $
Property, plant and equipment	(13,292)	(10,805)
Net lease liabilities	3,137	3,468
Accrued investment income	(7,857)	(5,192)
	(18,012)	(12,529)

20. Reinsurance ceded

The Branch limits its exposure to a maximum amount on any one loss as detailed below:

	2021 US$	**2020 US$**
Liability	125,000	125,000
Marine Hull	50,000	50,000
Marine Cargo	33,333	33,333
Engineering	30,000	30,000
Property	5,000	5,000
Motor	125,000	125,000
Bonds and Fidelity Guarantee	125,000	125,000
Cash	18,750	18,750
Burglary	25,000	25,000
All risk	50,000	50,000

In addition, the Branch has catastrophe reinsurance on which its liability on each event is limited to US$225,000.

21. 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 policy written by the Branch are as follows:

- Motor insurance
- Property insurance
- Liability insurance

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

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

21. Insurance risk management (cont'd)

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

The Board of Directors approves the underwriting strategy which is set out in an annual business plan 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 is responsible for setting the minimum security criteria for accepting reinsurance and monitoring the purchase of reinsurance against those criteria. They also monitor its adequacy on an ongoing basis. Credit risk on reinsurance is addressed in more detail in note 22.

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.

Type of contract	**Terms and conditions**	**Key factors affecting future cash flows**
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 market value of the vehicle and policy limits in respect of third party damage and bodily injury.	In general, claims reporting lags are minor and claim complexity is relatively low. The frequency of claims is affected by excessive speeding, the condition of the road network, failure by some motorists to obey traffic signals and an overall increase in the incidence of motor vehicle theft. The number of claims is also correlated with economic activity, which also affects the amount of traffic activity. Although majority of bodily injury claims have a relatively long tail, the majority of the claims incurred by the Branch are settled in the short term. In general, these claims involve higher estimation uncertainty.

21. Insurance risk management (cont'd)

Terms and conditions of general insurance contracts (cont'd):

Type of contract	**Terms and conditions**	**Key factors affecting future cash flows**
Property	Property insurance indemnifies, subject to any limits or excesses, the policyholders against the loss or damage to their own material property and business interruption arising from this damage.	The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property. 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). 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.
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.	The timing of claim reporting and settlement is a function of factors such as the nature of the coverage and the policy provisions. Although majority of bodily injury claims have a relatively long tail, the majority of the claims incurred by the Branch are settled in the short term. In general, these claims involve higher estimation uncertainty.

Motor contracts:

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

Property contracts:

The risks relating to property contracts are managed primarily through the pricing process and reinsurance. 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.

21. Insurance risk management (cont'd)

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.

22. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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 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 net of taxes, 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 covers for motor, property and liability business. The Branch assesses the costs and benefits associated with the reinsurance programme on a regular basis.

22. Financial risk management (cont'd)

(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:

- debt securities and cash and cash equivalents
- amounts due from policyholders
- reinsurers' share of insurance liabilities
- amounts due from reinsurers in respect of payments already made to policyholders

The nature of the Branch's exposure to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year.

Management of credit risk

The Branch manages its credit risk in respect of debt securities by placing limits on its exposure to a single counterparty, by reference to information available in the marketplace relating to the financial standing of the counterparty. The Branch has a policy of investing only in high quality corporate bonds and government issued debts.

Its 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.

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.

(i) Exposure to credit risk:

Credit ratings are publicly available for certain assets with credit risk. The following table analyses the credit rating by investment grade of assets bearing credit risk.

22. Financial risk management (cont'd)

(a) Credit risk (cont'd)

Management of credit risk (cont'd):

(i) Exposure to credit risk (cont'd):

	AA	A	Baa3	Ba1	Ba3	B2	Not Rated	Total
2021								
Financial assets								
Carrying amount	-	-	-	-	5,000,000	-	-	5,000,000
Reinsurance assets (excluding unearned premium reserve)								
Carrying amount	-	-	-	-	-	-	-	-
Insurance and other receivables (excluding prepayments)								
Neither past due nor impaired	-	-	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-	-	-
Individually impaired	-	-	-	-	-	-	-	-
Gross amount	-	-	-	-	-	-	-	-
Allowance for impairment	-	-	-	-	-	-	-	-
Carrying amount	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	1,703,840	1,703,840
	-	-	-	-	5,000,000	-	1,703,840	6,703,840

22. Financial risk management (cont'd)

(a) Credit risk (cont'd)

Management of credit risk (cont'd):

(i) Exposure to credit risk (cont'd):

	AA	A	Baa3	Ba1	Ba3	B2	Not Rated	Total
2020								
Financial assets								
Carrying amount	-	-	-	-	4,000,000	-	-	4,000,000
Reinsurance assets (excluding unearned premium reserve)								
Carrying amount	-	-	-	-	-	-	-	-
Insurance and other receivables (excluding prepayments)								
Neither past due nor impaired	-	-	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-	-	-
Individually impaired	-	-	-	-	-	-	-	-
Gross amount	-	-	-	-	-	-	-	-
Allowance for impairment	-	-	-	-	-	-	-	-
Carrying amount	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	1,354,821	1,354,821
	-	-	-	-	4,000,000	-	1,354,821	5,354,821

The carrying amounts of financial assets and cash and cash equivalents do not include any assets that are either past due or impaired.

22. Financial risk management (cont'd)

(a) Credit risk (cont'd)

Management of credit risk (cont'd):

(i) Exposure to credit risk (cont'd):

The Branch has no financial assets or reinsurance assets that would have been 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.

(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. The nature of the Branch's exposure to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

Management of liquidity risk

The Branch's approach to managing liquidity is to ensure, as far as possible, that it will 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 marketable securities that can be readily realised as its obligations under insurance contracts fall due and in the event of reasonably foreseeable abnormal circumstances. The Branch also manages this risk by keeping a substantial portion of its financial assets in liquid form, in accordance with regulatory guidelines. The Branch is subject to a liquidity limit imposed by the regulator. The key measurement used for assessing liquidity risk is the ratio of liquid assets (as defined) to total liabilities.

This ratio at the reporting date was 112%. The level set by the regulator is 95%.

22. Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

An analysis of the contractual maturities of the Branch's financial and insurance contract liabilities is presented below. The analysis provided is by estimating timing of the amounts recognised in the statement of financial position.

	2021					
	Carrying amount	**Total cash outflow**	**Less than 1 year**	**1-2 years**	**2-5 years**	**5-10 years**
	$	**$**	**$**	**$**	**$**	**$**
Financial liabilities						
Other payables and accrued charges	294,707	294,707	294,707	-	-	-
Taxation payable	1,523	1,523	1,523	-	-	-
Insurance contract provisions						
Claims provision	610,375	610,375	610,375	-	-	-
Lease liabilities	478,998	478,998	197,009	281,989	-	-
Total financial liabilities	1,385,603	1,385,603	1,103,614	281,989	-	-

	2020					
	Carrying amount	**Total cash outflow**	**Less than 1 year**	**1-2 years**	**2-5 years**	**5-10 years**
	$	**$**	**$**	**$**	**$**	**$**
Financial liabilities						
Other payables and accrued charges	184,247	184,247	184,247	-	-	-
Taxation payable	-	-	-	-	-	-
Insurance contract provisions						
Claims provision	527,532	527,532	527,532	-	-	-
Lease liabilities	280,802	280,802	154,636	126,166	-	-
Total financial liabilities	992,581	992,581	866,415	126,166	-	-

22. Financial risk management (cont'd)

(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 all of 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. The nature of the Branch's exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

Management of market risk

The Investment Committee manages market risk in accordance with its asset/liability management framework. The Committee reports regularly to the Board of Directors 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 major components of major risk and the exposure of the Branch at the reporting date to each major risk are addressed below.

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.

Interest-bearing financial assets are primarily represented by relatively short term investments, which have been contracted at fixed and floating interest rates for the duration of the term.

The nature of the Branch's exposures to interest rate risk and its objectives, policies and processes for managing interest rate risk have not changed significantly from the prior year.

(i) Interest rate risk:

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

	Carrying Amount	
	2021	**2020**
	$	**$**
Fixed rate instruments:		
Financial assets	5,000,000	4,000,000

(ii) Foreign currency risk:

The Branch incurs foreign currency risk on transactions that are denominated in a currency other than the Eastern Caribbean dollar. The currency giving rise to this risk is primarily the United States dollar.

22. Financial risk management (cont'd)

(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.

(e) Capital risk management

Capital risk is the risk that the Branch fails to comply with mandated regulatory requirements, resulting in a breach of its minimum asset ratios and the possible suspension or loss of its financial institution licence (see note 2). The Branch's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the regulators
- To safeguard the Branch's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

General insurance companies must maintain a minimum level of assets to meet the liabilities of the Branch. The regulator requires a minimum solvency requirement of the greater of $500,000 or the 20% of net written premium. This is compared against the Branch's solvency margin calculated as the total assets minus non- admitted assets less total liabilities. As at December 31 the solvency margin was 326% (2020: 235%) of the minimum.

23. Fair value of financial instruments

Fair value amounts represent estimates of the arm's-length consideration that would currently be agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Where quoted market prices are not available, the fair values of these instruments have been determined using a generally accepted alternative method.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Financial instrument	**Method**
Cash and cash equivalents, insurance and other receivables, insurance and other payables, and insurance contract provisions.	Assumed to approximate their carrying values, due to their short-term nature.

The Branch considers relevant and observable market prices in its valuations where possible.

The following table sets out the fair value of the financial instruments using the valuation methods and assumption described below. The fair value disclosed does not reflect the value of assets and liabilities that are not considered financial instruments, such as property, plant and equipment.

	2021		**2020**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	$	**$**	**$**	**$**
Financial assets:				
Investments	5,000,000	5,000,000	4,000,000	4,000,000
Cash and cash equivalents	1,703,840	1,703,840	1,354,821	1,354,821
Accrued investment income	31,426	31,426	20,767	20,767
Premiums receivable	1,297,475	1,297,475	894,432	894,432
Reinsurance assets	2,589,710	2,589,710	2,081,948	2,081,948
Other accounts receivable	29,070	29,070	69,214	69,214
	10,651,521	10,651,521	8,421,182	8,421,182
Financial liabilities:				
Insurance contract provisions				
Claims outstanding	610,375	610,375	527,532	527,532
Other payables and accrued charges	294,707	294,707	184,247	184,247
Taxation payable	1,523	1,523	-	-
Insurance payables	1,765,316	1,765,316	1,527,965	1,527,965
Lease liabilities	478,998	478,998	280,802	280,802
	3,150,919	3,150,919	2,520,546	2,520,546

23. Fair value of financial instruments (cont'd)

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

24. Impact of COVID-19

The World Health Organization (WHO) declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020. The pandemic and the measures to control its human impact have resulted in significant disruptions to economic activities, business operations and asset prices. The adverse impacts of the pandemic have also been considered in the Branch's estimates of impairment of insurance receivables and other assets.

At the date of approving the financial statements, there have been signs of recovery in the economy and continuing growth is expected for 2022 as the global economy opens up. Management continues to monitor and respond to business impact of the pandemic and does not anticipate any adverse effect on the Branch's ability to continue as a going concern in the foreseeable future.