ISLAND HERITAGE INSURANCE COMPANY, LTD.

(Incorporated in the Cayman Islands)

Consolidated Financial Statements

December 31, 2016

Independent Auditor's Report

To the Board of Directors of Island Heritage Insurance Company, Ltd.

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Island Heritage Insurance Company, Ltd. (the Company) and its subsidiaries (together the Group) as at December 31, 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2016;
- the consolidated statement of comprehensive (loss)/income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. The other information comprises the 2016 annual report (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the 2016 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and the Cayman Islands Monetary Authority.

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Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

Other matter

This report, including the opinion, has been prepared for and only for the Company in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

April 11, 2017

ISLAND HERITAGE INSURANCE COMPANY, LTD.
Consolidated Statements of Financial Position
As at December 31, 2016 and 2015
(in thousands of United States dollars)

	Notes	2016	2015
		$	$
Assets			
Non-current assets			
Property and equipment	12	9,398	9,988
Intangible assets	13	274	408
		9,672	**10,396**
Current assets			
Cash and cash equivalents	6	31,439	23,964
Fixed deposits	7	2,000	-
Regulatory deposits	7	5,762	14,337
Investments - at fair value through profit or loss	5	20,389	20,426
Income tax receivable	18	477	-
Insurance receivables & other assets	8	35,019	22,194
Reinsurance assets	11	59,753	27,210
Deferred policy acquisition costs	9	7,310	6,460
		162,149	114,591
Total assets		**171,821**	**124,987**
Liabilities			
Current liabilities			
Insurance contract liabilities	10	80,426	48,394
Other liabilities	14	26,648	18,308
Income tax payable	18	-	310
Deferred tax liability	18	38	5
Due to related parties	20	14,995	7,310
Total liabilities		**122,107**	**74,327**
Equity			
Share capital	15	321	321
Contributed surplus	15	29,612	29,411
Retained earnings		19,781	20,928
Total shareholder’s equity		49,714	50,660
Total liabilities and equity		**171,821**	**124,987**

Approved by the Board of Directors on April 11, 2017

The accompanying notes are an integral part of these consolidated financial statements

ISLAND HERITAGE INSURANCE COMPANY, LTD.
Consolidated Statements of Comprehensive (Loss)/Income
For the years ended December 31, 2016 and 2015
(in thousands of United States dollars)

	Notes	2016 $	2015 $
Income			
Gross premiums written		92,596	93,320
Reinsurance ceded	20	(68,380)	(66,113)
Net premiums written		24,216	27,207
Change in net unearned premiums	10	831	2,440
Net premiums earned		**25,047**	**29,647**
Insurance claims & loss adjustment expenses	10 & 16	(60,880)	(8,163)
Insurance claims & loss adjustment expenses recovered	10 & 16	50,337	2,371
Acquisition costs	9	(18,353)	(18,816)
Commissions income		12,609	13,756
Net underwriting income		**8,760**	**18,795**
Net investment income	5	884	110
Rental income		26	27
Operating expenses	17	(10,700)	(10,961)
Net (loss)/profit before tax		**(1,030)**	**7,971**
Income tax expense	18	(117)	(947)
Net (loss)/profit and comprehensive (loss)/income for the year		**(1,147)**	**7,024**

The accompanying notes are an integral part of these consolidated financial statements

ISLAND HERITAGE INSURANCE COMPANY, LTD.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(in thousands of United States dollars)

	Notes	2016 $	2015 $
Share capital			
Balance - At beginning and end of year	15	321	321
Contributed surplus			
Balance - At beginning of year		29,411	29,324
Allocation of share grant expenses from ultimate parent		201	87
Balance - At end of year	15	29,612	29,411
Retained earnings			
Balance - At beginning of year		20,928	21,404
Net (loss)/profit and comprehensive (loss)/income for the year		(1,147)	7,024
Dividends declared	19	-	(7,500)
Balance - At end of year		19,781	20,928
Total shareholder's equity		**49,714**	**50,660**

The accompanying notes are an integral part of these financial statements

ISLAND HERITAGE INSURANCE COMPANY, LTD.
Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(in thousands of United States dollars)

	Notes	2016	2015
		$	$
Cash flows from operating activities:			
Net (loss)/profit before tax for the year		(1,030)	7,971
Adjustments for:			
Investment (income)/loss	5	(390)	285
Amortisation of bonds		22	27
Allocation of share grant expense from ultimate parent		201	87
Loss/(profit) on sale or disposal of property and equipment	12	27	(1)
Taxes paid	18	(871)	(1,821)
Depreciation of property and equipment	12	619	600
Amortisation of intangible assets	13	100	89
Decrease/(increase) in regulatory deposits		8,575	(26)
Increase in insurance receivables and other assets		(12,825)	(4,220)
(Increase)/decrease in deferred policy acquisition costs		(850)	1,104
(Increase)/decrease in reinsurance assets		(32,543)	2,278
Increase/(decrease) in insurance liabilities		32,032	(3,845)
Increase/(decrease) in other liabilities		8,340	(1,401)
Increase/(decrease) in amounts due to related parties		7,685	(211)
Net cash generated by operating activities		**9,092**	**916**
Cash flows from investing activities			
(Purchase)/maturity of fixed deposit		(2,000)	2,021
Purchase of investments at fair value through profit and loss		(4,593)	(10,052)
Proceeds from sales of investments at fair value through profit and loss		4,998	10,188
Purchase of property and equipment	12	(56)	(210)
Proceeds/(purchase) of intangible assets	13	34	(243)
Net cash (used)/generated in investing activities		**(1,617)**	**1,704**
Cash flows from financing activities			
Decrease in experience deposit receivable		-	1,480
Net cash generated in financing activities		**-**	**1,480**
Increase in cash and cash equivalents		**7,475**	**4,100**
Cash and cash equivalents - beginning of year	6	23,964	19,864
Cash and cash equivalents – end of year	6	**31,439**	**23,964**

(in thousands of United States dollars)

1. NATURE OF THE GROUP AND ITS BUSINESS

Island Heritage Insurance Company, Ltd. (the "Group") was incorporated pursuant to the Companies Law of the Cayman Islands on January 4, 1996 as an ordinary company with limited liability. A change of direct ownership occurred during 2015, with the merger of Island Heritage Holdings Limited ("IHHL"), into BF&M General Insurance Company Limited ("BF&M General") with BF&M General being the surviving entity effective July 24, 2015 and therefore the immediate parent of the Company. BF&M General is a wholly owned subsidiary of BF&M Limited, the ultimate parent, a Bermuda domiciled insurer. BF&M Limited had originally acquired 100% of the IHHL on March 30, 2012.

The Group's principal business is property, motor and casualty insurance. It determines and charges a premium to policyholders which, taken as a pool with all other policyholders, is expected to cover underwriting costs and claims which may take a number of years to settle. The business risks of insurance reside in determining the premium, settlement of claims, estimation of claim costs, and management of investment funds.

To further mitigate underwriting risk, the Group purchases reinsurance to share part of the risks originally accepted by the Group in writing premiums. These reinsurance arrangements include Quota Share, Facultative, Risk Excess and Catastrophe Excess of Loss programmes. This reinsurance, however, does not relieve the Group of its primary obligation to policyholders. If any reinsurers are unable to meet their obligations under the related agreements, the Group remains liable to its policyholders for the unrecoverable amounts.

The Group has the following subsidiaries:

	% owned	Principal country of operation and incorporation
Island Heritage Insurance Company N.V.	100	Curacao
Lawrence Boulevard Holdings Limited	100	Cayman Islands

Effective April 22, 1996, the Group was issued a Class "A" Insurance Licence by the Governor in Council of the Cayman Islands to carry on insurance business in the Cayman Islands. The registered office is Ugland House, South Church Street, Grand Cayman. The Group has subsequently been authorised to transact insurance business in the following territories:

- The British Virgin Islands on October 14, 1996
- The U.S. Virgin Islands on March 3, 1997
- Turks and Caicos Islands on December 30, 1997
- Anguilla on May 19, 1998
- Bahamas on July 17, 2000
- Dominica on July 26, 2000
- Barbados on May 7, 2003
- St. Kitts & Nevis on April 26, 2004
- Grenada on January 9, 2006
- Antigua on March 27, 2006
- St. Vincent & The Grenadines on October 16, 2006
- St. Lucia on November 10, 2006
- Caribbean Netherlands October 10, 2014

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

All amounts in the notes are shown in thousands of United States Dollars unless otherwise stated.

B. Consolidation

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases. The Group uses the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, including liabilities arising from contingent consideration arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive (loss)/income. Intra-group transactions, balances and gains and losses on intra-group transactions are eliminated.

C. Critical estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results will differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

Key sources of estimate uncertainty and areas where significant judgments have been made are described further below and discussed throughout the notes to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Critical estimates and judgements (continued)

i) The ultimate liability arising from claims made under insurance contracts and associated reinsurance recoveries

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. The Group establishes its liabilities by product line, type and extent of coverage and the year of occurrence of the claim. These liabilities are divided into two categories; the provision for notified claims and the provision for claims that are incurred but not yet reported ("IBNR"). Provisions are also made for adverse development and unallocated loss adjustment expenses.

Management engage independent actuaries, Towers Watson Canada Inc., to assist them in making such estimates, based on the Group's own loss history and relevant industry data.

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. The provision for unpaid claims is necessarily based on estimates due to the fact that ultimate disposition of claims incurred prior to the date of the statement of financial position, whether reported or not, is subject to the outcome of events that have not yet occurred. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within two to three months after the claims event. The Group does not establish provisions for catastrophes (such as natural disasters) in advance of the occurrence of such events. These events can cause significant volatility in the Group's level of incurred losses and the provision for unpaid claims.

ii) Estimation of reinsurance premiums and commissions

The reinsurance policy is not coterminous with the financial year and the rates payable and associated commission vary dependent on results for the contract period as such there is a degree of estimation involved at the statement of financial position date in respect of the results expected in the unexpired period. Management compiles calculations considering the contractually agreed rates and estimation of loss development in order to estimate the reinsurance premiums and commissions at the year end.

iii) Fair value of financial assets and liabilities

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

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

For certain financial instruments, the carrying amounts approximate to fair value due to the short term nature of these instruments. Such instruments include; premium receivable, reinsurance receivables, amounts due to/from related parties, broker rebate receivable, income tax receivable, reinsurance payable and other short term liabilities.

The Group regularly evaluates its financial assets for impairment. Refer to note 4 for further information on neither past due nor impaired, past due but not impaired and impaired financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in thousands of United States Dollars, which is the Group's functional currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive (loss)/income.

Translation differences on financial assets and liabilities held at fair value through profit or loss are reported as part of the fair value gain or loss.

E. Property and equipment

Owner occupied properties and all other assets classified as property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditures relating to ongoing maintenance of property and equipment are expensed as incurred in operating expenses on the consolidated statement of comprehensive (loss)/income.

Land is not depreciated. Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following rates:

Buildings:	50 years
Furniture and equipment:	5 - 10 years
Leasehold improvements:	the shorter of the lease term or 5 - 10 years
Motor vehicles:	5 years
Computer hardware:	3 - 5 years

The assets' residual values and useful lives and method of depreciation are reviewed at the end of each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In the event of improvement in the estimated recoverable amount, the related impairment may be reversed.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive (loss)/income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intangible assets

Capitalised software development costs for projects in use are amortised on a straight line basis over their useful lives, which range from 5 to 10 years.

Intangible assets are comprised of software development costs. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Group are recognised as intangible assets when:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated that the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development.

Directly attributable costs that are capitalised as part of the software development include vendor costs, employee costs and an appropriate portion of directly attributable overheads. Other development expenditures that do not meet these criteria are expensed when incurred.

G. Current and deferred income taxation

A portion of the Group's business originates in countries where the Group is required to pay tax on income, profits, or capital gains. Accordingly, a provision for income taxes is made in these consolidated financial statements for that portion of the business subject to taxation.

Under the asset and liability method of accounting for income taxes, deferred tax assets and liabilities are recognised for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effects of carry-forwards of unused tax losses are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date. When management's assessment indicates that it is more likely than not that deferred income tax assets will not be realised, a valuation allowance is recorded against the deferred tax assets.

H. Financial assets

i) Investments at fair value through profit or loss

Investments comprise interest bearing bonds and equities, which are accounted for on the trade date (the date the Company enters into a commitment to buy or sell the financial asset). Investments are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive (loss)/income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Financial assets (continued)

i) Investments at fair value through profit or loss (continued)

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit within the statement of comprehensive (loss)/income in the period in which they arise. Realised gains and losses on sales of financial assets are calculated using the specific cost of the financial assets sold. Investment income is recorded on the accrual basis.

For financial instruments that are measured in the statement of financial position at fair value; IFRS 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Investments are derecognised when the Group has transferred substantially all risks and rewards of ownership.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cash and cash equivalents, fixed deposits, regulatory deposits, premium receivable, reinsurance receivable, broker rebate receivable, ceding commission receivable, investment income receivable, income tax receivable and other receivables are classified in this category.

Financial assets are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest rate method. Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

I. Impairment of assets

The Group reviews the carrying value of its loans and receivables, which are financial assets carried at amortised cost at each period end, for evidence of impairment or events which indicate impairment may have occurred. A loan or receivable is impaired if its carrying value exceeds the estimated fair value and there is objective evidence of impairment. Such evidence includes failure to make scheduled payments of capital and/or interest, adverse changes in the payment pattern of the borrower and a significant deterioration in the fair value of the security underlying the loan.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive (loss)/income.

J. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks, other short-term highly liquid financial assets with original maturities of three months or less, and bank overdrafts. The carrying value of cash and cash equivalents approximates their fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Regulatory and fixed deposits

Regulatory deposits are held with Regulators as a legal requirement in order to provide services in the respective territories. Fixed deposits are financial assets with maturity dates longer than 90 days and are held with financial institutions. The carrying value of regulatory and fixed deposits approximates their fair value.

L. Insurance contract classification

The Group issues contracts that transfer insurance risk. Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party, the policyholder or ceding company, by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. In addition, the Group considers the proportion of premiums received to the benefit payable if the insured event did occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

The Group's insurance contracts include property, casualty, motor, contractors all risk, liability, marine and other specialty insurance contracts.

M. Insurance contract liabilities and assets

i) Insurance contract liabilities and assets

Claims and loss adjustment expenses are charged to insurance contract benefits and expenses within the statement of comprehensive (loss)/income as incurred based on the estimated ultimate liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group, net of the expected subrogation value and other recoveries. The Group does not discount its liabilities for unpaid claims.

A provision for short-term insurance liabilities is made for the estimated costs of claims notified but not settled at the statement of financial position date, using the best information available at that time. In addition to development on known claims, a provision is included for losses and loss adjustment expenses incurred but not reported on the basis of past experience. The provision is based on an actuarial analysis of the Group's accident year development experience. The method of making such estimates and for establishing the resulting provisions is reviewed and updated annually and any adjustments resulting there from are reflected in earnings in the period in which they are determined.

Expected reinsurance recoveries on claims, net of any required provision for doubtful amounts, are estimated using principles consistent with the Group's method for establishing the related liability, and are in accordance with the terms of the Group's reinsurance agreements.

ii) Liability adequacy test

At each end of the reporting period, liability adequacy tests are performed on short-term insurance contracts to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Insurance contract liabilities and assets (continued)

ii) Liability adequacy test (continued)

Any deficiency is immediately charged to the statement of comprehensive (loss)/income initially by writing off deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Any deferred policy acquisition costs written off as a result of this test cannot subsequently be reinstated.

iii) Deferred policy acquisition costs

Commissions and other acquisition costs that vary with and are directly attributable to securing new contracts and renewing existing contracts are capitalised. All other costs are recognised as expenses when incurred. The deferred policy acquisition costs are subsequently amortised over the term of the policies as premium is earned.

N. Reinsurance contracts held

The Group has entered into reinsurance contracts in the normal course of business to manage its risk exposure. Reinsurance assets are measured using the amounts and assumptions associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance contracts that contain funded layers that do not meet risk transfer requirements will be unbundled in line with IFRS 4 and the deposit component accounted for as a financial asset in accordance with IAS 39.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers. Amounts recoverable from or due to reinsurers are measured consistently with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable under reinsurance contracts and are recognised consistently with the underlying insurance contracts. Reinsurance contracts for funded layers within reinsurance contracts that do not meet risk transfer requirements are accounted for as financial assets measured at fair value on initial recognition and subsequently measured at amortised cost. The resulting financial assets are assessed for impairment using the same process adopted for loans and receivables in note I above.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive (loss)/income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. These receivables and payables are included in insurance receivables and other assets, insurance contract liabilities and other liabilities within the statement of financial position.

If there is objective evidence that the receivable is impaired, the Group reduces the carrying amount of the receivable accordingly and recognises that impairment loss in the statement of comprehensive (loss)/income. The Group gathers the objective evidence that a receivable is impaired using the same process adopted for loans and receivables described in note I above. The impairment loss is calculated under the same method used for these financial assets.

P. Premiums and commissions

Premiums written and reinsurance premiums ceded are accounted for on a pro-rata basis over the periods covered by the underlying policies, and any unearned or unamortised portions at the financial period end are carried forward as unearned premiums and reinsurers' share of unearned premiums, respectively, on the consolidated statement of financial position.

The Group earns commissions on reinsurance based on the agreement with the reinsurer. Commissions relating to reinsurance contracts are also treated on a pro-rata basis, and unearned portions at the financial period end are similarly carried forward on the consolidated statement of financial position.

The Group pays policy acquisition commissions to intermediaries based on premiums written as determined in the contract with the insured. Commissions relating to insurance contracts are also recorded on a pro-rata basis, and unamortised portions at the financial period end are similarly carried forward on the consolidated statement of financial position.

Q. Leases

The Group leases certain property and equipment. The Group does not have substantially all the risks and rewards of ownership, thus these leases are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive (loss)/income on a straight line basis over the period of the lease.

R. Dividends

Dividend distributions to the Company's shareholder are recognised in the period in which the dividends are declared by the Directors.

3. NEW AND REVISED ACCOUNTING STANDARDS

A. New and revised accounting standards adopted in 2016

There were no new standards, amendments or interpretations adopted by the Group for the first time for the financial year beginning January 1, 2016 that had a material impact on the Group.

B. New and revised accounting standards to be adopted in 2017 or later

The standards and interpretations that are issued, but not yet effective, are disclosed below. The Group intends to adopt these standards when they become effective.

Amendments to IFRS 2, Share based payments - (effective for annual periods beginning on or after 1 January 2018). This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principle in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payments and pay that amount to the tax authority. The Group does not expect any significant impact on its financial statements arising from the future adoption of the amendments.

IFRS 9 - Financial Instruments ("IFRS 9") – addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through Other Comprehensive Income ("OCI") and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI without any recycling to net income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard ("IFRS 17").

The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued; and

- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard—IAS 39.

The Group has yet to assess the impact of IFRS 9 and also whether the overlay approach or deferral approach will be chosen.

3. NEW AND REVISED ACCOUNTING STANDARDS (continued)

B. New and revised accounting standards to be adopted in 2017 or later (continued)

IFRS 15 – Revenue from Contracts with Customers – (effective for annual periods beginning on or after 1 January 2018). The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment. The Group does not expect any significant impact on its financial statements arising from the future adoption of the standard.

IFRS 16 – Leases ("IFRS 16") – (effective for annual periods beginning on or after 1 January 2019) was issued in January 2016 and replaces IAS 17, 'Leases'. A company can choose to apply IFRS 16 before the effective date but only if it also applies IFRS 15, 'Revenue from Contracts with Customers'. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 also requires enhanced disclosures to be provided by lessors and lessees that will improve information provided to users of the financial statements. The Group is considering the implications of the standard, the impact on the company and the timing of its adoption.

IAS 7 – Statement of Cash flows – (effective for annual periods beginning on or after 1 January 2017). These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The Group is considering the implications of the standard, the impact on the company and the timing of its adoption.

Amendments to IAS 12, 'Income Taxes - (effective for annual periods beginning on or after 1 January 2017). In January 2016, the IASB published amendments to IAS 12 clarifying specifically how to account for deferred tax assets related to debt instruments measured at fair value as well as clarifying the guidance for deferred tax assets in general by adding examples and elaborating on some of the requirements in more detail. The amendments do not change the underlying principles for the recognition of deferred tax assets. The Group does not expect any impact on its financial statements arising from the future adoption of the amendments.

There are no other new or amended IFRS's or IFRIC interpretations that are not yet effective that would be applicable and expected to have a material impact on the Group.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK

Risk management and objectives

The Group's primary objective in undertaking risk management activity is to manage risk exposures in line with risk appetite, minimizing its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes. In this respect, a framework of limits and qualitative statements, aligned with the Group's risk appetite, is in place for material exposures. Key management recognises the critical importance of having efficient and effective risk management systems in place.

A significant part of the Group's business involves the acceptance and management of risk. The Group is exposed to insurance, market, credit, liquidity and operational risks and maintains a formal risk management framework to ensure that all significant risks are identified and managed.

The Group seeks to manage its exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board of Directors. This is supplemented by board committees comprised of non-executive directors to which management reports. The key control techniques for the major categories of risk exposure are summarised in the following sections.

Risks are usually grouped by risk type and include: credit, liquidity, market, and insurance. Risks falling within these types may affect a number of key metrics including those relating to statement of financial position strength, liquidity and profit. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

(in thousands of United States dollars)

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS

i) Credit risk

Credit risk is the exposure that the counter-party to a financial instrument is unable to meet an obligation, thereby causing a financial loss to the Group. The following policies and procedures are in place to manage this risk:

- Holding a diversified investment portfolio that focuses on credit quality and diversification of banking institutions and investments in accordance with the Group's investment guidelines. The portfolio is monitored, reviewed and approved by the Group's Investment Committee;
- Investment guidelines are in place that require the purchase of only investment-grade assets and minimise undue concentration of assets in any single Company, asset class or credit rating;
- Oversight by the management, ensuring business is transacted with well-established reinsurance companies with strong credit ratings. Concentration of credit risk is managed by following policy guidelines set each year by management. All major reinsurers are continually monitored and rated A or higher with A.M. Best; and
- The credit risk for premiums receivable is mitigated as a customer's policy may be cancelled if the customer is in default of a payment. Credit risk also arises from balances due from brokers and agents. Management regularly reviews the Group's business relationships with agents and brokers, whom are also subject to visits from the Group's underwriting department.

The Group faces credit risk on all of its financial and insurance assets.

Maximum exposure to credit risk – Financial and insurance assets

The following table summarises the Group's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the assets.

	2016 $	2015 $
Financial assets		
Cash and cash equivalents	31,439	23,964
Fixed deposits	2,000	-
Premium receivable	16,065	13,428
Investments - at fair value through profit and loss	14,093	13,725
Regulatory deposits	5,762	14,337
Ceding commission receivables	2,862	4,972
Reinsurance receivables	486	1,354
VAT advanced and refund recoverable	2,180	-
Other receivables (excludes prepayments)	1,091	1,471
Insurance assets		
Reinsurance balances recoverable	33,300	3,363
Total assets subject to credit risk	**109,278**	**76,614**

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries.

(in thousands of United States dollars)

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

i) Credit risk (continued)

The following table provides details of the carrying value of fixed income securities by industry sector and geographic distribution:

	2016 $	2015 $
Bonds issued or guaranteed by:		
U.S. Government	3,741	2,969
Non U.S. Government	3,134	2,569
Corporates	7,218	8,187
Total fixed income	**14,093**	**13,725**
Australia	1,528	1,469
Bermuda	520	545
Canada	511	510
France	-	497
Germany	502	989
Japan	502	501
Norway	987	971
Singapore	583	541
Switzerland	493	492
The Netherlands	488	478
The United States of America	7,447	6,200
Venezuela	532	532
Total fixed income	**14,093**	**13,725**

The following table provides the carrying value of fixed income by credit quality using Standard & Poors (S&P) ratings or an equivalent rating when not available from S&P:

	2016 $	2015 $
AAA	3,121	3,077
AA+	4,697	3,448
AA	519	1,051
AA-	3,032	3,951
A+	1,007	1,502
A	1,366	350
A-	351	346
Total bonds	**14,093**	**13,725**

(in thousands of United States dollars)

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

i) Credit risk (continued)

The following table provides the carrying value of cash & cash equivalents, fixed deposit & regulatory deposits by credit quality using Standard & Poors (S&P) ratings or an equivalent rating when not available from S&P:

	2016	**2015**
	$	**$**
AA-	16,834	6,120
A+	10,115	10,822
BBB+	2,205	173
BBB	6,253	17,020
B+	662	658
B	-	425
Not rated (1)	3,132	3,083
Total	**39,201**	**38,301**

(1) Carrying values that are "Not rated" relate to cash & cash equivalents (note 6) and regulatory deposits (note 7) held with financial institutions and government bodies located in Antigua, Cayman Islands, Dominica, Grenada, St. Kitts, St Lucia and St. Vincent.

The following is an analysis of the reinsurance companies per line of coverage and any concentrations:

	Total number of reinsurers by line	**Largest % placed with a single reinsurer**	**Location of that single reinsurer**	**A.M. Best rating of that single reinsurer**
Property catastrophe excess of loss	38	15.00%	Switzerland	A+
		15.00%	Germany	A+
		15.00%	Germany (2)	A+
Property catastrophe excess of loss (sub layer)	1	100.00%	Switzerland	A+
Reinstatement premium protection	4	60.00%	Germany (2)	A+
Casualty & Motor excess of loss	11	15.00%	UK	A
Marine excess of loss	7	25.00%	UK	A
Fire per risk	6	20.00%	Germany	A+
		20.00%	Germany (2)	A+
		20.00%	Ireland	A
Property quota share	19	30%	Germany	A+
Bank program property quota share	1	100.00%	US	A
Bonds quota share	1	100.00%	Germany (2)	A+
Personal accident quota share	1	100.00%	UK	A
Marine quota share	10	24%	UK	A

(2) A single reinsurance company, located in Germany, represents the largest concentration on each of the indicated lines of coverage.

(in thousands of United States dollars)

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

i) Credit risk (continued)

The Group's credit risk exposure to any one individual policyholder on direct business is not material. As of December 31, 2016, trade receivables of $1,395 (2015: $1,239) were past due but not impaired. These relate to a number of independent customers for whom there is no history of default. Receivables neither past due nor impaired and those past due but not impaired are shown in the tables below:

At December 31, 2016	Neither past due nor impaired $	Past due but not impaired $	Total $
Cash and cash equivalents	31,439	-	31,439
Fixed deposits	2,000	-	2,000
Premium receivable*	14,670	1,395	16,065
Investments - fair value	14,093	-	14,093
Regulatory deposits	5,762	-	5,762
Ceding commission receivables	2,862	-	2,862
VAT advanced and refund receivable	2,180	-	2,180
Reinsurance receivables	486	-	486
Other receivables	1,091	-	1,091
	74,583	**1,395**	**75,978**

At December 31, 2015	Neither past due nor impaired $	Past due but not impaired $	Total $
Cash and cash equivalents	23,964	-	23,964
Regulatory deposits	14,337	-	14,337
Investments - fair value	13,725	-	13,725
Premium receivable*	12,189	1,239	13,428
Ceding commission receivables	4,972	-	4,972
Other receivables	1,471	-	1,471
	70,658	**1,239**	**71,897**

* Ageing of receivables that are past due but not impaired is as follows:

Premiums receivable	Total $	3 to 6 months $	> 6months $
At December 31, 2016	1,395	990	405
At December 31, 2015	1,239	627	612

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations as they become due. In order to manage liquidity risk, management maintains levels of cash and short-term deposits, which are sufficient to fulfill the Group's short-term obligations.

The timing of undiscounted cash flows arising from the Company's financial liabilities totaling $40,080 (2015: $21,979) are all within one year. The Company's financial liabilities include the reinsurance balance payable, accounts payable, commission payable, profit commission payable, premium taxes payable, net insurance contract liabilities, income tax payable, and due to related parties.

iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is not significantly exposed to foreign exchange risk because substantially all currencies with which the Group has material assets and liabilities are either in U.S. Dollars or are pegged to the U.S. Dollar which is the Group's functional and presentation currency.

Interest rate risk

Interest rate risk is price volatility produced by changes in the overall level of interest rates. Change in market interest rates can impact the reinvestment of matured investments, as the returns available on the new investment may be significantly different from the returns previously achieved. The Group manages these risks through the investment guidelines, which include:

- Asset allocation and diversification of the investment portfolio; and
- Quantifying and reviewing regularly the risk associated with the mismatch in portfolio duration and cash flow.

Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting the market.

The Group's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally equity investments.

(in thousands of United States dollars)

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

iii) Market risk (continued)

Price risk (continued)

The Group's price risk policy requires it to manage such risks through the investment guidelines by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market.

The Group is sensitive to price risk on its equity securities. The effect of a 5% change in capital markets (2015: 5%) will result in an increase/decrease in investment income of $315 (2015: $335).

iv) Sensitivity analysis

The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of assumptions may be correlated.

Sensitivity factor	**Description of sensitivity factor applied**
Interest rate- cash & cash equivalents:	The impact of a change in market interest rates by 1% (2015: 1%)
Interest rate fixed income securities:	The impact of a change in market interest rates by 1% (2015: 1%)
Underwriting income:	The impact of a change in insurance rates by 5% (2015: 5%)
Underwriting expenses:	The impact of a change in acquisition costs by 5% (2015: 5%)
Loss ratios:	The impact of a change in accrued losses by 25% (2015: 25%)

December 31, 2016	**Interest rates $ '000**	**Underwriting rates $ '000**	**Loss ratios $ '000**
Impact on net profit from increase in sensitivity factor*	(704)	965	(2,636)
Impact on net profit from decrease in sensitivity factor*	676	(965)	2,636
The portion that is recognised directly in shareholder's equity is Nil			
December 31, 2015			
Impact on net profit from increase in sensitivity factor*	(675)	1,229	(1,448)
Impact on net profit from decrease in sensitivity factor*	675	(1,229)	1,448
The portion that is recognised directly in shareholder's equity is Nil			

** Net of reinsurance*

The duration of liabilities is calculated based on management's experience from prior year's average settlement pattern for outstanding claims. The durations are:

	2016	**2015**
Net insurance liability- property risk	1-2 months	1-2 months
Net insurance liability- motor risks	1 month	1 month
Net insurance liability- casualty risks	12 months	12 months

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

iv) Sensitivity analysis (continued)

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

In relation to financial assets, management monitors the sensitivity of reported interest rate movements by assessing the expected changes in the different portfolios due to parallel movements of 100 basis points in all yield curves.

B. INSURANCE RISK

i) General insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. Insurance risk is implicit in the Group's insurance business and arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks.

Types of risk

General insurance risk in the Group arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source or event;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
- Inadequate reinsurance protection or other risk transfer techniques; and
- Inadequate reserves.

The majority of the general insurance business underwritten by the Group is of a short-term nature such as property, motor and marine insurance. The Group's underwriting strategy and appetite is agreed by the Board of Directors and communicated via specific policy statements and guidelines. General insurance risk is managed primarily at a Company level.

Management of general insurance risks

The Group's insurance risk policy is set out through the underwriting guidelines and includes a structure of delegated pricing and underwriting authorities. Pricing is based on assumptions which consider past experience and trends as well as current market conditions. Insurance exposures are limited through the use of reinsurance. Overall, the Group seeks to be conservative in its acceptance of insurance risks by establishing strict underwriting criteria and limits. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported reserve ("IBNR"), a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. INSURANCE RISK (continued)

i) General insurance risk (continued)

Management of general insurance risks (continued)

Management under the direction of the Board of Directors monitors and develops the management of insurance risk of the Group, and assesses the aggregate risk exposure. It is responsible for the development, implementation and review of the Group policies for underwriting, claims, reinsurance and reserving that operate within the risk management framework. The Group has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of the Group.

Reinsurance strategy

Reinsurance is used to reduce potential loss to the Group from individual large risks and catastrophic events. It may also be used to manage accumulated exposures, capital or to provide access to specialist underwriting expertise. In the case of default by a reinsurer, this does not release the Group from its liability to the insured policyholders.

Significant reinsurance programmes are reviewed annually to verify that the levels of protection being purchased reflect any developments in exposure and the risk appetite of the Group. These reinsurance arrangements include quota share, facultative, per risk and catastrophe excess of loss programmes. The reinsurance is placed with providers who meet the Group's counter-party security requirements, and large reinsurance placements may also require approval from the Board of Directors.

Reinsurance contracts are jointly and severally entered into by the Group directly on a stand-alone basis as well as part of a general reinsurance pool, for catastrophe excess of loss coverage, with two other BF&M Limited affiliated entities (collectively referred to as the "Reinsurance Pooling Arrangement"). Specific treaties such as the Quota Shares and Facultative Reinsurance are placed on an individual contract basis for the Group with third party reinsurers and another BF&M Limited affiliated entity.

The Reinsurance Pooling Arrangement is a related party arrangement entered into to mitigate their catastrophic insurance risk and collectively participate in shared reinsurance coverage, including shared limits on each of the catastrophe excess of loss reinsurance contracts. The total reinsurance costs are determined in accordance with the contracts based on the exposure data, aggregate limits and gross net earned premium income of the collective three entities in the Reinsurance Pooling Arrangement. Accordingly the total reinsurance cost is reliant on input data from each of the participants. The basis of allocations of the reinsurance costs within the Reinsurance Pooling Arrangement has been determined as follows:

1) The initial reinsurance deposit premiums which are based on projected insured aggregate exposures are allocated by an independent reinsurance broker (the "Broker"). The Broker considered the historical data of key territories along with the current pricing dynamics within those territories and then applies certain discounts for the bundling of aggregates into one cover to arrive at an allocation of the reinsurance costs for the exposures attributable to each entity within the Reinsurance Pooling Arrangement. The initial reinsurance deposit premiums represent the majority of the reinsurance costs.

2) Adjustments to reinsurance costs are recorded to reflect revised forecast exposures projected insured aggregate exposures i.e. the change in estimate. This component of the reinsurance cost is allocated based on each individual territories change in insured aggregate exposures and does not reflect the other allocation features used by the broker in (1) above. This component of the reinsurance cost does not represent an arm's length transaction.

(in thousands of United States dollars)

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. INSURANCE RISK (continued)

i) General insurance risk (continued)

Reinsurance strategy (continued)

Recoveries from any claims under Reinsurance Pooling Arrangement are allocated to the participant who actually incurred the claims. There is no sharing of recoveries between entities in the Reinsurance Pooling Arrangement.

Concentration risk

Processes are in place to manage catastrophe risk at a Company level. The Group cedes much of its catastrophe risk to third-party reinsurers but retains a pooled element for its own account.

The value of insured exposures at December 31, 2016 and 2015, gross and net of reinsurance (excluding catastrophe programme coverage) by geographical location and line of business are summarised below:

	2016		2015	
	Gross amount insured	Net amount insured after reinsurance	Gross amount insured	Net amount insured after reinsurance
	$	$	$	$
Property	8,781,186	3,913,842	7,786,270	3,933,926
Motor	89,178	89,178	59,294	49,833
Total	**8,870,364**	**4,003,020**	**7,845,564**	**3,983,759**

	2016		2015	
	Gross amount insured	Net amount insured after reinsurance	Gross amount insured	Net amount insured after reinsurance
	$	$	$	$
Bahamas	3,238,924	1,468,427	2,727,359	1,317,382
Cayman	2,654,750	1,118,170	2,178,827	1,103,835
USVI	1,130,581	700,665	1,145,373	804,931
Other	1,846,109	715,758	1,794,005	757,611
Total	**8,870,364**	**4,003,020**	**7,845,564**	**3,983,759**

Unutilised catastrophe coverage available is sufficient to cover a 1:196 (2015 1:391) year catastrophe for the collective Reinsurance Pooling Arrangement as modelled by certain proprietary catastrophe models. The limits can be exhausted by any one participant as the coverage level is potentially lower from each individual participants perspective due to the dependency on the other participants actual catastrophe experience during the contract period (see page 30).

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. INSURANCE RISK (continued)

i) General insurance risk (continued)

Claims reserving

Claims are payable on an occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term.

Property risks are comprised principally of physical damage to property, contractors all risk and auto physical damage. Property policies are underwritten by reference to the replacement value of the properties and contents insured.

Claim payment limits are always included to cap the amount payable on occurrence of the insured event. The costs of rebuilding properties, of replacement or indemnity for contents are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from windstorm or sea inundation damage. For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events, such as hurricanes, which may result in motor and property claims.

Casualty risks are principally comprised of personal injury from motor claims. The Group manages these risks by way of a conservative underwriting strategy, adequate reinsurance arrangements and proactive claims management. Underwriting limits are in place to enforce appropriate risk selection criteria. For example the Group has the right not to renew individual policies and it has the right to reject the payment of a fraudulent claim.

Management monitors and conducts quarterly reviews of the Group's general insurance claims provisions, and their adequacy.

The Group has a claims department dealing with the mitigation of risks surrounding known exposures. This department investigates and adjusts claims with the assistance and advice of external loss adjusters. The claims are reviewed individually on an on-going basis and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments. The adequacy of the Group's insurance claims provisions is ultimately overseen by the Board of Directors.

The estimation of the claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until years after the event that gave rise to the claims depending upon the nature of the contract and the claim. For casualty contracts, the IBNR liability will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio. The financial impact for the year is disclosed per note 10.

(in thousands of United States dollars)

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. INSURANCE RISK (continued)

i) General insurance risk (continued)

Claims reserving (continued)

The Group cedes reinsurance to other companies to reduce its general insurance risk and minimise exposures arising from specific large risks and hazards of an unusual or catastrophic nature. The general insurance risks and specific large risks are mitigated through Group specific reinsurance agreements consisting of Quota Share and Facultative Reinsurance. The risks arising from hazards of an unusual or catastrophic nature are mitigated through the Reinsurance Pooling Arrangement. The policy aggregate limits of these reinsurance contracts are shared between the entities party to the Reinsurance Pooling Arrangement, with each entity able to recover claims, individually or in combination, up until the point where the aggregate limit for the entire Reinsurance Pooling Arrangement is exhausted. There is no cap on the amount of recoveries an individual entity is permitted to claim under the Reinsurance Pooling Arrangement, however, once the aggregate limited is exhausted, no further recoveries are possible for any entity. Accordingly, the risk exists that any one entity's catastrophe loss experience will reduce the coverage available to the other territories and could potentially exhaust the catastrophe coverage for the entire Reinsurance Pooling Arrangement. The participation percentage in the Reinsurance Pooling Arrangement for the Group is approximately 68% (2015: 74%).

On October 6, 2016, Freeport (Bahamas) experienced Hurricane Matthew which resulted in current year claims incurred of $48,809 and claims paid of $23,617. This catastrophe event occurred within the Reinsurance Pooling Arrangement which utilised some of the coverage available under the Reinsurance Pooling Arrangement.

The concentration of insurance risk before and after Quota Share and Facultative reinsurance in relation to the type of general insurance business risk (excluding catastrophe programme coverage) accepted is summarised below, with reference to the carrying amount of the insurance reserve liabilities (gross and net of reinsurance) arising from general insurance contracts:

	2016		2015	
	Gross $	Net $	Gross $	Net $
Property	31,856	869	2,909	1,334
Motor	3,390	2,508	2,752	1,891
All Others	3,096	1,665	1,938	1,011
Total	**38,342**	**5,042**	**7,599**	**4,236**

(in thousands of United States dollars)

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. INSURANCE RISK (continued)

i) General insurance risk (continued)

Claims development tables

Gross loss development:

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table illustrates how the Group's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of each table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position. A calendar year or accident year basis is considered to be most appropriate for the business written by the Group.

Accident year Estimate of ultimate claims cost:	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	Total $
At the end of the valuation year	5,334	21,668	4,263	5,222	14,767	9,613	8,524	8,466	9,530	61,642	
One year later	5,390	20,106	3,701	4,775	12,735	8,592	8,243	8,021	8,741		
Two years later	5,061	19,765	3,645	5,078	13,028	8,618	7,502	7,840			
Three years later	5,104	19,768	3,670	5,101	13,314	8,515	7,766				
Four years later	5,100	19,610	3,671	5,062	13,290	8,449					
Five years later	5,076	19,596	3,669	5,065	13,287						
Six years later	4,968	19,587	3,665	5,075							
Seven years later	4,988	19,589	3,662								
Eight years later	4,988	19,594									
Nine years later	4,988										
Current estimates of cumulative claims	4,988	19,594	3,662	5,075	13,287	8,449	7,766	7,840	8,741	61,642	
Cumulative payments to date	(4,965)	(19,529)	(3,662)	(5,035)	(13,093)	(8,175)	(7,252)	(7,166)	(7,147)	(26,678)	
Liability recognised in the consolidated statement of financial position	23	65	-	40	194	274	514	674	1,594	34,964	38,342

(in thousands of United States dollars)

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. INSURANCE RISK (continued)

i) General insurance risk (continued)

Claims development tables (continued)

Net loss development:

Underwriting year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claims cost:	$	$	$	$	$	$	$	$	$	$	$
At the end of the valuation year	3,922	3,364	1,592	1,466	2,452	2,994	4,703	3,950	5,914	11,263	
One year later	3,366	3,251	1,353	1,256	2,285	2,269	4,631	4,261	5,316		
Two years later	3,145	3,227	1,371	1,302	2,363	2,238	4,239	4,132			
Three years later	3,312	3,237	1,031	1,314	2,395	2,219	4,248				
Four years later	3,308	3,156	1,029	1,305	2,375	2,200					
Five years later	3,623	3,144	1,027	1,313	2,376						
Six years later	3,555	3,136	1,023	1,323							
Seven years later	3,558	3,134	1,021								
Eight years later	3,558	3,139									
Nine years later	3,558										
Current estimates of cumulative claims	3,558	3,139	1,021	1,323	2,376	2,200	4,248	4,132	5,316	11,263	
Cumulative payments to date	(3,555)	(3,077)	(1,021)	(1,282)	(2,349)	(2,163)	(4,160)	(3,961)	(4,328)	(7,638)	
Net liability recognised in the consolidated statement of financial position	3	62	-	41	27	37	88	171	988	3,625	5,042

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

C. CAPITAL MANAGEMENT AND REGULATORY COMPLIANCE

The Group's practice is to maintain the capitalisation at a level that will maintain a strong credit rating and exceed the relevant minimum regulatory capital and deposit requirements in the jurisdictions in which they operate as shown in note 7. The Group's investment policies emphasise the preservation of capital and the maintenance of a diversified investment portfolio, which together serve to minimise the risk that investment activities pose to the Group's capital.

The Company's objectives when managing capital, which it defines as shareholder's equity, are:

- To comply with the capital requirements set by the Cayman Islands Monetary Authority ("CIMA");
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for its shareholders; and
- To maintain a strong capital base to support the development of its business.

CIMA is the primary regulator of the Group and has statutory powers that enable it to use its discretion to require the Group to conduct its Cayman operations in accordance with general or specific conditions which may be imposed by CIMA or may be agreed between CIMA and the Group. The Group is required to maintain capital in excess of the greater of approximately $300 for domestic insurers or $1,000 for external insurers, and an amount determined as per a prescribed formula set out in legislation. The formula prescribes capital requirements for the Group's assets and liabilities on a risk basis and also provides for a margin of catastrophe. The Group holds both a domestic insurer license and an external insurer Class A license in the Cayman Islands. Additionally, the group has regulated insurance operations in several other jurisdictions (see note 1 and 7). At December 31, 2016 and 2015, the Group was generally in compliance with its regulatory requirements as an external insurer, however, the St Lucia regulatory filings report an exception in respect of Anti Money Laundering regulatory compliance; management is committed to remediate this exception.

D. SELF INSURANCE

The Company self-insures their building (as detailed in note 12). The insured asset is reinsured through the Company's reinsurance programme and is subject to the same terms and conditions as other reinsured insurance contracts.

E. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

For the financial assets and liabilities subject to net settlement below, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when either party elects to settle on a net basis. In the event of the insolvency of either the Group or counterparty, any amounts due by or owing to the Group may be set off and settled on a net basis.

(in thousands of United States dollars)

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

E. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The following assets are presented gross in the financial statements but settle on a net basis:

Insurance receivables and other assets	As At December 31, 2016 $	As At December 31, 2015 $
Gross amount of financial assets presented in the balance sheet	35,019	22,194
Gross amount of financial liabilities allowed for set off	(2,531)	(6,060)
Net amount of financial assets	**32,488**	**16,134**

The following liabilities presented gross in the financial statements but settle on a net basis:

Other liabilities	As At December 31, 2016 $	As At December 31, 2015 $
Gross amount of financial liabilities presented in the balance sheet	26,648	18,308
Gross amount of financial assets allowed for set off	(2,531)	(6,060)
Net amount of financial liabilities	**24,117**	**12,248**

(in thousands of United States dollars)

5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

A. CARRYING AMOUNT AND FAIR VALUE OF INVESTMENTS

	2016 $	2015 $
At fair value through profit and loss		
Fixed Income:		
U.S. Treasury Securities	3,741	2,969
Non U.S. Government	3,134	2,569
Corporate bonds	7,218	8,187
Equities:		
U.S. Equities	6,296	6,701
	20,389	**20,426**

B. FAIR VALUE HIERARCHY

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction.

The Group classifies the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are:

- Level 1 Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 Fair value is based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 Fair value is based on inputs that are not based on observable market data.

The following table illustrates the classification of the Group's investments measured at fair value as at December 31, 2016:

	Level 1 $	Level 2 $	Level 3 $	Total $
At fair value through profit and loss				
Fixed Income:				
U.S. Treasury Securities	3,741	-	-	3,741
Non U.S. Government	-	3,134	-	3,134
Corporate bonds	-	7,218	-	7,218
Equities:				
U.S. Equities	6,296	-	-	6,296
	10,037	**10,352**	**-**	**20,389**

(in thousands of United States dollars)

5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

B. FAIR VALUE HIERARCHY (continued)

The following table illustrates the classification of the Group's investments measured at fair value as at December 31, 2015:

	Level 1 $	Level 2 $	Level 3 $	Total $
At fair value through profit and loss				
Fixed Income:				
U.S. Treasury Securities	2,969	-	-	2,969
Non U.S. Government	-	2,569	-	2,569
Corporate bonds	-	8,187	-	8,187
Equities:				
U.S. Equities	6,701	-	-	6,701
	9,670	**10,756**	**-**	**20,426**

The Group does not hold any Level 3 financial assets. During the year there were no transfers between Levels 1 and 2 (2015: none).

C. NET INVESTMENT INCOME

	2016 $	2015 $
Interest Income		
Fixed income securities - fair value through profit or loss	255	235
Cash and deposits	115	42
	370	**277**
Dividend Income		
Equities - fair value through profit or loss	124	118
	124	**118**
Net realised gains on sales of investments		
Fixed income securities - fair value through profit or loss	38	34
Equities- fair value through profit or loss	-	117
	38	**151**
Change in fair value arising from		
Fixed income securities - fair value through profit or loss	352	(106)
Equities - fair value through profit or loss	-	(330)
	352	**(436)**
	884	**110**

(in thousands of United States dollars)

6. CASH AND CASH EQUIVALENTS

	2016 $	2015 $
Cash at banks and on hand	29,928	23,163
Cash equivalents with investment custodian	1,511	801
	31,439	**23,964**

7. REGULATORY AND FIXED DEPOSITS

Regulatory deposits represent amounts placed on deposit with banks and government bodies in the countries identified below to satisfy licensing criteria in certain jurisdictions in which the Group operates. These deposits cannot be removed nor the accounts reduced without the prior written consent of the relevant regulator. During the year regulatory deposits in the Bahamas of $8,633 (2015: Nil) were withdrawn to pay for claims related to Hurricane Matthew losses as permitted by the Bahamian Insurance Regulator. The regulatory deposit has been replenished post year end as required by the Bahamian Insurance Regulator.

	2016 $	2015 $
Insurance Commissioner of the Bahamas	1,037	9,671
U.S. Virgin Islands Department of Banking & Insurance	662	658
St. Lucia Registrar of Insurance	661	661
Grenada International Financial Services Authority	532	503
Turks & Caicos Islands Supervisor of Insurance	503	501
Antigua Financial Services Regulatory Commission	474	473
Dominica Accountant General	458	444
St. Vincent Ministry of Finance and Planning	449	444
Barbados Supervisor of Insurance	425	425
Anguilla Registrar of Insurance	338	337
St. Kitts and Nevis Registrar of Insurance	223	220
Total regulatory deposits	**5,762**	**14,337**
Fixed deposits	2,000	-
Total regulatory and fixed deposits	**7,762**	**14,337**

The fixed deposit has a term of 365 days with an independent financial institution in the Barbados. The fixed deposit will mature on December 2, 2017, and is earning interest at 1% per annum.

8. INSURANCE RECEIVABLES AND OTHER ASSETS

	2016 $	2015 $
Premium receivable	16,065	13,428
Prepayments	12,821	969
Ceding commission receivables	2,862	4,972
VAT advanced and refund recoverable	2,180	-
Broker rebate receivable	968	1,309
Investment income receivable	123	162
Reinsurance receivables	-	1,354
	35,019	**22,194**

(in thousands of United States dollars)

9. DEFERRED POLICY ACQUISITION COSTS

	2016 $	2015 $
At 1 January	6,460	7,564
Acquisition costs incurred in the year	19,203	17,712
Expensed	(18,353)	(18,816)
At December 31	**7,310**	**6,460**

10. INSURANCE CONTRACT LIABILITIES

A. ASSUMPTIONS AND METHODOLOGY

The ultimate cost of outstanding contract liabilities are estimated by using a range of standard actuarial claims projections techniques, such as the Incurred Development Methodology and the Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that the Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is analysed by accident year. Claims development is analysed by line of business.

B. COMPOSITION OF INSURANCE CONTRACT LIABILITIES

Gross	2016 $	2015 $
Insurance contracts:		
Claims reported and loss adjustment expenses	30,263	4,931
Claims incurred but not reported	8,079	2,668
Unearned premiums	42,084	40,795
Total insurance contract liabilities – gross	**80,426**	**48,394**

See note 11 for detail on reinsurance assets.

Net of reinsurance recoverable	2016 $	2015 $
Insurance contracts:		
Claims reported and loss adjustment expenses	2,945	2,649
Claims incurred but not reported	2,097	1,587
Unearned premiums	16,117	16,948
Total insurance contract liabilities – net of reinsurance recoverable	**21,159**	**21,184**

(in thousands of United States dollars)

10. INSURANCE CONTRACT LIABILITIES (continued)

C. CHANGES IN INSURANCE CONTRACT LIABILITIES

	2016			2015		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	$	**$**	**$**	**$**	**$**	**$**
Claims and adjustment expenses	4,931	(2,282)	2,649	6,200	(3,731)	2,469
Claims incurred but not reported	2,668	(1,081)	1,587	2,242	(1,348)	894
Balance at 1 January	**7,599**	**(3,363)**	**4,236**	**8,442**	**(5,079)**	**3,363**
Cash paid for claims settled in year	(30,137)	20,400	(9,737)	(9,006)	4,087	(4,919)
Incurred losses:						
Incurred from current-year claims	61,642	(50,379)	11,263	9,530	(3,616)	5,914
Incurred from prior-year claims	(762)	42	(720)	(1,367)	1,245	(122)
Movement during the year	**30,743**	**(29,937)**	**806**	**(843)**	**1,716**	**873**
Claims and adjustment expenses	30,263	(27,318)	2,945	4,931	(2,282)	2,649
Claims incurred but not reported	8,079	(5,982)	2,097	2,668	(1,081)	1,587
Balance at December 31	**38,342**	**(33,300)**	**5,042**	**7,599**	**(3,363)**	**4,236**

D. UNEARNED PREMIUM LIABILITY

	2016			2015		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	$	**$**	**$**	**$**	**$**	**$**
Balance at 1 January	**40,795**	**(23,847)**	**16,948**	**43,797**	**(24,409)**	**19,388**
Premium written during the year	92,596	(68,380)	24,216	93,320	(66,113)	27,207
Premium earned during the year	91,307	(66,260)	25,047	96,322	(66,675)	29,647
Movement during the year	1,289	(2,120)	(831)	(3,002)	562	(2,440)
Balance at December 31	**42,084**	**(25,967)**	**16,117**	**40,795**	**(23,847)**	**16,948**

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

(in thousands of United States dollars)

11. REINSURANCE ASSETS

Reinsurance assets are comprised of the following:

	2016	2015
	$	$
Insurance contracts:		
Claims reported and loss adjustment expenses recoverable	27,318	2,282
Claims incurred but not reported recoverable	5,982	1,081
Deferred reinsurance premiums	25,967	23,847
Reinsurance receivables	486	-
	59,753	**27,210**

12. PROPERTY AND EQUIPMENT

	Land & buildings	Furniture, equipment and leasehold improvements	Computer hardware	Motor vehicle	Total
	$	$	$	$	$
At January 1, 2015					
Cost	9,046	2,446	930	173	12,595
Accumulated depreciation	(264)	(1,024)	(839)	(90)	(2,217)
Net book amount	**8,782**	**1,422**	**91**	**83**	**10,378**
Year ended December 31, 2015					
Additions	-	76	134	-	210
Depreciation	(167)	(342)	(66)	(25)	(600)
Closing net book value	**8,615**	**1,156**	**159**	**58**	**9,988**
At December 31, 2015					
Cost	9,046	2,522	1,064	173	**12,805**
Accumulated depreciation	(431)	(1,366)	(905)	(115)	**(2,817)**
Net book amount	**8,615**	**1,156**	**159**	**58**	**9,988**
Year ended December 31, 2016					
Additions	-	12	44	-	56
Disposals – cost	-	-	-	(53)	(53)
Disposals – accumulated depreciation	-	-	-	26	26
Retired – cost	-	(116)	(476)	(51)	(643)
Retired – accumulated depreciation	-	116	476	51	643
Depreciation	(166)	(353)	(83)	(17)	(619)
Closing net book value	**8,449**	**815**	**120**	**14**	**9,398**
At December 31, 2016					
Cost	9,046	2,418	632	69	12,165
Accumulated depreciation	(597)	(1,603)	(512)	(55)	(2,767)
Net book amount	**8,449**	**815**	**120**	**14**	**9,398**

(in thousands of United States dollars)

13. INTANGIBLE ASSETS

	2016 $	2015 $
Underwriting system (software) - other intangible asset		
Cost	2,429	2,463
Accumulated amortisation	(2,155)	(2,055)
Net book amount	**274**	**408**
Year ended December 31		
At beginning of year	408	254
Net additions & improvements	-	243
Net disposals	(34)	-
Amortisation	(100)	(89)
Closing net book amount	**274**	**408**

14. OTHER LIABILITIES

	2016 $	2015 $
Reinsurance balance payable	10,725	7,981
Accounts payable	5,907	2,040
Deferred ceding commission	5,352	4,657
Commission payable	2,689	2,085
Premium taxes payable	1,252	133
Profit commission payable	723	1,412
	26,648	**18,308**

15. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	2016 $	2015 $
Authorised - common share of a par value of $1 each	500	500
Issued - common share of a par value of $1 each	**321**	**321**

	Number of shares outstanding	Ordinary Shares $	Contributed Surplus $	Total $
At December 31, 2016	320,555	321	29,612	29,933
At December 31, 2015	320,555	321	29,411	29,732

The contributed surplus has the same characteristics, terms, rights and obligations as “Share Premium” as defined in the Cayman Islands Companies Law and the contributed surplus was made with the intention and expectation that it be recorded as a component of equity by the Company.

(in thousands of United States dollars)

16. INSURANCE CONTRACTS CLAIMS AND LOSS ADJUSTMENT EXPENSES

	2016 $	2015 $
Insurance contracts expenses paid	30,137	9,006
Change in insurance contracts claim liabilities	30,743	(843)
Insurance claims & loss adjustment expenses	60,880	8,163
Reinsurance recoveries received	(20,400)	(4,087)
Change in reinsurance claim recoveries	(29,937)	1,716
Insurance claims & loss adjustment expenses recovered	(50,337)	(2,371)
	10,543	**5,792**

17. OPERATING EXPENSES

	2016 $	2015 $
Wages and salaries	5,730	5,335
Advertising & business development	861	766
Professional & consulting fees	820	897
Depreciation and amortisation	719	689
Rent, building & utilities costs	634	638
IT expenses	597	1,074
Bank charges & FX fees	430	419
Compliance & regulatory fees/costs	254	329
Travel & entertainment	228	326
Share grant expenses (note 20)	201	87
Office & admin expense	135	281
Memberships and subscriptions	54	55
Training & development	31	70
Other	6	17
Bad debt expense	-	(22)
	10,700	**10,961**

The Group participates in a defined contribution pension scheme as required under Cayman Islands law; this is applicable to employees of IHIC. During the year ended December 31, 2016 the Company contributed $213 (2015: $182).

(in thousands of United States dollars)

18. INCOME TAXES

Income tax is calculated and payable on the profits earned in jurisdictions with corporate tax requirements. The Group is subject to income tax in Antigua 25%, Barbados 25%, Dominica 30%, Grenada 30%, St. Kitts & Nevis 35%, St. Lucia 33%, St. Maarten 34.5%, St. Vincent 30% and US Virgin Islands 37.4%. The Group is domiciled in the Cayman Islands and is exempt from taxation on income earned in the Cayman Islands and other Caribbean jurisdictions.

A. INCOME TAX

	2016 $	2015 $
Current tax expense on income for the reporting period	143	986
Current taxes referring to previous years	(59)	(29)
Deferred taxes	33	(10)
	117	**947**

The taxation charge on taxable income differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2016 $	2015 $
Net (loss)/profit before tax	**(1,030)**	**7,971**
Tax at the domestic rate of 0%		
Effect of higher tax rates in countries listed above	130	838
Tax losses for which no deferred tax has been recognised	13	148
Current tax expense on income for the reporting period	**143**	**986**
Deferred tax movement	33	(10)
Prior year adjustments	(59)	(29)
	117	**947**
Effective tax rate	**11.4%**	**11.9%**

B. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The deferred income tax asset and liability relates to the following items:

	2016 $	2015 $
Deferred tax assets:		
Net unearned premiums	290	377
Outstanding claims	23	24
Deferred ceding commissions	328	255
Capital loss carry forward	4	-
Gross deferred tax asset	**645**	**656**
Deferred tax liabilities:		
Deferred acquisition costs	683	661
Net deferred tax liability	**(38)**	**(5)**

(in thousands of United States dollars)

18. INCOME TAXES (continued)

C. INCOME TAX RECEIVABLE/(PAYABLE)

	2016 $	2015 $
Income tax payable at beginning of year	(310)	(1,174)
Tax payments made	871	1,821
Current tax expense for year	(143)	(986)
Prior year adjustments	59	29
Income tax receivable/(payable) at end of year	**477**	**(310)**

19. DIVIDENDS DECLARED

During the year ended December 31, 2016, the directors of the Company did not declare a dividend to the shareholder (2015: $7,500).

(in thousands of United States dollars)

20. RELATED PARTY TRANSACTIONS

A number of the subsidiaries as disclosed in note 1 transacted with the Group during the year in the normal course of business. These transactions are eliminated on consolidation.

The Group also carried out transactions with BF&M Limited, its ultimate parent company and its subsidiaries, during the year in the normal course of business. Key management personnel have been defined as the senior executive team and Board of Directors of the Group. Key management is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. By their nature, not all related party transactions are at arm's length. The following transactions were carried out with key management and related parties:

	2016 $	2015 $
A- Sale of Insurance Contracts & Other Services		
Key management	39	12
BF&M Limited – Other	601	342
BF&M Limited – Insurance contracts	1,921	93
	2,561	**447**
B- Purchase of products and services		
Insurance contracts benefits & expenses - Key management (claim payment)	(1)	-
Employee life insurance expense - BF&M Limited	(64)	(83)
Share grant expenses	(201)	(87)
Operating expenses - BF&M Limited (operational cost allocation)	(1,345)	(1,934)
	(1,611)	**(2,104)**
C- Key Management Compensation		
Salary and other compensation	(1,003)	(1,448)
Group pension & medical contributions	(56)	(63)
	(1,059)	**(1,511)**
D- Year End Balances related Parties		
Liabilities		
Due to Ultimate Parent and fellow subsidiaries / affiliates (see note 19)	(14,995)	(7,310)
Total Liabilities	**(14,995)**	**(7,310)**

On occasion, the Group pays certain expenses on behalf of other fellow subsidiaries / affiliates of the Ultimate Parent, and which are then reimbursed. As at December 31, 2016 amounts due to the Ultimate Parent and it subsidiaries / affiliates have yet to be settled.

21. COMMITMENTS

Operating lease commitments

On November 22, 2016, the Group renewed a licensing agreement with The Governor of the Cayman Islands to sponsor and take over the responsibilities of maintenance, horticultural and aesthetic appearance of a roundabout on Grand Cayman. This agreement is valid for a period of 5 years with an option to extend. The cost of maintenance is estimated to be $172 for the remaining lease period and will be expensed through the statement of comprehensive (loss)/income when incurred.

Included within the operating expenses are operating lease expenses of $73 (2015: $69).