

Island Heritage



Island Heritage Insurance Company, Ltd.
2013 Annual Report

Our Mission

We operate with a strong, ethical philosophy based on uncompromising corporate governance, ensuring the protection of policyholders and shareholders, while being an Employer of Choice. We deliver innovative insurance solutions and high standards of risk management through capital strength, operating efficiency and quality distribution channels.

Our Vision

To be the Caribbean's leading property and casualty insurer, providing excellent customer service, demonstrating trust and reliability and, above all, creating peace of mind for our customers.

Our Values

To better serve one another and the community in which we live and work, our employees are led by a set of governing principles - Teamwork, Respect, Responsibility, Trust, Leadership and Service - that guide us in everything we do and are expressed in our core philosophy of Integrity.

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Andrea Walton
Branch Manager,
Barbados

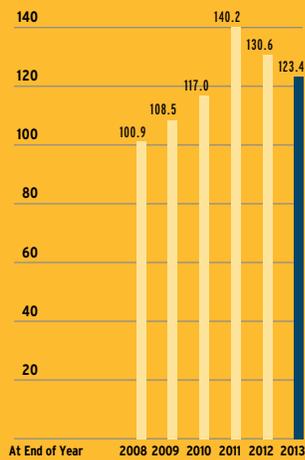
Vincent Gittens
Project Manager

Allison Skeete
Finance & Administration
Manager

Five-Year Financial Overview

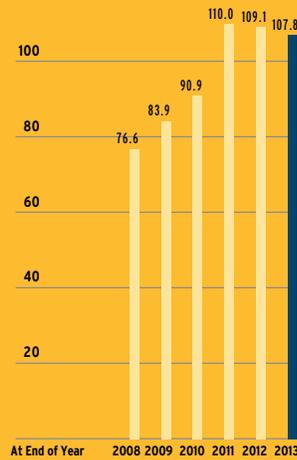
Total assets

In millions of dollars (USD)



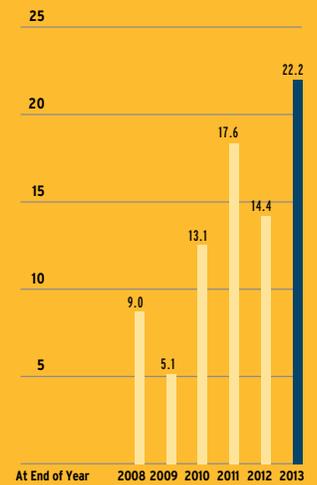
Gross written premium

In millions of dollars (USD)



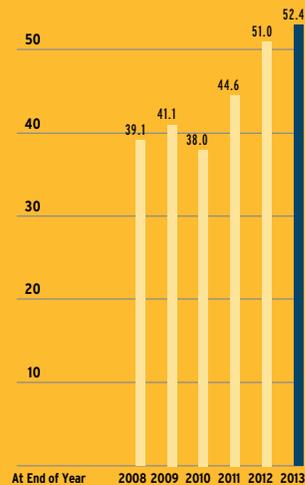
Return on equity

Percentage (%)



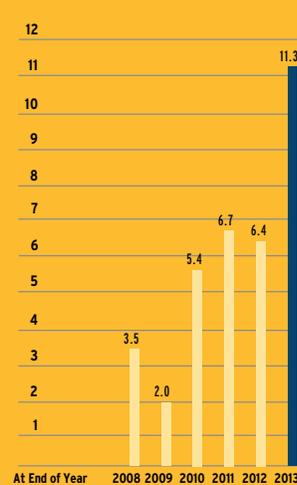
Capital and surplus

In millions of dollars (USD)



Net income

In millions of dollars (USD)





Ricardo Bodington
Commercial Lines Manager

Evelyn Tibbetts-Farrar
Vice President, Underwriting

Ryan Williams
Motor Underwriting &
Claims Manager

Corporate Profile

Island Heritage Insurance Company, Ltd. is a leading provider of property, casualty and motor insurance throughout the Caribbean, offering a comprehensive and affordable range of insurance products and services, through a network of licensed agents and brokers. We offer cover in Anguilla, Antigua, Bahamas, Barbados, the British Virgin Islands, the Cayman Islands, Dominica, Grenada, St Kitts & Nevis, St Lucia, St Maarten, St Vincent & the Grenadines, Turks & Caicos and the US Virgin Islands.

Founded in 1996 in the Cayman Islands, Island Heritage was the first company in the Caribbean to exclusively target the property insurance market, providing a wide range of residential and commercial policies with a special emphasis on catastrophe insurance. We take pride in offering an excellent level of service and a variety of products, all of which have successfully attracted and retained a wide cross section of the property insurance market in those regions, surpassing \$107 million of gross written premiums in 2013.

In 2013, Island Heritage acquired the Atlantic Star House building on Lawrence Boulevard in one of the largest commercial acquisitions of the year in the Cayman Islands. Renamed Island Heritage House, the three-story, hurricane-rated facility has over 12,000 square feet of office space and currently houses our head office on the second floor. As of July 2014, the building now boasts the Company's new customer centre on the first floor with future plans for further enhancements and expansions. This purchase demonstrates our continued commitment to investing in our people and providing unsurpassed, quality care to our customers.

As a top employer of choice, we provide a competitive compensation and benefits package and offer our employees training and development opportunities to help them achieve their professional goals. We also encourage employees to take an active role in supporting the community in which we live and work by donating their time and energy to charitable organisations. Each year, Island Heritage proudly partners with the local community by becoming an event sponsor and donates over \$80,000 to worthwhile initiatives and programmes.

The Company was acquired by BF&M in 2012, a prominent Bermuda-based insurance group that offers pensions, property and casualty, life and health insurance with over 100 years of operating history. In acquiring Island Heritage, BF&M Group writes Gross Premiums of \$300 million and total assets of \$1.1 billion, making it one of the Caribbean's strongest insurance operations.



Mike Bryne
Senior Vice President - Direct
Lines, Underwriting

Annette Jim
Senior Vice President,
Underwriting/Chief Underwriting
Officer

Bryan O'Neal
Senior Vice President,
Operations & Corporate Strategy

Corporate Profile (continued)

A.M. Best Upgrades Ratings to A (Excellent)

In July 2014, A.M. Best Company upgraded Island Heritage's financial strength rating to A (Excellent) from A- (Excellent) and the issuer credit rating to "a" from "a-". The outlook for both ratings has been revised from positive to stable.

A.M. Best Company is a worldwide insurance rating and information agency with more than 100 years of history referred to by policyholders as a means of assessing the financial strength and creditworthiness of risk-bearing entities and investment vehicles. An A (Excellent) rating reflects Island Heritage's solid level of risk-adjusted capitalisation, favourable operating results, experienced management team and local market expertise.

Island Heritage CEO Marc Shirra said, "The A.M. Best A (Excellent) financial strength rating upgrade is a coveted financial strength and credit standard, recognised worldwide, that few Caribbean insurance companies can boast. Furthermore, as a Cayman domiciled Class A Insurance Company, Island Heritage is the only company currently at this level, and this rating recognises the continued and improved strengths of our capitalisation and reinsurance protection against severe and frequent catastrophic events. On behalf of our management team, I would like to thank our valued customers, esteemed business partners, supportive shareholders, directors and our dedicated staff for making Island Heritage your Caribbean Insurer."



Island Heritage House, our Corporate Headquarters in Grand Cayman



Gavin R. Arton
Chairman,
Island Heritage Holdings Ltd.

Marc Shirra
CEO,
Island Heritage Insurance
Company, Ltd.

Executives' Report

We are proud to report that 2013 represents a truly remarkable year for Island Heritage Insurance Company, Ltd., returning an impressive 22% ROE, whilst booking comparable Gross Written Premium results despite the impact of heavy competition coupled with a soft market cycle. We were, of course, fortunate that Hurricane activity in 2013 was relatively low in the region, with the most significant loss being the Spring tide floods in the Bahamas in May, which resulted in a net loss of approximately \$1.4 million.

2013 also represents the Company's first full year under the ownership of BF&M Limited and one in which time was well spent by our respective management teams sowing the seeds for future success and opportunity. It is truly an exciting time and we all look forward to the positive benefits and synergies that group membership will bring to our customers, business partners and staff in the coming years. The Company is also pleased to confirm that in July 2014 A.M. Best Company upgraded our Financial Strength Rating to "A Excellent" from "A-Excellent" and the issuer credit rating to "a" from "a-". Furthermore, the outlook for both ratings has been revised from positive to stable. We are extremely delighted to have earned this coveted financial strength rating, which further demonstrates the underlying confidence in Island Heritage.

In addition to the financial success Island Heritage enjoyed in 2013, the team has also been extremely busy with a number of initiatives. During the year, we successfully completed the purchase of the building now known as Island Heritage House in Grand Cayman. Plans are well under way to make this office space the envy of our competitors and to create a customer friendly environment where we can continue to provide the highest quality of products and service.

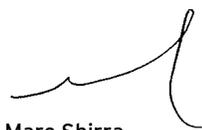
During the year, we also launched a successful direct motor campaign, offering our Cayman customers a "Make it easy" approach to buying motor insurance and introduced the first ever Island Heritage mascot, Sonny the Parrot. Our third Annual CharityDrive event in the spring raised over \$40,000 for three local charities, and we proudly beautified our sponsored Roundabout even further by dedicating a space for our very own Cayman Catboat, a historical gem hand-crafted by an 80-year-old Caymanian.

Despite all the positive news, 2013 also represented a bitter-sweet time as Garth MacDonald retired on 31 December. Garth has been a loyal servant of Island Heritage, holding a number of roles in the Company during his tenure since inception. As CEO, Garth led the organisation with a steady hand during which time we repeatedly outperformed our peers, culminating in record GWP and ROE figures in both 2012 and 2013. The Board of Directors was pleased to appoint Marc Shirra as his successor effective January 2014. They are confident that Island Heritage will continue build on the success that Garth and his predecessor, Bryan Murphy, have brought to this Company over the years to come.

In closing, we would like to recognise the Board of Directors and our agents, brokers and other business partners locally and around the globe for their continued support, and as always a very big thank you to all of our staff in both Cayman and Barbados for another year of great effort. Last but not least, many thanks for the immeasurable patronage of our valued customers.



Gavin R. Arton
Chairman, Island Heritage Holdings Ltd.



Marc Shirra
CEO, Island Heritage Insurance Company, Ltd.



Tryon Moses
Senior Vice President, Finance

Rhonda Verhoeven
Senior Vice President, Marketing and Corporate Services

Marc Shirra
Chief Executive Officer

Jonathon Coleman
Chief Operating Officer

Board of Directors

Directors

Island Heritage Insurance Company, Ltd.

Marc Shirra

Chairman
Chief Executive Officer,
Island Heritage Insurance Company, Ltd.

Jonathon Coleman

Chief Operating Officer,
Island Heritage Insurance Company, Ltd.

Conor O'Dea

Managing Director & Senior Executive
Vice President, International Banking,
Butterfield Bank (Cayman) Limited

Directors

Island Heritage Holdings Ltd.

Gavin R. Arton

Chairman
Chairman, BF&M Limited

R. John Wight

Deputy Chairman
President & Chief Executive Officer,
BF&M Limited

C.L.F. "Lee" Watchorn

President,
Watchorn Advisory Group

Gregory D. Haycock

Retired Senior Partner,
KPMG

Conor O'Dea

Managing Director & Senior Executive
Vice President, International Banking,
Butterfield Bank (Cayman) Limited

Marc Shirra

Chief Executive Officer,
Island Heritage Insurance Company, Ltd.

Community Commitment

Embracing, Enriching, Encouraging

For 18 years, Island Heritage has been committed to improving the quality of life in the communities where our customers and employees live and work by proudly donating time and money to local charities. To best meet the needs of a greater cross-section of the community, we focus on embracing and enriching arts, culture, community, health, sports, youth and education initiatives and programmes.

Each year we take pride in beautifying our sponsored Roundabout on the Esterly Tibbetts Highway, and in 2013 we proudly featured one of Cayman’s historical gems, the Catboat. Set beside a traditional Cayman cottage and immersed between native trees, our very own Catboat was hand crafted by 80-year-old Mr. Araunah Powery of West Bay and named the “A’Runnah” after the boat’s builder.

In addition, our dedicated employees are encouraged to contribute their time and energy to charitable organisations close to their heart. They are actively involved in spearheading important fundraising activities and take a proactive approach to their volunteer efforts. One such cause that we support is Meals on Wheels where our employees deliver hot

meals to the needy and seniors of Grand Cayman. We also proactively seek opportunities to get involved in team building activities where we can raise a smile and make a positive difference to the less fortunate.

Island Heritage CharityDrive

In 2012, Island Heritage launched CharityDrive, an innovative sponsorship event that takes place over three days in April. During CharityDrive, we donate over \$40,000 in direct donations to three local charities, giving as much as \$12,000 to each with a bonus of \$6,000 to the charity that generates the most social media support. The amount of funding donated by Island Heritage to each charity depends on the level of support and involvement from the community. CharityDrive is a fun way for the community to get involved and actively support worthwhile local causes.

In 2013, we partnered with the Cayman National Cultural Foundation (CNCF), the National Council for Voluntary Organisations (NCVO) and the Cayman Island Red Cross as the three recipients of CharityDrive.

The CNCF’s enthusiasm and support from the community earned them the additional \$6,000



During CharityDrive, Island Heritage donates over \$40,000 to three local charities and encourages community support to help raise the much-needed funds.

bonus, and Island Heritage was pleased to present them with a cheque for \$18,000. Those much-needed funds helped to facilitate the charity's three youth programmes - Young Image Makers short film competition, the CNCF Youth Online Photo Competition and Summer Arts Camp. In addition, we donated \$12,000 each to the NCVO and the Red Cross, funds they used toward improving and continuing their ongoing programmes.

We were honored to accept the CNCF's 2013 'Sponsor of the Year' award at their 20th Annual National Arts and Culture Awards ceremony for our contributions in supporting them not only through CharityDrive but also through various programmes throughout the years.

Our Corporate Footprint Philosophy

At Island Heritage, we understand that it is our social responsibility to make a positive difference and contribution to society and, together, one step at a time, we are committed to this promise.



Island Heritage's Rhonda Verhoeven presents Mr. Araunah Powery with a commemorative plaque for his dedication to building the Company's Catboat, which rests on our Roundabout and was beautifully lit during the festive holidays for all to enjoy.



Victoria Fernandes
Reinsurance Manager

Judy Ebanks
Human Resources Manager

Kathy Powery
Administration Manager

Jakes Ramnarine
IT & Facilities Manager



**Independent auditor's report
To the Board of Directors of Island Heritage Insurance Company Limited**

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Island Heritage Insurance Company Limited and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of Island Heritage Insurance Company Limited and its subsidiaries as at December 31, 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

April 1, 2014

Island Heritage Insurance Company, Ltd.
Consolidated Statements of Financial Position
As at 31 December 2013 and 2012

	Notes	2013 \$	2012 \$
Assets			
Non-current assets			
Property and equipment	13	9,784,238	1,038,332
Intangible assets	14	134,854	158,931
Experience deposit receivable	20	4,600,000	-
		14,519,092	1,197,263
Current assets			
Cash and cash equivalents	6	15,105,857	21,412,667
Fixed deposits	7	2,014,984	2,000,000
Regulatory deposits	7	14,650,289	7,822,151
Investments - at fair value through profit or loss	5	21,785,427	21,114,559
Insurance receivables & other assets	8	19,572,521	26,505,494
Reinsurance assets	11	26,140,610	37,290,021
Income tax receivable	19	-	522,874
Deferred policy acquisition costs	9	7,712,002	7,910,210
Due from related parties	22	1,852,134	3,897,115
Deferred tax asset	19	-	973,787
		108,833,824	129,448,878
Total assets		123,352,916	130,646,141
Liabilities			
Current liabilities			
Insurance contract liabilities	10	51,817,258	53,748,407
Other liabilities	15	17,278,924	25,606,496
Income tax payable	19	714,820	-
Deferred tax liability	19	56,717	-
Due to affiliates	22	1,088,900	234,141
Total liabilities		70,956,619	79,589,044
Equity			
Share capital	16	320,555	320,555
Contributed surplus	16	29,323,775	29,323,775
Retained earnings		22,751,967	21,412,767
Total shareholder's equity		52,396,297	51,057,097
Total liabilities and equity		123,352,916	130,646,141

Approved by the Board of Directors



Director - Marc Shirra

1 April 2014

Island Heritage Insurance Company, Ltd.
Consolidated Statements of Comprehensive Income
For the years ended 31 December 2013 and 2012

	Notes	2013 \$	2012 \$
Income			
Gross premiums written		107,832,081	109,147,273
Reinsurance ceded		(63,741,080)	(86,443,598)
Net premiums written		44,091,001	19,703,675
Net change in unearned premiums	10	(8,988,114)	(3,439,305)
Net premiums earned		35,102,887	16,264,370
Insurance claims & loss adjustment expenses	10 & 17	(7,697,988)	(7,676,425)
Insurance claims & loss adjustment expenses recovered from reinsurers	10 & 17	3,711,245	4,795,935
Commission expense		(22,665,635)	(22,936,601)
Commission income		14,632,664	23,705,155
Net underwriting income		23,083,173	14,152,434
Net Investment income	5	814,858	1,112,359
Rental income		123,779	-
Operating expenses	18	(10,251,706)	(9,413,062)
Profit before tax		13,770,104	5,851,731
Income tax (expense)/credit	19	(2,430,904)	570,616
Net profit and comprehensive income for the year		11,339,200	6,422,347

Island Heritage Insurance Company, Ltd.
Consolidated Statements of Changes in Equity
For the years ended 31 December 2013 and 2012

	Notes	2013 \$	2012 \$
Share capital			
Balance - At beginning of year	16	320,555	320,555
Balance - At end of year		320,555	320,555
Contributed surplus			
Balance - At beginning of year	16	29,323,775	29,323,775
Balance - At end of year		29,323,775	29,323,775
Retained earnings			
Balance - At beginning of year		21,412,767	14,990,420
Net profit and comprehensive income for the year		11,339,200	6,422,347
Cash dividends	21	(10,000,000)	-
Balance - At end of year		22,751,967	21,412,767
Total shareholder's equity		52,396,297	51,057,097

Island Heritage Insurance Company, Ltd.
Consolidated Statements of Cash Flows
For the years ended 31 December 2013 and 2012

	Notes	2013 \$	2012 \$
Cash flows from operating activities:			
Net profit and comprehensive income		11,339,200	6,422,347
Adjustments for:			
Investment income		(237,746)	(238,768)
Profit on sale of property and equipment		(23,383)	-
Taxes paid	19	(162,705)	-
Depreciation of property and equipment	13	421,175	357,134
Amortisation of intangible assets	14	35,966	61,328
Increase in regulatory deposits		(6,828,138)	(4,657,398)
Decrease in insurance receivables and other assets		6,932,973	7,703,984
Decrease in deferred policy acquisition costs		198,208	1,002,400
Decrease in reinsurance assets		11,149,411	6,405,811
Decrease/(increase) in income tax receivable/payable	19	1,400,399	(179,344)
Decrease/(increase) in deferred tax		1,030,504	(391,272)
Decrease in insurance liabilities		(1,931,149)	(2,506,478)
Decrease in other liabilities		(8,327,572)	(13,294,977)
Decrease in amount due from related parties		2,044,981	-
Increase/(decrease) in amounts due to/from affiliated companies		854,759	(1,104,764)
Net cash generated/(used) by operating activities		17,896,883	(419,997)
Cash flows from investing activities:			
Purchase of fixed deposit		(14,984)	(2,000,000)
Purchase of investments at fair value through profit and loss		(13,677,909)	(12,431,317)
Proceeds from sales of investments at fair value through profit and loss		13,244,787	15,054,783
Purchase of property and equipment	13	(9,170,127)	(47,279)
Proceeds from sale of property and equipment		26,429	-
Purchase of intangible assets	14	(11,889)	(127,513)
Net cash (used)/generated by operating activities		(9,603,693)	448,674
Cash flows from financing activities			
Cash dividends paid	21	(10,000,000)	-
Increase experience deposit receivable	20	(4,600,000)	-
Net cash used in financing activities		(14,600,000)	-
(Decrease)/increase in cash and cash equivalent		(6,306,810)	28,677
Cash and cash equivalents - beginning of year	6	21,412,667	21,383,990
Cash and cash equivalents - end of year	6	15,105,857	21,412,667

Island Heritage Insurance Company, Ltd.

Notes to the Consolidated Financial Statements
For the years ended 31 December 2013 and 2012

1. NATURE OF THE GROUP AND ITS BUSINESS

Island Heritage Insurance Company, Ltd. (the “Company”) was incorporated pursuant to the Companies Law of the Cayman Islands on January 4, 1996 as an ordinary company with limited liability. Effective April 22, 1996, the Company 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 Uglund House, South Church Street, Grand Cayman. The Company has subsequently been authorised to transact insurance business in the following Caribbean Islands:

- 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;
- Netherlands Antilles on February 11, 1999;
- 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; and
- St. Lucia on November 10, 2006.

On October 22, 1998, the Company incorporated a wholly owned subsidiary Island Heritage Insurance Company N.V., (“N.V.”) a company formed and licensed as an insurance company under the laws of the Netherlands Antilles.

On May 11, 2009, the Company incorporated a wholly owned subsidiary I.H. Americas Insurance Company (“IHA”) formed and licensed as an insurance company under the laws of the Commonwealth of Puerto Rico. As at 31 December 2013, IHA is in the process of being wound up. IHA did not write any insurance business during the period from January 1, 2012 to 31 December 2013.

IHIC and its subsidiaries are collectively referred to as “the Group”. IHIC is a wholly owned subsidiary of Island Heritage Holdings Limited (“IHHL” or the “Parent”). The ultimate parent company of IHHL is BF&M Limited, a Bermuda domiciled insurer. BF&M Limited acquired 100% of Island Heritage Holdings Limited on March 30, 2012, prior to the acquisition the Group’s ultimate parent company was Flagstone Reinsurance Holdings S.A.

On May 3, 2013, the Company incorporated a wholly owned subsidiary Lawrence Boulevard Insurance Company Ltd a company formed and licensed as an ordinary company under the laws of the Cayman Islands. This company was formed for the purchase of the land and buildings from which the Company operates in the Cayman Islands.

All subsidiaries have a 31 December year-end.

The Group’s principal business is 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, and 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.

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 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 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 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. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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. Areas where significant estimates and judgments have been applied by management are described further below.

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.

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately

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 (continued)

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. Examples of these events include, inter alia, jury decisions, court interpretations, legislative changes, and the cost of automobile and property repair materials.

Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. 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.

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, 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; premiums receivable, reinsurance receivable, amounts due to 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 or 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 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 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 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 years – 10 years
Leasehold improvements:	the shorter of the lease term or 5 - 10 years
Motor vehicles:	5 years
Computer hardware:	3 years - 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 income.

F. Intangible assets

Intangible assets include finite life intangible assets and are amortised on a straight-line basis over 5 years, being the estimated expected economic life. The estimated economic life is re-evaluated annually. These 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:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intangible assets (continued)

- 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 development costs can be reliably measured.

Directly attributable costs that are capitalised as part of the software development include 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

The Group is exempt from paying tax on income, profits, or capital gains arising in certain countries in which it operates. However, a portion of the Group's business originates in countries where the Group is required to pay taxation. 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 corporate bonds 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 held at fair value through profit or loss. Investments are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Investments at fair value through profit or loss are subsequently carried at fair value based.

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 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 accruals basis.

For financial instruments that are measured in the statement of financial position at fair value; IFRS 7 requires disclosure of fair value measurements by level of the following fair value hierarchy:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Financial assets (continued)

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

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 is 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, income tax receivable and experience refund receivable are classified in this category.

Financial assets are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest 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 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 ("DAC"). 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.

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

(iii) Deferred policy acquisition costs ("DAC")

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 DAC is subsequently amortised over the term of the policies as premium is earned.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Reinsurance contracts held

Reinsurance contracts are contracts entered into by the Group with reinsurers, under which the Group is compensated by the reinsurers for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contract. The Group uses reinsurance 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, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. 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 for reinsurance contracts and are recognised consistent with the underlying insurance contracts. Reinsurance contracts or 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 income.

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 income. The Group gathers the objective evidence that a receivable is impaired using the same process adopted for loans and receivables 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 commission based on reinsurance premiums ceded as determined in the contract 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 treated on a pro-rata basis, and unamortised portions at the financial period end are similarly carried forward on the consolidated statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income on a straight line basis over the period of the lease.

R. Cash 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 2013

The Group has applied the following new and revised standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for the accounting period beginning January 1, 2013.

Amendments to IFRS 7 - Financial Instruments: Disclosures ("IFRS 7")
Amendments to IFRS 10 - Consolidated Financial Statements ("IFRS 10")
IFRS 13 - Fair Value Measurement ("IFRS 13")
Amendments to IAS 1 - Presentation of Financial Statements ("IAS 1")

Other standards that became effective January 1, 2013 had no bearing on the Group. The adoption of the aforementioned new and revised standards did not have a significant impact on the Group's Consolidated Financial Statements other than additional disclosures in respect of fair value measurement and offsetting.

B. New and revised accounting standards to be adopted in 2014 or later

The following relevant standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2014.

Standard/Interpretation	Content	Applicable for financial years beginning on/after
IFRS 32	Financial instruments: Presentation	January 1, 2014
IFRS 36	Impairment of assets	January 1, 2014
IFRS 9	Financial instruments	January 1, 2018

IAS 32 - Financial Instruments: Presentation ("IAS 32") amendments were issued to clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014. The Group is currently assessing the impact the adoption of these amendments will have on the Group's financial statements.

IAS 36 – Impairments of assets ("IAS 36") amendments were issued on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of the CGU's which had been included in IAS 36 by the issue of IFRS 13. The effective date is for annual periods beginning on or after January 1, 2014. The Group is currently assessing the impact the adoption of these amendments will have on the Group's financial statements.

IFRS 9 - Financial Instruments ("IFRS 9") requires financial assets to be measured at fair value or amortised cost while eliminating the existing categories of Available-for-Sale, Held To Maturity and Loans and receivables. It also changes the accounting for financial liabilities measured using the fair value option. The effective date is for annual periods beginning after January 1, 2018. The amendments also provide relief from the requirements to restate comparative financial statements. The Group is currently assessing the impact of IFRS 9.

There are no other IFRS's or IFRIC interpretations that are not yet effective that would be 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 operates 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.

A. FINANCIAL RISKS

i) Credit risk

Credit risk is the exposures that a 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 of 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 minimize undue concentration of assets in any single Company, asset class or credit rating; and
- Oversight by the Group's Reinsurance Committee, ensuring business is transacted with well-established reinsurance companies with strong credit ratings. All major reinsurers are rated A or higher with A.M. Best.

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 asset.

	2013 \$	2012 \$
Financial assets		
Cash and cash equivalents	15,105,857	21,412,667
Fixed deposits	2,014,984	2,000,000
Regulatory deposits	14,650,289	7,822,151
Investments - at fair value through profit and loss	21,785,427	21,114,559
Premium receivable	15,500,957	16,480,042
Reinsurance balances receivable	3,224,672	6,897,375
Experience deposit receivable account	4,600,000	-
Other receivables (excludes prepayments)	631,815	2,953,891
Income tax receivable	-	522,874
Due from related parties	1,852,134	3,897,115
Insurance assets		
Reinsurance balances recoverable	2,996,631	-
Total assets subject to credit risk	82,362,766	83,100,674

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4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

i) Credit risk (continued)

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.

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

	2013 \$	2012 \$
Bonds issued or guaranteed by:		
U.S. Government	4,670,611	9,617,374
Non U.S. government	3,081,101	1,404,945
Corporates	5,327,886	7,644,153
Other-ABS / MBS	355,471	923,490
Total fixed income	13,435,069	19,589,962
United States	12,407,734	16,266,832
Canada	-	3,323,130
Cayman	505,320	-
Bermuda	522,015	-
Total fixed income	13,435,069	19,589,962

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:

	2013 \$	2012 \$
AAA	6,401,836	4,053,834
AA	505,320	-
AA+	498,870	8,585,338
AA-	677,391	1,614,046
A+	1,584,600	1,416,567
A	2,634,400	1,198,279
A-	1,132,652	2,118,832
BBB	-	603,066
Total bonds	13,435,069	19,589,962

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:

	2013 \$	2012 \$
AAA	-	158,165
AA	17,506	-
AA-	4,235,816	3,930,031
A+	8,730,696	7,604,147
A	544,570	4,640,933
A-	15,216,241	9,812,665
B	-	3,304,140
B-	626,436	-
BBB+	268,482	-
Not rated	2,131,383	1,784,737
Total	31,771,130	31,234,818

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

i) Credit risk (continued)

Carrying values that are “Not rated” relate to regulatory deposits held with government bodies per note 7.

Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

The following is an analysis of the reinsurance companies per line of coverage, along with 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	30	24.60%		
		20.00%	Switzerland	A+
			Germany (1)	A+
Property catastrophe excess of loss (underlying layer)	1	100.00%	Switzerland	A+
Reinstatement premium protection	2	75.00%	Germany (1)	A+
Motor excess of loss	1	100.00%	UK	A
Marine excess of loss	1	100.00%	UK	A
Fire per risk	4	40.00%	Bermuda	A+
Property quota share	3	68.00%	Germany (1)	A+
Motor & casualty quota share	4	61.11%	Germany (1)	A+
Marine quota share	2	58.82%	Germany	A+
Bonds quota share	1	100.00%	Germany (1)	A+
Personal accident quota share	1	100.00%	UK	A

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

The Group’s credit exposure to any one individual policyholder on direct business is not material. 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. Agents and brokers are also subject to visits from the Group’s underwriting department

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

i) Credit risk (continued)

Receivables neither past nor impaired, past due but not impaired and those that are impaired are shown in the tables below:

At 31 December 2013	Neither past due nor impaired \$	Past due but not impaired \$	Impaired \$	Total \$
Cash and cash equivalents	15,105,857	-	-	15,105,857
Fixed deposits	2,014,984	-	-	2,014,984
Regulatory deposits	14,650,289	-	-	14,650,289
Investments - fair value	21,785,427	-	-	21,785,427
Premium receivable*	13,586,099	1,914,858	-	15,500,957
Reinsurance balances receivable	3,224,672	-	-	3,224,672
Experience surplus receivable	4,600,000	-	-	4,600,000
Other receivables	341,615	-	-	341,615
Total	75,308,943	1,914,858	-	77,223,801

At 31 December 2012	Neither past due nor impaired \$	Past due but not impaired \$	Impaired \$	Total \$
Cash and cash equivalents	21,412,667	-	-	21,412,667
Fixed deposits	2,000,000	-	-	2,000,000
Regulatory deposits	7,822,151	-	-	7,822,151
Investments - fair value	21,114,559	-	-	21,114,559
Premium receivable*	11,110,047	3,470,086	-	14,580,133
Reinsurance balances receivable	6,897,375	-	-	6,897,375
Other receivables	2,999,537	-	-	2,999,537
Income tax receivable	522,874	-	-	522,874
Due to related parties	3,897,115	-	-	3,897,115
Total	77,776,325	3,470,086	-	81,246,411

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

At 31 December 2013	Total \$	3 to 6 months \$	> 6 months \$
Premiums receivable	1,914,858	869,624	1,045,234
	1,914,858	869,624	1,045,234

At 31 December 2012	Total \$	3 to 6 months \$	> 6 months \$
Premiums receivable	3,470,086	2,518,451	951,635
	3,470,086	2,518,451	951,635

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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 risks, management maintains levels of cash and short-term deposits, which are sufficient to fulfill the Group's short-term obligations.

A significant business objective of the insurance industry is to match the cash flows of the invested financial assets with the expected payment of policy liabilities.

The maturity profile of investments using contractual undiscounted cash flows at 31 December 2013 was as follows:

	Within 1 year	2 to 5 years	Over 5 years	No Contractual Maturity	Undiscounted Amount
		\$	\$	\$	\$
<i>Fixed income</i>					
U.S. Government	1,190,714	3,978,767	-	-	5,169,481
Non U.S. Government	-	2,582,231	-	-	2,582,231
Corporates	500,765	4,827,121	-	-	5,327,886
Other-ABS / MBS	-	355,471	-	-	355,471
US Equities	-	-	-	8,350,358	8,350,358
Cash and cash equivalents	-	-	-	15,105,857	15,105,857
Fixed deposit	2,014,984	-	-	-	2,014,984
Total	3,706,463	11,743,590	-	23,456,215	38,906,268
Percent of total	10%	30%	0%	60%	100%

The maturity profile of investments using contractual undiscounted cash flows at 31 December 2012 was as follows:

	Within 1 year	2 to 5 years	Over 5 years	No Contractual Maturity	Undiscounted Amount
		\$	\$	\$	\$
<i>Fixed income</i>					
U.S. Government	1,566,094	6,500,928	1,552,352	-	9,619,374
Non U.S. Government	-	1,404,945	-	-	1,404,945
Corporates	1,000,706	6,643,447	-	-	7,644,153
Other-ABS / MBS	-	502,613	420,877	-	923,490
US Equities	-	-	-	1,524,597	1,524,597
Cash and cash equivalents	-	-	-	21,412,667	21,412,667
Fixed deposit	2,000,000	-	-	-	2,000,000
Total	4,566,800	15,051,933	1,973,229	22,937,264	44,529,226
Percent of total	11%	33%	4%	52%	100%

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

ii) Liquidity risk

The following tables indicate the timing of undiscounted cash flows arising from financial liabilities:

At 31 December 2013	Within 1 year	Greater than 1 year	Total
	\$	\$	\$
Financial liabilities			
Reinsurance balance payable	7,535,655	-	7,535,655
Other liabilities (excluding accruals)	2,678,873	-	2,678,873
Net insurance contract liabilities	2,330,977	-	2,330,977
Income tax payable	714,820	-	714,820
Due to affiliates	1,088,900	-	1,088,900
Total	14,349,225	-	14,349,225

At 31 December 2012	Within 1 year	Greater than 1 year	Total
	\$	\$	\$
Financial liabilities			
Reinsurance balance payable	11,471,680	-	11,471,680
Accrued expenses & other liabilities	3,372,939	-	3,372,939
Total	14,844,619	-	14,844,619

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 of the following:

- Substantially all currencies with which the Group has material assets and liabilities are pegged to the US Dollar which is the Group's functional and presentation currency. At 31 December 2013 the Group had Canadian investments, however the US Dollar to Canadian Dollar exchange rate was not deemed volatile and as such the currency risk associated with these investments was deemed immaterial.

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.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

iii) Market risk (continued)

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.

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% increase (2012: 5%) will result in an increase in investment income of US\$417,518 (2012: US\$76,230). The effect of a 5% decrease (2012: 5%) will result in a decrease in investment income of US\$(417,518) (2012: US\$(76,230)).

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% (2012: 1%)		
Interest rate - fixed income securities:	The impact of a change in market interest rates by 1% (2012: 1%)		
Underwriting expenses:	The impact of a change in acquisition costs by 2% (2012: 2%)		
Loss ratios:	The impact of a change in accrued losses by 25% (2012: 25%)		

	Interest rates	Underwriting expenses*	Loss ratios*
At 31 December 2013	\$	\$	\$
Impact on net profit from increase in sensitivity factor*	(195,261)	(453,313)	(996,186)
Impact on net profit from decrease in sensitivity factor*	124,773	453,313	996,186

The portion that is recognized directly in shareholder's equity is Nil

* Net of reinsurance

	Interest rates	Underwriting expenses	Loss ratios
At 31 December 2012	\$	\$	\$
Impact on net profit from increase in sensitivity factor*	(20,380)	(458,732)	(720,123)
Impact on net profit from decrease in sensitivity factor*	21,145	458,732	720,123

The portion that is recognized directly in shareholder's equity is Nil

* Net of reinsurance

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

iv) Sensitivity analysis (continued)

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

	2013	2012
Net insurance liability - property risk	1-2 months	1-2 months
Net insurance liability - motor hull risks	1 month	1 month
Net insurance liability - casualty risks	12 months	12 months

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 insurances. 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

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. INSURANCE RISK (continued)

i) General insurance risk (continued)

Management of general insurance risks (continued)

different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

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 at a Company level, 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 and the Group's Reinsurance Committee.

Subsequent to the year end the Company entered into a significant new reinsurance agreement that reduced the risks retained on approximately 25% of the property book of business.

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 gaining diversification benefit.

The total sum insured at 31 December 2013 and 2012, gross and net of reinsurance (excluding catastrophe programme coverage) by geographical location and line of business are summarised below:

	2013		2012	
	Gross amount insured \$	Net amount insured after reinsurance \$	Gross amount insured \$	Net amount insured after reinsurance \$
Property	7,537,565,215	5,200,159,903	8,007,544,897	1,493,910,792
Motor	51,031,864	18,918,031	52,740,422	19,622,963
Total	7,588,597,079	5,219,077,934	8,060,285,319	1,513,553,755
Cayman	2,128,263,948	1,395,920,846	2,107,875,075	378,500,487
Bahamas	2,376,259,430	1,572,528,573	2,292,038,730	409,349,017
USVI	1,266,713,731	947,266,476	1,267,322,346	265,266,940
Other	1,817,359,970	1,303,362,039	2,393,049,167	460,417,311
Total	7,588,597,079	5,219,077,934	8,060,285,318	1,513,533,755

Catastrophe coverage in place is sufficient to cover a 1:200 year catastrophe as modelled by certain proprietary catastrophe models.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. 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 incurred but not reported reserve ("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.

The Group cedes reinsurance to other companies to minimise its exposures arising from large risks or from hazards of an unusual or catastrophic nature. The concentration of insurance risk before and after reinsurance in relation to the type of general insurance business risk 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:

	2013		2012	
	Gross \$	Net \$	Gross \$	Net \$
Property	2,013,540	1,074,132	4,418,766	1,236,430
Motor	2,039,046	880,828	1,122,162	778,909
All Others	1,275,022	376,017	968,811	85,491
Total	5,327,608	2,330,977	6,509,739	2,100,830

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. INSURANCE RISK (continued)

Claims development tables

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 the 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.

Gross loss development:

Accident year	2007	2008	2009	2010	2011	2012	2013	Total
Estimate of ultimate claims costs	\$ 000's							
At the end of the valuation year	5,389	21,688	4,263	5,222	14,767	9,613	8,523	
One year later	5,444	20,106	3,701	4,775	12,735	8,592	-	
Two years later	5,115	19,765	3,645	5,078	13,028	-	-	
Three years later	5,158	19,768	3,670	5,101	-	-	-	
Four years later	5,154	19,610	3,671	-	-	-	-	
Five years later	5,130	19,596	-	-	-	-	-	
Six years later	5,023	-	-	-	-	-	-	
Cumulative payments to date	(4,869)	(19,514)	(3,661)	(4,969)	(12,739)	(7,697)	(4,757)	
Liability recognized in the consolidated statement of financial position	154	82	10	132	289	895	3,766	5,328

Net loss development:

Accident year	2007	2008	2009	2010	2011	2012	2013	Total
Estimate of ultimate claims costs	\$ 000's							
At the end of the valuation year	3,926	3,364	1,592	1,466	2,452	2,994	4,703	
One year later	3,371	3,251	1,353	1,256	2,285	2,269	-	
Two years later	3,149	3,227	1,371	1,302	2,363	-	-	
Three years later	3,316	3,237	1,031	1,314	-	-	-	
Four years later	3,312	3,156	1,029	-	-	-	-	
Five years later	3,627	3,144	-	-	-	-	-	
Six years later	3,560	-	-	-	-	-	-	
Current estimates of cumulative claims	3,560	3,144	1,029	1,314	2,363	2,269	4,703	
Cumulative payments to date	(3,545)	(3,069)	(1,019)	(1,277)	(2,294)	(2,032)	(2,815)	
Liability recognized in the consolidated statement of financial position	15	75	10	37	69	237	1,888	2,331

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 in addition to 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.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

C. CAPITAL MANAGEMENT AND REGULATORY COMPLIANCE (continued)

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 has statutory powers that enable it to use its discretion to require the Company to conduct its operations in accordance with general or specific conditions which may be imposed by CIMA or may be agreed between CIMA and the Company. A new Cayman Islands Insurance law (the "new law") became effective in November 2012; the Company has 18 months to comply with the requirements of the new law. Under this new law, the Company is required to maintain capital in excess of the greater of approximately \$300,000 and an amount determined as per a prescribed formula set out in local legislation. The formula prescribes minimum capital requirements for the Company's assets and liabilities based on the relative riskiness of the balances and also provides for a margin for catastrophe. During the year ended 31 December 2013, some of the jurisdictions of which the Company is licensed to operate in required additional funding to meet the minimum solvency requirements set by the respective regulators. Management has committed to fund the additional solvency requirements within periods acceptable to the respective regulators.

D. SELF INSURANCE

During the year ended 31 December 2013, the Company completed the purchase of the Company's offices (as detailed in note 13). The Company self-insures their offices. 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

The following assets are subject to offsetting:

	Gross amount of financial assets presented in the balance sheet \$	Gross amount of financial liabilities allowed for set off \$	Net amount of financial assets \$
As at 31 December 2013			
Insurance receivables and other assets	19,572,521	(2,998,581)	16,573,940
Total	19,572,521	(2,998,581)	16,573,940

	Gross amount of financial liabilities presented in the balance sheet \$	Gross amount of financial assets allowed for set off \$	Net amount of financial assets \$
As at 31 December 2012			
Insurance receivables and other assets	26,505,494	(6,657,425)	19,848,069
Total	26,505,494	(6,657,425)	19,848,069

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4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

E. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The following liabilities are subject to offsetting:

	Gross amount of financial liabilities presented in the balance sheet \$	Gross amount of financial assets allowed for set off \$	Net amount of financial liabilities \$
As at 31 December 2013			
Other liabilities	17,278,924	(2,998,581)	14,280,343
Total	17,278,924	(2,998,581)	14,280,343

	Gross amount of financial liabilities presented in the balance sheet \$	Gross amount of financial assets allowed for set off \$	Net amount of financial liabilities \$
As at 31 December 2012			
Other liabilities	25,606,496	(6,657,425)	18,949,071
Total	25,606,496	(6,657,425)	18,949,071

For the financial assets and liabilities subject to offsetting above, 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.

5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

A. CARRYING AMOUNT AND FAIR VALUE OF INVESTMENTS

Investments comprise:

	2013 Carrying amount and fair value \$	2012 Carrying amount and fair value \$
At fair value through profit or loss		
Fixed Income:		
U.S. Treasury Securities	4,670,611	6,765,947
U.S. Government Agency Securities*	498,870	2,851,427
Non US gov't & gov't agencies	2,582,231	1,404,945
Corporate bonds	5,327,886	7,644,153
Asset-backed securities	355,471	923,490
Equities:		
US Equities	8,350,358	1,524,597
Investments	21,785,427	21,114,559

* Included within U.S. Government agency securities are IHA's investments in Puerto Rican municipal bonds, amounting to US\$ Nil (2012: US\$1,118,186), which are restricted and form part of a deposit with the Puerto Rico Commissioner of Insurance.

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

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 31 December 2013:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
At fair value through profit or loss				
Fixed Income:				
U.S. Treasury Securities	2,110,872	1,369,025	-	3,479,897
U.S. Government Agency Securities	-	498,870	-	498,870
Non US gov't & gov't Agencies	-	2,582,231	-	2,582,231
Corporate bonds	-	4,827,121	-	4,827,121
Asset-backed securities	-	355,471	-	355,471
Short term investments	1,190,714	500,765	-	1,691,479
Equities:				
US Equities	8,350,358	-	-	8,350,358
	11,651,944	10,133,483	-	21,785,427

The following table illustrates the classification of the Group's investments measured at fair value as at 31 December 2012:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
At fair value through profit and loss				
Fixed Income:				
U.S. Treasury Securities	6,318,039	-	-	6,318,039
U.S. Government Agency Securities	-	2,851,427	-	2,851,427
Non US gov't & gov't Agencies	-	1,404,945	-	1,404,945
Corporate bonds	-	6,643,447	-	6,643,447
Asset-backed securities	-	923,490	-	923,490
Short term investments	447,908	1,000,706	-	1,448,614
Equities:				
US Equities	1,524,597	-	-	1,524,597
	8,290,544	12,824,015	-	21,114,559

The Group does not hold any Level 3 financial assets. During the year there were no transfers between Levels 1 and 2 (2012: none).

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

C. NET INVESTMENT INCOME

	2013 \$	2012 \$
Interest Income		
Fixed income securities - fair value through profit or loss	304,007	183,896
Cash and deposits	203,186	238,126
	507,193	422,022
Dividend Income		
Equities - fair value through profit or loss	69,920	411
	69,920	411
Net realised gains/(losses) on sales of investments		
Derivatives	-	319,964
Fixed income securities- fair value through profit or loss	(34,743)	61,060
Equities - fair value through profit or loss	462,091	-
	427,348	381,024
Change in fair value arising from		
Fixed income securities- fair value through profit or loss	(318,746)	279,947
Equities - fair value through profit or loss	129,143	28,955
	(189,603)	308,902
	814,858	1,112,359

6. CASH AND CASH EQUIVALENTS

	2013 \$	2012 \$
Cash with investment custodian	1,296,691	1,442,365
Cash at bank and on hand	13,809,166	19,970,302
	15,105,857	21,412,667

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. They are as follows:

	2013 \$	2012 \$
Insurance Commissioner of the Bahamas	9,500,000	4,300,000
Curacao Central Bank	859,832	845,804
U.S. Virgin Islands Department of Banking & Insurance	626,436	602,706
St. Lucia Registrar of Insurance	599,200	189,143
Turks & Caicos Islands Supervisor of Insurance	500,075	145,981
Antigua Financial Services Regulatory Commission	456,296	450,097
Barbados Supervisor of Insurance	425,000	250,000
Grenada International Financial Services Authority	372,419	69,444
Anguilla Registrar of Insurance	336,757	162,256
St. Vincent Ministry of Finance and Planning	296,296	74,074
Dominica Accountant General	259,259	259,437
British Virgin Islands Supervisor of Insurance	212,110	211,633
St. Kitts and Nevis Registrar of Insurance	206,609	261,576
	14,650,289	7,822,151
	2013 \$	2012 \$
Fixed Deposit	2,014,984	2,000,000
	2,014,984	2,000,000

The fixed deposit has a term of 182 days with an independent financial institution in the Bahamas. The fixed deposit matures on May 5, 2014, and earns interest of 0.35% per annum.

8. INSURANCE RECEIVABLES AND OTHER ASSETS

	2013 \$	2012 \$
These comprise:		
Premium receivable	15,500,957	16,480,042
Reinsurance receivables*	3,224,672	6,897,375
Broker rebate receivable	341,615	465,977
Investment income receivable	290,200	187,914
Prepayments	215,077	174,186
Regulatory receivable	-	2,300,000
	19,572,521	26,505,494

* Consists of ceding commission receivable and claims paid receivable.

9. DEFERRED POLICY ACQUISITION COSTS

A reconciliation of the change in deferred policy acquisition costs is shown below:

	2013 \$	2012 \$
At 1 January	7,910,210	8,912,610
Acquisition costs incurred in the year	22,467,427	21,934,201
Expensed through profit and loss	(22,665,635)	(22,936,601)
At 31 December	7,712,002	7,910,210

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	2013 \$	2012 \$
Insurance contracts:		
Claims reported and loss adjustment expenses	3,303,608	4,584,705
Unearned premiums	46,489,649	47,238,668
Claims incurred but not reported	2,024,000	1,925,034
Total insurance liabilities – gross	51,817,257	53,748,407

See note 11 for detail on reinsurance assets.

Net	2013 \$	2012 \$
Short term insurance contracts:		
Claims reported and loss adjustment expenses	1,479,977	1,189,904
Unearned premiums	23,345,670	14,357,556
Claims incurred but not reported	851,000	910,926
Total insurance liabilities – gross	25,676,647	16,458,386

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10. INSURANCE CONTRACT LIABILITIES (continued)

C. CHANGES IN INSURANCE CONTRACT LIABILITIES

	2013			2012		
	Gross \$	Reinsurers' Share \$	Net \$	Gross \$	Reinsurers' Share \$	Net \$
Claims and adjustment expenses	4,584,705	(3,394,801)	1,189,904	6,309,743	(4,946,987)	1,362,756
Claims incurred but not reported	1,925,034	(1,014,108)	910,926	2,028,000	(1,749,954)	278,046
Balance at 1 January	6,509,739	(4,408,909)	2,100,830	8,337,743	(6,696,941)	1,640,802
Cash paid for claims settled in year	(8,880,119)	5,123,523	(3,756,596)	(9,504,429)	7,083,967	(2,420,462)
Incurred losses:						
Incurred from current-year claims	8,523,679	(3,820,609)	4,703,070	9,612,686	(6,618,316)	2,994,370
Incurred from prior-year claims	(825,691)	109,364	(716,327)	(1,936,261)	1,822,381	(113,880)
Movement during the year	(1,182,131)	1,412,278	230,147	(1,828,004)	2,288,032	460,028
Claims and adjustment expenses	3,303,608	(1,823,631)	1,479,977	4,584,705	(3,394,801)	1,189,904
Claims incurred but not reported	2,024,000	(1,173,000)	851,000	1,925,034	(1,014,108)	910,926
Balance at 31 December	5,327,608	(2,996,631)	2,330,977	6,509,739	(4,408,909)	2,100,830

D. UNEARNED PREMIUM LIABILITY

	2013			2012		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Balance at 1 January	47,238,668	(32,881,112)	14,357,556	47,917,142	(36,998,891)	10,918,251
Premium written during the year	107,832,081	(63,741,080)	44,091,001	109,147,273	(89,443,598)	19,703,675
Premium earned during the year	108,581,100	(73,478,213)	35,102,887	109,825,747	(93,561,377)	16,264,370
Movement during the year	(749,019)	9,737,133	8,988,114	(678,474)	4,117,779	3,439,305
Balance at 31 December	46,489,649	(23,143,979)	23,345,670	47,238,668	(32,881,112)	14,357,556

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

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Notes to the Consolidated Financial Statements
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11. REINSURANCE ASSETS

Reinsurance assets are comprised of the following:

Reinsurance	2013 \$	2012 \$
Insurance contracts:		
Claims reported and loss adjustment expenses	1,823,631	3,394,801
Deferred reinsurance premiums	23,143,979	32,881,112
Claims incurred but not reported	1,173,000	1,014,108
Total insurance liabilities – gross	26,140,610	37,290,021

12. PENSION SCHEME

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 31 December 2013 the Group contributed US\$167,872 (2012: US\$153,451).

13. PROPERTY AND EQUIPMENT

	Land & Buildings \$	Furniture, equipment and leasehold improvements \$	Computer hardware \$	Motor vehicles \$	Total \$
At 1 January 2012					
Cost	-	1,795,500	842,715	135,129	2,773,344
Accumulated depreciation	-	(666,355)	(681,598)	(77,204)	(1,425,157)
Net book amount	-	1,129,145	161,117	57,925	1,348,187
Year ended 31 December 2012					
Additions	-	27,055	20,224	-	47,279
Depreciation	-	(244,147)	(85,961)	(27,026)	(357,134)
Closing net book amount	-	912,053	95,380	30,899	1,038,332
At 31 December 2012					
Cost	-	1,822,555	862,939	135,129	2,820,623
Accumulated depreciation	-	(910,502)	(767,559)	(104,230)	(1,782,291)
Net book amount	-	912,053	95,380	30,899	1,038,332
Year ended 31 December 2013					
Additions	9,045,939	47,772	23,489	52,927	9,170,127
Disposals- cost	-	(28,894)	(20,877)	(34,600)	(84,371)
Disposals - accumulated depreciation	-	25,848	20,877	34,600	81,325
Depreciation	(97,194)	(245,651)	(65,967)	(12,363)	(421,175)
Closing net book value	8,948,745	711,128	52,902	71,463	9,784,238
At 31 December 2013					
Cost	9,045,939	1,841,433	865,551	153,456	11,906,379
Accumulated depreciation	(97,194)	(1,130,305)	(812,649)	(81,993)	(2,122,141)
Net book amount	8,948,745	711,128	52,902	71,463	9,784,238

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14. INTANGIBLE ASSETS

	2013 \$	2012 \$
Underwriting system – other intangible asset		
Cost	2,068,046	2,056,157
Accumulated amortisation	(1,933,192)	(1,897,226)
Net book amount	134,854	158,931
Year ended 31 December		
At beginning of year	158,931	92,746
Net additions & improvements	11,889	127,513
Amortisation	(35,966)	(61,328)
Closing net Book amount	134,854	158,931

15. OTHER LIABILITIES

	2013 \$	2012 \$
These include:		
Reinsurance balance payable	7,535,655	11,471,680
Deferred ceding commission	3,469,338	8,861,968
Commission payable	2,365,531	1,899,909
Accounts payable	1,276,621	1,067,414
Profit commission payable	1,867,011	1,596,431
Premium taxes payable	764,768	709,094
Total	17,278,924	25,606,496

16. SHARE CAPITAL

	2013 \$	2012 \$
Authorised - common shares of a par value of \$1 each	500,000	500,000
Issued - common shares of a par value of \$1 each	320,555	320,555

	Number of shares outstanding	Ordinary Shares \$	Contributed Surplus \$	Total \$
At 31 December 2013 and 2012	320,555	320,555	29,323,775	29,644,330

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17. INSURANCE CONTRACTS CLAIMS & ADJUSTMENT BENEFITS & EXPENSES

	2013	2012
	\$	\$
Insurance contracts expenses paid	8,880,119	9,504,429
Change in insurance contracts claim liabilities	(1,182,131)	(1,828,004)
Insurance claims & loss adjustment expenses	7,697,988	7,676,425
Reinsurance recoveries received	(5,123,523)	(7,083,967)
Change in reinsurance claim recoveries	1,412,278	2,288,032
Insurance claims & loss adjustment expenses recovered from reinsurers	(3,711,245)	(4,795,935)
Total	3,986,743	2,880,490

18. OPERATING EXPENSES

	2013	2012
	\$	\$
Salaries & wages	5,514,346	4,200,748
Professional fees	939,257	1,099,007
Advertising, promotion and business development	893,084	958,409
Bank charges	811,759	707,908
Office & administration expenses	773,633	972,149
Rent, utilities and insurance	586,161	829,852
Depreciation and amortisation	457,141	418,462
License, acquisition & government fees	276,325	226,527
Total	10,251,706	9,413,062

19. INCOME TAXES

Income tax is calculated and payable on the profits earned in jurisdictions with corporate tax requirements.

A. INCOME TAX

The income tax expense comprises:

	2013	2012
	\$	\$
Current tax expense on income for the reporting period	588,354	-
Current taxes referring to previous years	812,045	(179,344)
Deferred taxes	1,030,505	(391,272)
Total	2,430,904	(570,616)

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19. INCOME TAX (continued)

A. INCOME TAX (continued)

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

	2013	2012
	\$	\$
Profit before tax	13,770,104	5,851,731
Tax at the domestic rate of 0%	-	-
Effect of higher tax rates in countries listed below	1,580,668	(302,737)
Tax effect of increase in tax rate	-	(88,535)
Expenses not deductible for tax	57,834	-
Tax losses for which no deferred tax has been recognised	30,421	-
Utilisation of tax losses previously for which no deferred tax had been recognised	(50,064)	-
Prior year adjustments	812,045	(179,344)
	2,430,904	(570,616)

The Group is subject to income tax in Antigua 25%, Dominica 30%, Grenada 30%, St. Kitts & Nevis 30%, St. Lucia 30%, St. Maarten 34% and US Virgin Islands 37.4%. Tax is only charged on income generated in the respective territories. The Group is domiciled in the Cayman Islands and is exempt from taxation on income earned in the Cayman Islands and other Caribbean jurisdictions.

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:

	2013	2012
	\$	\$
Deferred tax assets:		
Net unearned premiums	402,857	172,883
Outstanding claims	15,998	13,842
Deferred ceding commissions	248,577	912,692
Capital loss carry forward	48,933	83,406
Loss carried forward	-	588,768
Gross deferred tax asset	716,365	1,771,591
Deferred tax liabilities:		
Deferred acquisition costs	773,082	797,804
Net deferred (liability)/tax asset	(56,717)	973,787

C. INCOME TAX RECEIVABLE

	2013	2012
	\$	\$
Income tax receivable at beginning of year	522,874	343,530
Tax payments made	162,705	-
Current tax expense for year	(588,354)	-
Prior year adjustments	(812,045)	179,344
Income tax (payable)/receivable at end of year	(714,820)	522,874

20. EXPERIENCE DEPOSIT RECEIVABLE

Under the terms of one of the Group's reinsurance agreements, a portion of the annual premiums paid, is credited to the experience account, which accrues to the benefit of the Group. The future balance of the experience account is reduced by claims ceded to the reinsurance agreement and any positive balance is returned to the Group at expiration. The treaty runs for a three year period, expiring on March 31, 2016. However, provided the balance in the experience account is positive, the Group can elect to cancel the treaty at its anniversary date of March 31 at which time any balance in the experience account will be returned to the Group less any adjustments to premium components agreed on in the reinsurance contract. Based on loss development in the year 31 December 2013, the experience deposit receivable is \$4,600,000.

21. CASH DIVIDENDS

During the year ended 31 December 2013, the directors of the Company declared a dividend to the shareholder in the amount of \$10,000,000 (2012: \$ nil). The dividend was settled during the year ended 31 December 2013.

22. 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.

Key management personnel have been defined as the senior executive team and Board of Directors of the Group. The following transactions were carried out with key management and related parties:

At March 30, 2012, BF&M Limited acquired 100% of the issued and outstanding shares of Island Heritage Insurance Company Ltd. Related party disclosures listed below take this change in ownership into account by only showing transactions with previous shareholder's for the 3 month period ended March 31, 2012 and only show balances for the 9 months post acquisition period (Majority Shareholder A and Minority Shareholder B) and as at 31 December 2012 with the current shareholder.

	2013 \$	2012 \$
A- Sale of Insurance Contracts & Other Services		
Sales of insurance contracts		
Key management	14,487	8,221
BF&M Limited	1,795,250	312,403
Minority Shareholder B	-	623,457
	1,809,737	944,081

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Notes to the Consolidated Financial Statements
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22. RELATED PARTY TRANSACTIONS (continued)

	2013 \$	2012 \$
B - Purchase of products and services		
Reinsurance		
Majority Shareholder A	-	(8,439,002)
Minority Shareholder C	-	-
Net change in unearned premium		
Minority Shareholder B	-	1,909,404
Majority Shareholder A	-	(18,695,143)
Insurance contracts benefits & expenses		
Key management (claim payment)	(6,380)	-
Majority Shareholder A	-	(2,737,763)
Commission expense		
Minority Shareholder B	-	(91,149)
BF&M Limited	(301,426)	-
Commission income		
Fellow subsidiary	90,000	-
Majority Shareholder A	-	5,225,050
Investment income		
Minority Shareholder B	-	378
Operating expenses		
Minority Shareholder B	-	(74,819)
Majority Shareholder A (operational support)	-	(100,097)
BF&M Limited (operational support)	167,818	(38,790)
	(49,988)	(23,041,931)

	2013 \$	2012 \$
C - Key Management Compensation		
Salary and other compensation	2,108,998	1,344,625
Group pension & medical contributions	68,946	79,249
	2,177,944	1,897,874

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.

	2013 \$	2012 \$
D - Year End Balances related Parties		
Assets		
Insurance receivables & other assets		
BF&M Limited	1,795,250	-
Total assets	1,795,250	-
Liabilities		
Other liabilities		
BF&M Limited	301,426	-
Total Liabilities	301,426	-

22. RELATED PARTY TRANSACTIONS (continued)

	2013 \$	2012 \$
E - Loans from related Parties		
At beginning of year	234,141	368,946
Loans advanced	913,902	198,108
Loan repayments made	(59,143)	(332,913)
Interest charged	-	-
At end of year	1,088,900	234,141

Loans from related parties are incurred interest free and payable on demand.

	2013 \$	2012 \$
F - Loans to related Parties		
At beginning of year	3,897,115	2,927,156
Loans advanced	205,019	1,051,192
Loan repayments received	(2,250,000)	(81,233)
At end of year	1,852,134	3,897,115

23. COMMITMENTS

A. Operating lease commitments

The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

On December 16, 2010, the Group entered into 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 US\$58,400 (2012: \$73,000) for the remaining lease period and will be expensed through the statement of comprehensive income when incurred.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013 \$	2012 \$
No later than 1 year	71,188	254,267
Later than 1 year and no later than 5 years	-	77,732
Later than 5 years	-	-
Total	71,188	331,999

The total operating lease expense of \$296,652 (2012: \$552,358) is included within operating expenses as per note 18.



A
(Excellent)

“Result!”

Global ratings agency A. M. Best has upwardly revised our financial strength rating to A (Excellent), making Island Heritage Insurance Cayman's only Class A insurance company with this rating.



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