



Island Heritage Insurance Company, Ltd.  
2015 Annual Report

Island  
Heritage







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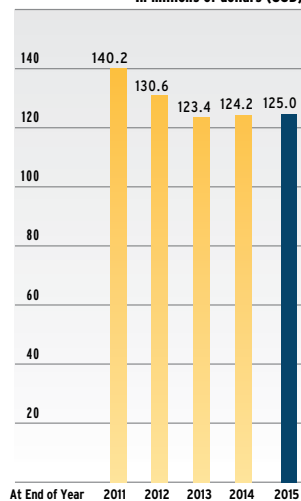




## Five-Year Financial Overview

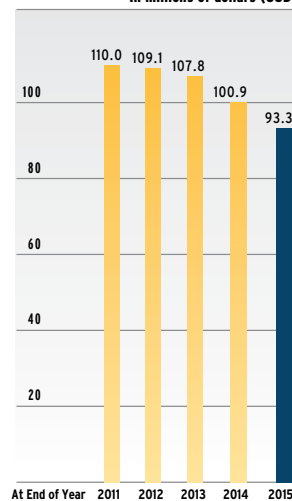
### Total assets

In millions of dollars (USD)



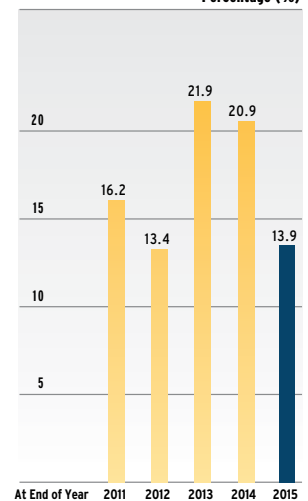
### Gross written premium

In millions of dollars (USD)



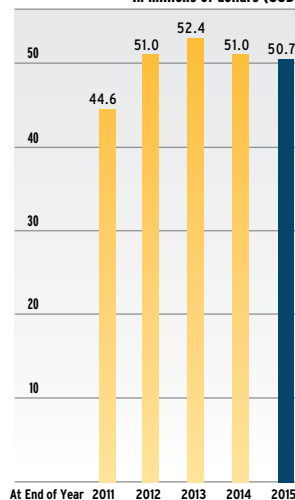
### Return on equity

Percentage (%)



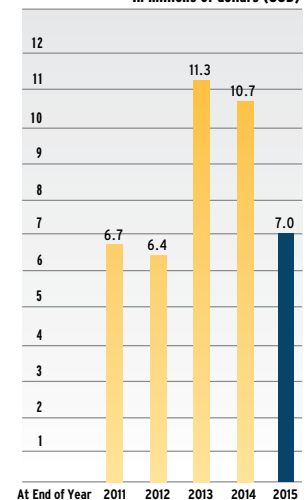
### Capital and surplus

In millions of dollars (USD)



### Net income

In millions of dollars (USD)







## “Our Mission”

“We operate with a strong, ethical philosophy based on uncompromising corporate governance, enduring the protection of policyholders and shareholders, while being an Employee 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.”







## Corporate Profile

Founded in 1996 in the Cayman Islands and acquired by BF&M in 2012, a prominent Bermuda-based insurance group, Island Heritage Insurance Company, Ltd. offers a comprehensive and affordable range of insurance products and services directly to its customers in the Cayman Islands, as well as through a network of licensed agents and brokers throughout the Caribbean. The Company provides insurance 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.

Favourable operating results have led to organic surplus growth in recent years, as well as a strong five-year average combined ratio. This has enabled Island Heritage to maintain more than adequate risk-adjusted capitalization for its current business profile. The Company focuses on the unique needs of the Caribbean property owner and designs its programs to provide the depth of coverage needed. The experienced management team at Island Heritage has extensive knowledge of each island and maintains effective risk management strategies. In addition, catastrophe risk is mitigated by Island Heritage's conservative reinsurance program, which protects the Company's capital from both the frequency and severity of events.

During the year, the Company's advertising campaigns focused on promoting its Home and Motor products. Island Heritage's all-new, improved motor insurance cover provides customers with attractive new benefits and features, including "Heritage Plus" and many free services such as Roadside Assistance, windscreen cover, new car replacement and towing with full comprehensive cover. In 2016, home insurance cover will be re-launched into the marketplace to introduce improvements to the standard cover and new attractive benefits and features.

In April, Island Heritage proudly gave back to the community through its successful CharityDrive event, which raises much-needed funds for local charities in the youth, arts, health, sports and community arenas. Launched in 2012, this annual event has become a crowd pleaser as the amount of funding donated by Island Heritage depends on the level of support by the people of Cayman. The Company donates up to US\$42,000 for every car that drives past the Island Heritage roundabout, for every Facebook support click and for every Twitter mention of charitydriveky during this three-day event. In 2015, Save our Youth Foundation, Canine & Feline Friends and Kiwanis Club of Grand Cayman were the recipients of CharityDrive.

Backed by a financial strength rating of A (Excellent) from A.M. Best Company, a global 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, Island Heritage continues to set high standards in product and service delivery.





## Chairman's Report

I am pleased to present the 2015 annual report for Island Heritage Insurance Company, Ltd. and to report Gross Written Premiums of \$93.3m, Net Earnings of \$7.0m and a Return on Equity of 13.9% (2014: 20.9%). This marks a satisfactory year since both revenues and earnings were down primarily due to premium rate decreases in competitive markets. Thankfully, 2015 was a relatively quiet year with respect to natural catastrophes with the exception of Hurricane Joaquin, which impacted the Bahamas, one of the Caribbean islands in which we operate.

During the year, we continued to focus on improving systems and structures with the integration of group-wide Property and Casualty operations as part of the BF&M family of companies. This will ensure better coordination of our underwriting and claims processes and more efficient delivery of service. Our prestigious rating level of 'A Excellent' by A.M. Best Company reaffirms our commitment in the insurance industry and demonstrates a solid level of risk-adjusted capitalization, favourable operating results and local market expertise.

Employees and customers alike continue to enjoy our state-of-the-art customer care centre at Island Heritage House, which provides easy convenience for all of their insurance needs under one roof. Our MotorCover product has been revitalized with new and improved benefits and features to compete with other direct offers of our competitors and soon our HomeCover product will follow suit, making these products the most attractive in the marketplace.

Our annual Charity Drive event, set in the Cayman Islands, continues to gain valuable popularity from the community as the people of our Islands come together in a fun, innovative way to support three local charities. Each charity has a chance to earn up to US\$12,000 by Island Heritage with a bonus of US\$6,000 to the charity that generates the most social media support. In 2015, we proudly partnered with Save our Youth Foundation, Kiwanis Club of Grand Cayman and Feline & Canine Friends as the recipients of the CharityDrive proceeds. Since the event's inception in 2012, we have donated close to US\$200,000 to a dozen charities in Cayman.

In closing, I would like to thank the Board of Directors, our business partners in Cayman and across the region and our agents and brokers for their continued support. I would also like to thank and recognize our dedicated employees in both Cayman and Barbados for their contributions and service. Finally, thank you to our loyal customers for their valued patronage, all of whom above make it possible for Island Heritage to be a leading insurance provider in the Caribbean.

A handwritten signature in black ink, appearing to read 'G. Arton'.

**Gavin R. Arton**  
Chairman,  
Island Heritage Insurance Company, Ltd.  
26 April 2016





## Directors and Officers

### Island Heritage Insurance Company, Ltd.

#### Directors

Gavin R. Arton  
*Chairman*

R. John Wight, CPA, CA, CPCU  
*Deputy Chairman*

Conor O'Dea, FCA

C.L.F. "Lee" Watchorn, FCIA, FSA

Gregory D. Haycock, FCA, J.P.

#### Officers

Jonathon Coleman, ACA  
*Chief Operating Officer*

Annette Jim, B.A., A.C.I.I., DipFM  
*Chief Underwriting Officer*

Alissa R. Matthews, CPA, CA  
*Chief Financial Officer*

Judy Ebanks  
*Assistant Secretary*

Maples Corporate Services Limited  
*Secretary*





Island Heritage's mascot, Sonny the Parrot, takes part in community events.

## Our People and the Community

At Island Heritage, we are committed to the professional growth and development of our people and foster a culture of learning. To us this means more than just offering training - it's also about cultivating talent and building and sustaining an environment that produces a dynamic and skilled workforce, which in turn benefits everyone as a whole. Our employees are also guided by a set of core values that embody the Company's culture of Integrity. By committing to these values of teamwork, trust, leadership, service, respect and responsibility in the workplace, our employees are better equipped to serve our customers with continued excellence and to contribute to overall team success.

We understand the importance of being a socially responsible organisation and are also committed to improving the quality of life in the communities where our customers and employees live and work. Each year we donate funding to worthwhile causes and provide our time and helping hands in making a difference.





(Top)  
The recipients of CharityDrive receive a total donation of US\$42,000.

(Centre)  
Employees enjoy the benefits of ongoing learning and development opportunities.

(Bottom right)  
The all-staff workshop focuses on teambuilding, corporate culture and learning.



### Enriching our people

Through our Learning & Development programme, we offer monthly soft skills and insurance product training, catering to the needs of individuals as well as fulfilling departmental requirements. Many in-house courses are taught by members of our management team. Annually, we host an off-site, all-staff workshop, bringing together employees from both our Cayman and Barbados offices for a day of learning and team-building. In 2015, the workshop focused on the Company's Service Level Agreement and the five steps to great service - another component to our ongoing customer service training.

Employees are recognised and rewarded for their achievements in professional certifications. In 2015, six employees obtained professional insurance designations from the CII UK (Chartered Insurance Institute) and the CILA UK (Chartered Institute of Loss Adjusters). In addition, we currently have 16 employees studying for various insurance qualifications and one employee qualified as a certified member of the IIA (Institute of Internal Auditors).

### Enriching the community

Our corporate giving promise means we embrace all sectors of the Cayman community by giving back not only through direct monetary support but also by spearheading important fundraising activities ourselves and taking a proactive approach to our volunteer efforts.

Our Annual CharityDrive sponsorship event benefits three different local charities. Each charity has a chance to earn up to US\$12,000 by Island Heritage with a bonus of US\$6,000 to the charity that generates the most social media support. In 2015, we proudly partnered with Save our Youth Foundation, Kiwanis Club of Grand Cayman and Feline & Canine Friends as the recipients of



the CharityDrive proceeds. Since the event's inception in 2012, we have donated close to US\$200,000 to a dozen charities.

Each week, employees donate their time to Meals on Wheels by delivering hot lunches to the seniors of our Island. For some residents, this may be their only meal of the day, and they also look forward to seeing a friendly smile at their door. This is just one of the ways we at Island Heritage give back to the community and to the people.









Independent auditor's report  
To the Board of Directors of Island Heritage Insurance Company, Ltd.

#### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Island Heritage Insurance Company, Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015 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, Ltd. and its subsidiaries as at December 31, 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in purple ink that reads "PricewaterhouseCoopers".

March 23, 2016

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# Island Heritage Insurance Company, Ltd.

## Consolidated Statements of Financial Position

As at December 31, 2015 and 2014

(in thousands of United States dollars)

	Notes	2015 \$	2014 \$
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	12	9,988	10,378
Intangible assets	13	408	254
		<b>10,396</b>	<b>10,632</b>
<b>Current assets</b>			
Cash and cash equivalents	6	23,964	19,864
Fixed deposits	7	-	2,021
Regulatory deposits	7	14,337	14,311
Investments - at fair value through profit or loss	5	20,426	20,873
Experience deposit receivable	19	-	1,480
Insurance receivables & other assets	8	22,194	17,974
Reinsurance assets	11	27,210	29,488
Deferred policy acquisition costs	9	6,460	7,564
		114,591	113,575
<b>Total assets</b>		<b>124,987</b>	<b>124,207</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Insurance contract liabilities	10	48,394	52,239
Other liabilities	14	18,308	19,709
Income tax payable	18	310	1,174
Deferred tax liability	18	5	-
Due to related parties	21	7,310	36
<b>Total liabilities</b>		<b>74,327</b>	<b>73,158</b>
<b>Equity</b>			
Share capital	15	321	321
Contributed surplus	15	29,411	29,324
Retained earnings		20,928	21,404
Total shareholder's equity		50,660	51,049
<b>Total liabilities and equity</b>		<b>124,987</b>	<b>124,207</b>

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

**Island Heritage Insurance Company, Ltd.**  
**Consolidated Statements of Comprehensive Income**  
For the years ended December 31, 2015 and 2014  
(in thousands of United States dollars)

	Notes	2015 \$	2014 \$
<b>Income</b>			
Gross premiums written		93,320	100,943
Reinsurance ceded		(66,113)	(71,183)
Net premiums written		27,207	29,760
Change in net unearned premiums	10	2,440	3,957
<b>Net premiums earned</b>		<b>29,647</b>	<b>33,717</b>
Insurance claims & loss adjustment expenses	10 & 16	(8,163)	(8,467)
Insurance claims & loss adjustment expenses recovered	10 & 16	2,371	4,602
Acquisition costs	9	(18,816)	(19,859)
Commissions income		13,756	12,248
<b>Net underwriting income</b>		<b>18,795</b>	<b>22,241</b>
Net Investment income	5	110	523
Rental income		27	28
Operating expenses	17	(10,961)	(11,102)
<b>Net profit before tax</b>		<b>7,971</b>	<b>11,690</b>
Income tax expense	18	(947)	(1,037)
<b>Net profit and comprehensive income for the year</b>		<b>7,024</b>	<b>10,653</b>

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

**Island Heritage Insurance Company, Ltd.****Consolidated Statements of Changes in Equity**

For the years ended December 31, 2015 and 2014

(in thousands of United States dollars)

	Notes	2015 \$	2014 \$
<b>Share capital</b>			
Balance - At beginning and end of year	15	321	321
<b>Contributed surplus</b>			
Balance - At beginning of year		29,324	29,324
Allocation of share grant expenses from Ultimate Parent		87	-
Balance - At end of year	15	29,411	29,324
<b>Retained earnings</b>			
Balance - At beginning of year		21,404	22,751
Net profit and comprehensive income for the year		7,024	10,653
Dividends declared	20 & 21	(7,500)	(12,000)
Balance - At end of year		20,928	21,404
<b>Total shareholder's equity</b>		<b>50,660</b>	<b>51,049</b>

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



# Island Heritage Insurance Company, Ltd.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014  
(in thousands of United States dollars)

	Notes	2015 \$	2014 \$
<b>Cash flows from operating activities:</b>			
Net profit and comprehensive income		7,024	10,653
Adjustments for:			
Investment loss/(income)		285	(2)
Amortisation of bonds		27	-
Allocation of share grant expense from Ultimate Parent		87	-
(Loss)/profit on sale or disposal of property and equipment		(1)	27
Taxes paid	18	(1,821)	(635)
Depreciation of property and equipment	12	600	534
Amortisation of intangible assets	13	89	33
(Increase)/decrease in regulatory deposits		(26)	340
(Increase)/decrease in insurance receivables and other assets		(4,220)	1,598
Decrease in deferred policy acquisition costs		1,104	148
Decrease/(increase) in reinsurance assets		2,278	(3,347)
Decrease in income tax payable	18	957	1,094
Increase/(decrease) in deferred tax		5	(57)
(Decrease)/increase in insurance liabilities		(3,845)	422
(Decrease)/increase in other liabilities		(1,401)	2,430
Decrease in amount due from related parties		-	1,851
(Decrease) in amounts due to related parties		(226)	(1,054)
<b>Net cash generated by operating activities</b>		<b>916</b>	<b>14,035</b>
<b>Cash flows from investing activities:</b>			
Maturity/(purchase) of fixed deposit		2,021	(6)
Purchase of investments at fair value through profit and loss		(10,052)	(26,399)
Proceeds from sales of investments at fair value through profit and loss		10,188	27,313
Purchase of property and equipment	12	(210)	(1,196)
Proceeds from sale of property and equipment		-	42
Purchase of intangible assets	13	(243)	(152)
<b>Net cash generated/(used) in investing activities</b>		<b>1,704</b>	<b>(398)</b>
<b>Cash flows from financing activities</b>			
Cash dividends paid	20	-	(12,000)
Decrease in experience deposit receivable	19	1,480	3,120
<b>Net cash generated/(used) in financing activities</b>		<b>1,480</b>	<b>(8,880)</b>
<b>Increase in cash and cash equivalents</b>		<b>4,100</b>	<b>4,757</b>
Cash and cash equivalents - beginning of year	6	19,864	15,107
<b>Cash and cash equivalents - end of year</b>	<b>6</b>	<b>23,964</b>	<b>19,864</b>

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

## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014  
(in thousands of United States dollars)

## 1. NATURE OF THE GROUP AND ITS BUSINESS

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

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.

The Group has the following subsidiaries:

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

Effective April 22, 1996, the Group was issued a Class "A" Insurance Licence by the Governor in Council of the Cayman Islands to carry on insurance business in the Cayman Islands. The registered office is Ugland House, South Church Street, Grand Cayman. The Group has subsequently been authorised to transact insurance business in the following 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;
- Bahamas on July 17, 2000;
- Dominica on July 26, 2000;
- Barbados on May 7, 2003;
- St. Kitts & Nevis on April 26, 2004;
- Grenada on January 9, 2006;
- Antigua on March 27, 2006;
- St. Vincent & The Grenadines on October 16, 2006;
- St. Lucia on November 10, 2006; and
- Caribbean Netherlands on October 10, 2014.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### A. Basis of preparation

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

## **Island Heritage Insurance Company, Ltd.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2015 and 2014  
(in thousands of United States dollars)

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **A. Basis of preparation (continued)**

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

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

### **B. Consolidation**

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

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

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

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

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

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

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

## **Island Heritage Insurance Company, Ltd.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2015 and 2014  
(in thousands of United States dollars)

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **C. Critical estimates and judgements (continued)**

#### **ii) Estimation of reinsurance premiums and commissions**

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

#### **iii) Fair value of financial assets and liabilities**

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

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

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

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

### **D. Foreign currency translation**

#### **i) Functional and presentation currency**

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

#### **ii) Transactions and balances**

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



## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014  
(in thousands of United States dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 - 10 years
Leasehold improvements:	the shorter of the lease term or 5 - 10 years
Motor vehicles:	5 years
Computer hardware:	3 - 5 years

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive 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:

- 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 vendor costs, employee costs and an appropriate portion of directly attributable overheads. Other development expenditures that do not meet these criteria are expensed when incurred.

### G. Current and deferred income taxation

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

## **Island Heritage Insurance Company, Ltd.**

### **Notes to the Consolidated Financial Statements**

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## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **G. Current and deferred income taxation (continued)**

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

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

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

### **H. Financial assets**

#### **i) Investments at fair value through profit or loss**

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

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 accrual basis.

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

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

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

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

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

#### **ii) Loans and receivables**

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

## **Island Heritage Insurance Company, Ltd.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2015 and 2014  
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## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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.

### **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.

## **Island Heritage Insurance Company, Ltd.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2015 and 2014  
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## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **M. Insurance contract liabilities and assets (continued)**

#### **i) Insurance contract liabilities and assets (continued)**

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

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

#### **ii) Liability adequacy test**

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

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

#### **iii) Deferred policy acquisition costs**

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

### **N. Reinsurance contracts held**

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

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

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



## **Island Heritage Insurance Company, Ltd.**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2015 and 2014  
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## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **O. Receivables and payables related to insurance contracts**

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

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

### **P. Premiums and commissions**

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

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

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

### **Q. Leases**

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

### **R. Dividends**

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

## **3. NEW AND REVISED ACCOUNTING STANDARDS**

### **A. New and revised accounting standards adopted in 2015**

There were no new standards, amendments or interpretations adopted by the Group for the first time for the financial year beginning January 1, 2015 that had a material impact on the Group.

### **B. New and revised accounting standards to be adopted in 2016 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, 2016.

<b>Standard/Interpretation</b>	<b>Content</b>	<b>Applicable for financial years beginning on/after</b>
IFRS 9	Financial instruments	January 1, 2018
IFRS 16	Leases	January 1, 2019

## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014  
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### 3. NEW AND REVISED ACCOUNTING STANDARDS (continued)

#### B. New and revised accounting standards to be adopted in 2016 or later (continued)

*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.

*IFRS 16 - Lease* ("IFRS 16") requires all leases whether classified as an operating or financial lease per IFRS to be accounted for as an on-balance sheet lease. The effective date is for annual periods beginning after January 1, 2019. The Group is currently assessing the impact of IFRS 16.

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

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

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

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

#### A. FINANCIAL RISKS

##### i) Credit risk

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

- Holding a diversified investment portfolio that focuses on credit quality and diversification of banking institutions and investments in accordance with the Group's investment guidelines. The portfolio is monitored, reviewed and approved by the Group's Investment Committee;
- Investment guidelines are in place that require the purchase of only investment-grade assets and minimise undue concentration of assets in any single Company, asset class or credit rating;

## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014  
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#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

##### A. FINANCIAL RISKS (continued)

###### i) Credit risk (continued)

- Oversight by the management, ensuring business is transacted with well-established reinsurance companies with strong credit ratings. Concentration of credit risk is managed by following policy guidelines set each year by management. All major reinsurers are continually monitored and rated A or higher with A.M. Best; and
- The credit risk for premiums receivable is mitigated as a customer's policy may be cancelled if the customer is in default of a payment. Credit risk also arises from balances due from brokers and agents. Management regularly reviews the Group's business relationships with agents and brokers, whom are also subject to visits from the Group's underwriting department.

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

##### *Maximum exposure to credit risk – Financial and insurance assets*

The following table summarises the Group's maximum exposure to credit risk related to financial instruments.

The maximum credit exposure is the carrying value of the assets.

	2015 \$	2014 \$
<b>Financial assets</b>		
Cash and cash equivalents	23,964	19,864
Fixed deposits	-	2,021
Regulatory deposits	14,337	14,311
Investments - at fair value through profit and loss	13,725	13,668
Premium receivable	13,428	12,941
Ceding commission receivables	4,972	3,525
Reinsurance receivables	1,354	539
Experience deposit receivable account	-	1,480
Other receivables (excludes prepayments)	1,471	534
<b>Insurance assets</b>		
Reinsurance balances recoverable	3,363	5,079
<b>Total assets subject to credit risk</b>	<b>76,614</b>	<b>73,962</b>

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.

# Island Heritage Insurance Company, Ltd.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

#### A. FINANCIAL RISKS (continued)

##### i) Credit risk (continued)

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

	2015 \$	2014 \$
<i>Bonds issued or guaranteed by:</i>		
U.S. Government	2,969	1,951
Non U.S. Government	2,569	3,131
Corporates	8,187	8,235
Other-ABS / MBS	-	351
<b>Total fixed income</b>	<b>13,725</b>	<b>13,668</b>
Australia	1,469	1,002
Bermuda	545	550
Canada	510	1,585
Cayman Islands	-	484
France	497	500
Germany	989	510
Japan	501	503
Norway	971	976
Singapore	541	549
Switzerland	492	493
The Netherlands	478	479
The United States of America	6,200	6,037
Venezuela	532	-
<b>Total fixed income</b>	<b>13,725</b>	<b>13,668</b>

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:

	2015 \$	2014 \$
AAA	3,077	2,904
AA+	3,448	2,434
AA	1,051	2,026
AA-	3,951	4,089
A+	1,502	1,364
A	350	851
A-	346	-
<b>Total bonds</b>	<b>13,725</b>	<b>13,668</b>



## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

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#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

##### A. FINANCIAL RISKS (continued)

##### i) Credit risk (continued)

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

	2015 \$	2014 \$
AA-	6,120	7,602
A+	10,822	8,008
A-	-	837
BBB+	173	16,236
BBB	17,020	549
B+	658	651
B	425	-
Not rated (1)	3,083	2,313
<b>Total</b>	<b>38,301</b>	<b>36,196</b>

(1) Carrying values that are "Not rated" relate to regulatory deposits held with government bodies per note 7.

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	41	15.00%	Switzerland	A+
		15.00%	Germany (2)	A+
Property catastrophe excess of loss (sub layer)	1	100.00%	Switzerland	A+
Reinstatement premium protection	6	60.00%	Germany	A+
Casualty & Motor excess of loss	12	15.00%	UK	A
Marine excess of loss	8	20.00%	UK	A
Fire per risk	6	20.00%	Germany (2)	A+
		20.00%	Ireland	A
Property quota share	17	11.50%	Germany	A+
Bank program property quotas share	1	100.00%	US	A
Bonds quota share	1	100.00%	Germany	A+
Personal accident quota share	1	100.00%	UK	A

# Island Heritage Insurance Company, Ltd.

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For the years ended December 31, 2015 and 2014  
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### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

#### A. FINANCIAL RISKS (continued)

##### i) Credit risk (continued)

The Group's credit risk exposure to any one individual policyholder on direct business is not material. As of December 31, 2015, trade receivables of \$1,239 (2014: \$856) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. Receivables neither past due nor impaired and those past due but not impaired are shown in the tables below:

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

	Neither past due nor impaired \$	Past due but not impaired \$	Total \$
<b>At December 31, 2014</b>			
Cash and cash equivalents	19,864	-	19,864
Fixed deposits	2,021	-	2,021
Regulatory deposits	14,311	-	14,311
Investments - fair value	13,668	-	13,668
Premium receivable*	12,085	856	12,941
Reinsurance balances receivable	3,525	-	3,525
Experience surplus receivable	1,480	-	1,480
Other receivables	534	-	534
	<b>67,488</b>	<b>856</b>	<b>68,344</b>

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

Premiums receivable	Total \$	3 to 6 months \$	> 6 months \$
At December 31, 2015	1,239	627	612
At December 31, 2014	856	351	505

## **Island Heritage Insurance Company, Ltd.**

### **Notes to the Consolidated Financial Statements**

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

The timing of undiscounted cash flows arising from the Company's financial liabilities totaling \$21,979 (2014: \$16,453) are all within one year. The Company's financial liabilities include the reinsurance balance payable, accounts payable, commission payable, profit commission payable, premium taxes payable, net insurance contract liabilities, income tax payable, and due to related parties.

###### **iii) Market risk**

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

###### *Currency risk*

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

###### *Interest rate risk*

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

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

###### *Price risk*

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

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

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

The Group is sensitive to price risk on its equity securities. The effect of a 5% change in capital markets (2014: 5%) will result in an increase/decrease in investment income of \$335 (2014: \$360).

## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

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#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

##### A. FINANCIAL RISKS (continued)

##### 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

Interest rate - cash & cash equivalents:

Interest rate fixed income securities:

Underwriting income:

Underwriting expenses:

Loss ratios:

##### Description of sensitivity factor applied

The impact of a change in market interest rates by 1% (2014: 1%)

The impact of a change in market interest rates by 1% (2014: 1%)

The impact of a change in insurance rates by 5% (2014: 2%)

The impact of a change in acquisition costs by 5% (2014: 2%)

The impact of a change in accrued losses by 25% (2014: 25%)

	Interest rates \$'000	Underwriting rates \$'000	Loss ratios \$'000
<b>December 31, 2015</b>			
Impact on net profit from increase in sensitivity factor*	(675)	1,229	(1,448)
Impact on net profit from decrease in sensitivity factor*	675	(1,229)	1,448

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

##### December 31, 2014

Impact on net profit from increase in sensitivity factor*	(626)	(397)	(966)
Impact on net profit from decrease in sensitivity factor*	626	397	966

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

\* Net of reinsurance

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

	2015	2014
Net insurance liability - property risk	1-2 months	1-2 months
Net insurance liability - motor risks	1 month	1 month
Net insurance liability - casualty risks	12 months	12 months

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.



## **Island Heritage Insurance Company, Ltd.**

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## **B. INSURANCE RISK**

### **i) General insurance risk**

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

#### **Types of risk**

General insurance risk in the Group arises from:

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

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

#### **Management of general insurance risks**

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

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

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

#### **Reinsurance strategy**

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

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

## **Island Heritage Insurance Company, Ltd.**

### **Notes to the Consolidated Financial Statements**

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#### **4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)**

##### **B. INSURANCE RISK (continued)**

###### **i) General insurance risk (continued)**

###### **Reinsurance strategy (continued)**

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

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

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

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

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

###### **Concentration risk**

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

## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

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## B. INSURANCE RISK (continued)

### i) General insurance risk (continued)

#### Concentration risk (continued)

The value of insured exposures at December 31, 2015 and 2014, gross and net of reinsurance (excluding catastrophe programme coverage) by geographical location and line of business are summarised below:

	Gross amount insured \$	2015 Net amount insured after reinsurance \$	Gross amount insured \$	2014 Net amount insured after reinsurance \$
Property	7,786,270	3,933,926	7,476,742	4,332,507
Motor	59,294	49,833	53,510	18,087
<b>Total</b>	<b>7,845,564</b>	<b>3,983,759</b>	<b>7,530,252</b>	<b>4,350,594</b>

	Gross amount insured \$	2015 Net amount insured after reinsurance \$	Gross amount insured \$	2014 Net amount insured after reinsurance \$
Cayman	2,178,827	1,103,835	2,096,047	1,209,889
Bahamas	2,727,359	1,317,382	2,374,144	1,278,711
USVI	1,145,373	804,931	1,193,072	956,304
Other	1,794,005	757,611	1,866,989	905,690
<b>Total</b>	<b>7,845,564</b>	<b>3,983,759</b>	<b>7,530,252</b>	<b>4,350,594</b>

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

#### 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.

## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014  
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#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

##### i) General insurance risk (continued)

##### Claims reserving (continued)

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

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

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

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

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

	2015		2014	
	Gross \$	Net \$	Gross \$	Net \$
Property	2,909	1,334	4,255	1,937
Motor	2,752	1,891	2,473	970
All Others	1,938	1,011	1,714	456
<b>Total</b>	<b>7,599</b>	<b>4,236</b>	<b>8,442</b>	<b>3,363</b>



## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

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#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

##### B. INSURANCE RISK (continued)

##### i) General insurance risk (continued)

##### Claims development tables

##### Gross loss development:

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

Accident year Estimate of ultimate claims cost	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
At the end of the valuation year	5,334	21,668	4,263	5,222	14,767	9,613	8,524	8,466	9,530	
One year later	5,390	20,106	3,701	4,775	12,735	8,592	8,243	8,021		
Two years later	5,061	19,765	3,645	5,078	13,028	8,618	7,502			
Three years later	5,104	19,768	3,670	5,101	13,314	8,515				
Four years later	5,100	19,610	3,671	5,062	13,290					
Five years later	5,076	19,596	3,669	5,065						
Six years later	4,968	19,587	3,665							
Seven years later	4,988	19,589								
Eight years later	4,988									
Current estimates of cumulative claims	4,988	19,589	3,665	5,065	13,290	8,515	7,502	8,021	9,530	
Cumulative payments to date	(4,966)	(19,529)	(3,660)	(5,023)	(13,065)	(8,140)	(6,963)	(6,847)	(4,373)	
Liability recognised in the consolidated statement of financial position	22	60	5	42	225	375	539	1,174	5,157	7,599

##### Net loss development:

Underwriting year Estimate of ultimate claims cost	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
At the end of the valuation year	3,922	3,364	1,592	1,466	2,452	2,994	4,703	3,950	5,914	
One year later	3,366	3,251	1,353	1,256	2,285	2,269	4,631	4,261		
Two years later	3,145	3,227	1,371	1,302	2,363	2,238	4,239			
Three years later	3,312	3,237	1,031	1,314	2,395	2,219				
Four years later	3,308	3,156	1,029	1,305	2,375					
Five years later	3,623	3,144	1,027	1,313						
Six years later	3,555	3,136	1,023							
Seven years later	3,558	3,134								
Eight years later	3,558									
Current estimates of cumulative claims	3,558	3,134	1,023	1,313	2,375	2,219	4,239	4,261	5,914	
Cumulative payments to date	(3,555)	(3,077)	(1,019)	(1,270)	(2,344)	(2,154)	(4,111)	(3,787)	(2,483)	
Net Liability recognised in the consolidated statement of financial position	3	57	4	43	31	65	128	474	3,431	4,236

## **Island Heritage Insurance Company, Ltd.**

### **Notes to the Consolidated Financial Statements**

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#### **4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)**

##### **C. CAPITAL MANAGEMENT AND REGULATORY COMPLIANCE**

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

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

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

CIMA is the primary regulator of the Group and has statutory powers that enable it to use its discretion to require the Group to conduct its Cayman operations in accordance with general or specific conditions which may be imposed by CIMA or may be agreed between CIMA and the Group. The Group is required to maintain capital in excess of the greater of approximately \$300 for domestic insurers or \$1,000 for external insurers, and an amount determined as per a prescribed formula set out in legislation. The formula prescribes capital requirements for the Group's assets and liabilities on a risk basis and also provides for a margin of catastrophe. The Group holds both a domestic insurer license and an external insurer Class A license in the Cayman Islands. Additionally, the group has regulated insurance operations in several other jurisdictions (see note 1 and 7). At December 31, 2015 and 2014, the Group was generally in compliance with its regulatory requirements as an external insurer, however, the St Lucia regulatory filings report an exception in respect of Anti Money Laundering regulatory compliance; management is committed to remediate this exception.

##### **D. SELF INSURANCE**

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

##### **E. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

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

## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

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#### 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

##### E. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

	As At December 31, 2015	As At December 31, 2014
	\$	\$
<b>Insurance receivables and other assets</b>		
Gross amount of financial assets presented in the balance sheet	22,194	17,974
Gross amount of financial liabilities allowed for set off	(6,060)	(3,821)
<b>Net amount of financial assets</b>	<b>16,134</b>	<b>14,153</b>

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

	As At December 31, 2015	As At December 31, 2014
	\$	\$
<b>Other liabilities</b>		
Gross amount of financial liabilities presented in the balance sheet	18,308	19,709
Gross amount of financial assets allowed for set off	(6,060)	(3,821)
<b>Net amount of financial assets</b>	<b>12,248</b>	<b>15,888</b>

#### 5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

##### A. CARRYING AMOUNT AND FAIR VALUE OF INVESTMENTS

	2015	2014
	\$	\$
At fair value through profit or loss		
<i>Fixed Income:</i>		
U.S. Treasury Securities	2,969	1,451
U.S. Government Agency Securities	-	500
Non U.S. Government	2,569	3,131
Corporate bonds	8,187	8,235
Asset-backed securities	-	351
<i>Equities:</i>		
U.S. Equities	6,701	7,205
	<b>20,426</b>	<b>20,873</b>

##### 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.

## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

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

### B. FAIR VALUE HIERARCHY (continued)

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

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

The following table illustrates the classification of the Group's investments measured at fair value as at December 31, 2014:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
At fair value through profit or loss				
<i>Fixed Income:</i>				
U.S. Treasury Securities	1,451	-	-	1,451
U.S. Government Agency Securities	-	500	-	500
Non U.S. Government	-	3,131	-	3,131
Corporate bonds	-	8,235	-	8,235
Asset-backed securities	-	351	-	351
<i>Equities:</i>				
U.S. Equities	7,205	-	-	7,205
	<b>8,656</b>	<b>12,217</b>	<b>-</b>	<b>20,873</b>

The Group does not hold any Level 3 financial assets. During the year there were no transfers between Levels 1 and 2 (2014: none).

### C. NET INVESTMENT INCOME

	2015 \$	2014 \$
<b>Interest Income</b>		
Fixed income securities - fair value through profit or loss	235	217
Cash and deposits	42	165
	<b>277</b>	<b>382</b>
<b>Dividend Income</b>		
Equities - fair value through profit or loss	118	139
	<b>118</b>	<b>139</b>
<b>Net realised gains/(losses) on sales of investments</b>		
Fixed income securities - fair value through profit or loss	34	(262)
Equities - fair value through profit or loss	117	230
	<b>151</b>	<b>(32)</b>
<b>Change in fair value arising from</b>		
Fixed income securities - fair value through profit or loss	(106)	217
Equities - fair value through profit or loss	(330)	(183)
	<b>(436)</b>	<b>34</b>
	<b>110</b>	<b>523</b>

## Island Heritage Insurance Company, Ltd.

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#### 6. CASH AND CASH EQUIVALENTS

	2015 \$	2014 \$
Cash at bank and on hand	23,163	19,683
Cash equivalents with investment custodian	801	181
	<b>23,964</b>	<b>19,864</b>

#### 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:

	2015 \$	2014 \$
Insurance Commissioner of the Bahamas	9,671	9,671
St. Lucia Registrar of Insurance	661	643
U.S. Virgin Islands Department of Banking & Insurance	658	651
Grenada International Financial Services Authority	503	506
Turks & Caicos Islands Supervisor of Insurance	501	500
Antigua Financial Services Regulatory Commission	473	473
St. Vincent Ministry of Finance and Planning	444	444
Dominica Accountant General	444	444
Barbados Supervisor of Insurance	425	425
Anguilla Registrar of Insurance	337	337
St. Kitts and Nevis Registrar of Insurance	220	217
<b>Total regulatory deposits</b>	<b>14,337</b>	<b>14,311</b>
Fixed Deposits	-	2,021
<b>Total regulatory and fixed deposits</b>	<b>14,337</b>	<b>16,332</b>

The fixed deposit has a term of 182 days with an independent financial institution in the Bahamas. The fixed deposit matured on May 4, 2015, and earned interest at 0.25% per annum.

#### 8. INSURANCE RECEIVABLES AND OTHER ASSETS

	2015 \$	2014 \$
Premium receivable	13,428	12,941
Ceding commission receivables	4,972	3,525
Reinsurance receivables	1,354	539
Broker rebate receivable	1,309	372
Prepayments	969	435
Investment income receivable	162	162
	<b>22,194</b>	<b>17,974</b>

#### 9. DEFERRED POLICY ACQUISITION COSTS

	2015 \$	2014 \$
At 1 January	7,564	7,712
Acquisition costs incurred in the year	17,712	19,711
Expensed through commission expense	(18,816)	(19,859)
<b>At 31 December</b>	<b>6,460</b>	<b>7,564</b>



## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

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## 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

	2015	2014
Gross	\$	\$
Insurance contracts:		
Claims reported and loss adjustment expenses	4,931	6,200
Claims incurred but not reported	2,668	2,242
Unearned premiums	40,795	43,797
<b>Total insurance contract liabilities – gross</b>	<b>48,394</b>	<b>52,239</b>

See note 11 for detail on reinsurance assets.

	2015	2014
Net of reinsurance recoverable	\$	\$
Insurance contracts:		
Claims reported and loss adjustment expenses	2,649	2,469
Claims incurred but not reported	1,587	894
Unearned premiums	16,948	19,388
<b>Total insurance contract liabilities – net of reinsurance recoverable</b>	<b>21,184</b>	<b>22,751</b>

### C. CHANGES IN INSURANCE CONTRACT LIABILITIES

	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	\$	\$	\$	\$	\$	\$
Claims and adjustment expenses	6,200	(3,731)	2,469	3,304	(1,824)	1,480
Claims incurred but not reported	2,242	(1,348)	894	2,024	(1,173)	851
<b>Balance at January 1</b>	<b>8,442</b>	<b>(5,079)</b>	<b>3,363</b>	<b>5,328</b>	<b>(2,997)</b>	<b>2,331</b>
Cash paid for claims settled in year	(9,006)	4,087	(4,919)	(5,353)	2,520	(2,833)
Incurred losses:						
Incurred from current-year claims	9,530	(3,616)	5,914	8,466	(4,516)	3,950
Incurred from prior-year claims	(1,367)	1,245	(122)	1	(86)	(85)
<b>Movement during the year</b>	<b>(843)</b>	<b>1,716</b>	<b>873</b>	<b>3,114</b>	<b>(2,082)</b>	<b>1,032</b>
Claims and adjustment expenses	4,931	(2,282)	2,649	6,200	(3,731)	2,469
Claims incurred but not reported	2,668	(1,081)	1,587	2,242	(1,348)	894
<b>Balance at December 31</b>	<b>7,599</b>	<b>(3,363)</b>	<b>4,236</b>	<b>8,442</b>	<b>(5,079)</b>	<b>3,363</b>

## Island Heritage Insurance Company, Ltd.

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#### D. UNEARNED PREMIUM LIABILITY

	Gross \$	2015 Reinsurance \$	Net \$	Gross \$	2014 Reinsurance \$	Net \$
<b>Balance at 1 January</b>	<b>43,797</b>	<b>(24,409)</b>	<b>19,388</b>	<b>46,489</b>	<b>(23,144)</b>	<b>23,345</b>
Premium written during the year	93,320	(66,113)	27,207	100,943	(71,183)	29,760
Premium earned during the year	96,322	(66,675)	29,647	103,635	(69,918)	33,717
Movement during the year	(3,002)	562	(2,440)	(2,692)	(1,265)	(3,957)
<b>Balance at 31 December</b>	<b>40,795</b>	<b>(23,847)</b>	<b>16,948</b>	<b>43,797</b>	<b>(24,409)</b>	<b>19,388</b>

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

#### 11. REINSURANCE ASSETS

Reinsurance assets are comprised of the following:

	2015 \$	2014 \$
Insurance contracts:		
Claims reported and loss adjustment expenses recoverable	2,282	3,731
Claims incurred but not reported recoverable	1,081	1,348
Deferred reinsurance premiums	23,847	24,409
	<b>27,210</b>	<b>29,488</b>

#### 12. PROPERTY AND EQUIPMENT

	Land & buildings \$	Furniture, equipment and leasehold improvements \$	Computer hardware \$	Motor vehicles \$	Total \$
<b>At January 1, 2014</b>					
Cost	9,046	1,842	866	153	11,907
Accumulated depreciation	(97)	(1,130)	(813)	(82)	(2,122)
<b>Net book amount</b>	<b>8,949</b>	<b>712</b>	<b>53</b>	<b>71</b>	<b>9,785</b>
<b>Year ended December 31, 2014</b>					
Additions	-	1,073	88	35	1,196
Disposals - cost	-	(469)	(24)	(15)	(508)
Disposals - accumulated depreciation	-	400	24	15	439
Depreciation	(167)	(294)	(50)	(23)	(534)
<b>Closing net book amount</b>	<b>8,782</b>	<b>1,422</b>	<b>91</b>	<b>83</b>	<b>10,378</b>
<b>At December 31, 2014</b>					
Cost	9,046	2,446	930	173	12,595
Accumulated depreciation	(264)	(1,024)	(839)	(90)	(2,217)
<b>Net book amount</b>	<b>8,782</b>	<b>1,422</b>	<b>91</b>	<b>83</b>	<b>10,378</b>
<b>Year ended December 31, 2015</b>					
Additions	-	76	134	-	210
Depreciation	(167)	(342)	(66)	(25)	(600)
<b>Closing net book value</b>	<b>8,615</b>	<b>1,156</b>	<b>159</b>	<b>58</b>	<b>9,988</b>
<b>At December 31, 2015</b>					
Cost	9,046	2,522	1,064	173	12,805
Accumulated depreciation	(431)	(1,366)	(905)	(115)	(2,817)
<b>Net book amount</b>	<b>8,615</b>	<b>1,156</b>	<b>159</b>	<b>58</b>	<b>9,988</b>

# Island Heritage Insurance Company, Ltd.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014  
(in thousands of United States dollars)

### 13. INTANGIBLE ASSETS

	2015 \$	2014 \$
<b>Underwriting system – other intangible asset</b>		
Cost	2,463	2,220
Accumulated amortisation	(2,055)	(1,966)
<b>Net book amount</b>	<b>408</b>	<b>254</b>
<b>Year ended December 31</b>		
At beginning of year	254	135
Net additions & improvements	243	152
Amortisation	(89)	(33)
<b>Closing net book amount</b>	<b>408</b>	<b>254</b>

### 14. OTHER LIABILITIES

	2015 \$	2014 \$
Reinsurance balance payable	7,981	8,508
Deferred ceding commission	4,657	4,465
Commission payable	2,085	2,020
Accounts payable	2,040	2,093
Profit commission payable	1,412	1,318
Premium taxes payable	133	1,305
	<b>18,308</b>	<b>19,709</b>

### 15. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	2015	2014		
	\$	\$		
Authorised - common share of a par value of \$1 each	500	500		
Issued - common share of a par value of \$1 each	321	321		
	Number of shares outstanding	Ordinary Shares \$	Contributed Surplus \$	Total \$
At December 31, 2015	320,555	321	29,411	29,732
At December 31, 2014	320,555	321	29,324	29,645

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

### 16. INSURANCE CONTRACTS CLAIMS AND LOSS ADJUSTMENT EXPENSES

	2015 \$	2014 \$
Insurance contracts expenses paid	9,006	5,353
Change in insurance contracts claim liabilities	(843)	3,114
Insurance claims & loss adjustment expenses	8,163	8,467
Reinsurance recoveries received	(4,087)	(2,520)
Change in reinsurance claim recoveries	1,716	(2,082)
Insurance claims & loss adjustment expenses recovered	(2,371)	(4,602)
	<b>5,792</b>	<b>3,865</b>

## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014  
(in thousands of United States dollars)

#### 17. OPERATING EXPENSES

	2015 \$	2014 \$
Wages & Salaries	4,724	4,564
IT consulting / maintenance contracts	1,072	740
Professional and consulting fees	928	1,123
Advertising and business development	822	1,025
Depreciation and amortisation	689	567
Office rent, building expense, and utilities	593	632
Medical, Health & Pension	535	463
Bank charges and foreign currency purchase tax	419	653
Office admin expenses	346	327
Compliance, legal and regulatory	322	380
Travel & entertainment	224	129
Training & development	130	119
Other	117	268
Memberships & subscriptions	40	112
	<b>10,961</b>	<b>11,102</b>

The Group participates in a defined contribution pension scheme as required under Cayman Islands law; this is applicable to employees of IHIC. During the year ended December 31, 2015 the Company contributed \$182 (2014: \$165).

#### 18. INCOME TAXES

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

##### A. INCOME TAX

	2015 \$	2014 \$
Current tax expense on income for the reporting period	986	1,377
Current taxes referring to previous years	(29)	(284)
Deferred taxes	(10)	(56)
	<b>947</b>	<b>1,037</b>

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

	2015 \$	2014 \$
<b>Profit before tax</b>	<b>7,971</b>	<b>11,690</b>
Tax at the domestic rate of 0%		
Effect of higher tax rates in countries listed above	838	977
Tax losses for which no deferred tax has been recognised	148	400
<b>Current tax expense on income for the reporting period</b>	<b>986</b>	<b>1,377</b>
Deferred tax movement	(10)	(56)
Prior year adjustments	(29)	(283)
	<b>947</b>	<b>1,037</b>
Effective tax rate	<b>11.9%</b>	<b>8.9%</b>

**Island Heritage Insurance Company, Ltd.****Notes to the Consolidated Financial Statements**

For the years ended December 31, 2015 and 2014  
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**18. INCOME TAXES (continued)****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:

	2015	2014
	\$	\$
Deferred tax assets:		
Net unearned premiums	377	449
Outstanding claims	24	17
Deferred ceding commissions	255	197
Capital loss carry forward	-	51
<b>Gross deferred tax asset</b>	<b>656</b>	<b>714</b>
Deferred tax liabilities:		
Deferred acquisition costs	661	714
<b>Net deferred tax liability</b>	<b>(5)</b>	<b>-</b>

**C. INCOME TAX PAYABLE**

	2015	2014
	\$	\$
Income tax (payable)/receivable at beginning of year	(1,174)	(715)
Tax payments made	1,821	635
Current tax expense for year	(986)	(1,377)
Prior year adjustments	29	283
<b>Income tax payable at end of year</b>	<b>(310)</b>	<b>(1,174)</b>

**19. 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 ran for a three year period, expiring on March 31, 2017. 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. The Company elected to cancel the treaty on March 31 2015, and the experience deposit receivable of \$1,480 was received during the year, less a cancellation charge \$120.

**20. DIVIDENDS DECLARED**

During the year ended December 31, 2015, the directors of the Company declared a dividend to the shareholder in the amount of \$7,500 (2014: \$12,000). Included in due to related parties of \$7,310 (note 21) is dividend payable \$7,500 which was declared and ratified as at December 31, 2015 but not paid at the time of issuing these financial statements.



## Island Heritage Insurance Company, Ltd.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014  
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## 21. RELATED PARTY TRANSACTIONS

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

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

	2015 \$	2014 \$
<b>A - Sale of Insurance Contracts &amp; Other Services</b>		
Key management	12	8
BF&M Limited	342	342
	<b>354</b>	<b>350</b>
<b>B - Purchase of products and services</b>		
Insurance contracts benefits & expenses - Key management (claim payment)	-	(1)
Commission expense - BF&M Limited	-	(228)
Employee life insurance expense - BF&M Limited	(83)	(28)
Operating expenses - BF&M Limited (operational cost allocation)	(1,934)	(885)
	<b>(2,017)</b>	<b>(1,142)</b>
<b>C - Key Management Compensation</b>		
Salary and other compensation	(1,448)	(1,200)
Group pension & medical contributions	(63)	(60)
	<b>(1,511)</b>	<b>(1,260)</b>
<b>D - Year End Balances related Parties Liabilities</b>		
Due to Ultimate Parent (see note 20)	(7,310)	(36)
<b>Total liabilities</b>	<b>(7,310)</b>	<b>(36)</b>

On occasion, the Group pays certain expenses on behalf of other fellow subsidiaries / affiliates of the Ultimate Parent, and which are then reimbursed. At December 31, 2015 all amounts has been settled and accordingly there were no amounts payable / receivable from subsidiaries / affiliates of the Ultimate Parent.

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