



J.S. JOHNSON
PEACE OF MIND
INSURANCE AGENTS & BROKERS



ANNUAL REPORT
2018

Our Mission

To provide the highest quality of professional service by giving our personal best to our Clients, our Co-Workers and the Community at large, thus remaining the leader in the insurance market through continued growth and innovation.

*Peace of Mind is
more than a slogan,
it's your Guarantee.*



PEACE OF

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Brian M. Moree, QC
Chairman

Chairman's Statement

On 3rd April, 2019 J. S. Johnson celebrated its 100th year of doing business in the Bahamas. This landmark achievement is perhaps the most compelling and incontrovertible testament of the success and sustainability of the operations of the Company over the long term. Longevity in the dynamic and demanding environment of the free market, where consumers have choices and constantly make decisions on where to place their business based on their overall experiences, is a strong validating factor for any business attesting to its stability, performance and efficient execution of its business model over a long period. From its early days as a small startup company growing sisal and canning pineapples to becoming a major canning company producing over 75,000 cases of canned pineapples through its transition into the insurance industry and its growth into one of the largest and most respected insurance agencies in The Bahamas, J.S. Johnson has demonstrated these qualities and has established its credentials as a company worthy of the trust and confidence of the public in The Bahamas based on a track record of 100 years of business. The Company is grateful to all of its stakeholders for their continued support throughout this period.

The Company has once again reported strong financial results this year. Net income rose 26% to over \$7 million dollars as a result of significant gains in net commissions, fees and investment income. In the aftermath of a quiet 2018 hurricane season in the Bahamas, after several consecutive years of at least one hurricane event per year, there was a reduction of 47% in net claims incurred year over year which led to a favourable loss ratio of 38%, taking the Company back to 2015 pre hurricane levels. Both the Agency and Underwriting divisions of the Company reported an increase in profitability in 2018 although there were un-realized losses on the investment portfolio resulting from a price correction in respect of one of the securities held by the Company. Additionally, the auditors advised the Company that new accounting standards applicable to its financial statements required a moderate increase in provisions over the prior years.

Throughout this year the Directors of the Company remained focused on enhancing shareholder value and I am pleased to report that the share price increased from \$12.51 to \$13.01 per share in 2018. The Company has maintained its commitment to paying significant dividends to our shareholders by paying \$0.15 per quarter aggregating an annual amount of \$0.60 cents per share in 2018. This translates into one of the highest dividend yields in the local market at 4.6%.

The remodeling project at the Head Office on Collins Avenue has been completed and we have continued to upgrade the Company's technology platform throughout 2018. I am told that thousands of J. S. Johnson customers have signed onto the Company's Online Service Center and many of them are now paying their premiums online by credit card and also viewing their policy information online. This is part of the Company's plan to make it more convenient for our policyholders to conduct their insurance business with J.S.Johnson and our Management team is actively reviewing system upgrades to enhance our service platform to deliver increased levels of quality service to our clients.

The national economy is showing encouraging signs of recovery with an increase in GDP after many years of tepid economic activity. The Baha Mar Resort is now fully operational and a number of other foreign direct investment projects have come on stream during the past year, which have produced a significant amount of new business for the Company. The senior executive team at J. S. Johnson is particularly adept at servicing the sophisticated insurance needs flowing from these projects. Our product offering and expertise in these areas are widely recognized in the market and we expect that the Company will continue to expand its policy holder base as we see increased activity in large, medium and small-scale foreign investment projects in the Bahamas. The concomitant positive growth in the construction sector together with significant gains in the tourism industry are positive indicators for a sustainable upswing in the trajectory of the economy. This bodes well for the business of the Company during the upcoming year and our Management team and staff are focused on business development and retention as we move into 2019. The continued upgrading of the Company's IT and service platforms together with staff training and product development remain high priorities in our initiatives to increase market share in all lines of business.

While organic growth is important, the Directors of the Company are cognizant of the role of strategic acquisitions and partnerships in executing the overall business plan for the medium to long term. We will continue to assess all viable opportunities in this regard as we seek to enhance value for our shareholders and serve the insurance needs of our policyholders.

In August, 2018 the J. S. Johnson family was saddened to hear of the death of Mr. Charles T. Fernie, a former Managing Director of the Company. He was an iconic leader in the life of J. S. Johnson and he will be remembered for his invaluable and enduring contribution to the growth and expansion of the Company and for his pivotal role in the ongoing development of the insurance industry in the Bahamas. In an earlier tribute to Mr. Fernie I sought to recognize his enormous contribution to the Company in these terms:

"During his tenure of leadership, J. S. Johnson experienced substantial growth and consolidated its position as one of the premiere insurance agents and brokers within the Commonwealth of The Bahamas. The success of the company during that period was largely attributable to Mr. Fernie's adroit leadership, his business acumen and his perceptive understanding of the insurance industry. He had a special bond with his staff and was thoughtful and generous in his dealings with other people..... we thank [Mr. Fernie] for his immense contributions to the company. He will always have a special and elevated place in the history of J. S. Johnson."

I adopt these words in recording our respect, admiration and gratitude for the outstanding leadership which Mr. Fernie gave to the Company for 26 years.

J. S. Johnson continues to be a leader in our industry. As we close the first century of doing business in the Bahamas and embark on a new chapter in the life of

the Company, we acknowledge the immense contributions made throughout the last 100 years by our founders, shareholders, directors, officers, management and staff, policyholders and all other stakeholders to the development of J. S. Johnson. It was because of their collective efforts that the Company has grown into a premier, world class insurance brokerage and agency business which is efficiently and responsibly meeting the insurance needs of thousands of Bahamians and residents in the Bahamas and providing all of our shareholders with a high yield on their investment with a reliable flow of income through quarterly dividends.

I wish to express my thanks to the management and staff of the Company for their sterling work throughout the last year. Our Managing Director, Alister McKellar, and his team have, once again, excelled in discharging their duties and responsibilities to the Company over the past twelve months.

I am grateful to all the Directors of the Company for their support, advice, guidance and acumen over the past year. Each of them brings business experience and important skill sets to our duty to provide leadership and oversight for the Company.

In conclusion I wish to thank the shareholders of the Company for their continued trust and confidence and our policyholders for their business by giving us the opportunity to meet their insurance needs.

A handwritten signature in black ink, appearing to read 'B. Moree', with a long horizontal line extending to the right.

Brian M. Moree QC

Chairman

Financial Highlights



41.3

NET INCOME 2018 (In Millions)

7.1

NET INCOME 2017

5.6

NET INCOME 2016

5.2

(Expressed in Bahamian dollars)

Consolidated Statement of Financial Position:

		2018	2017	2016
Total assets	\$	91,637,618	103,947,169	139,610,719
Total liabilities		50,354,385	64,774,411	101,422,518
Equity	\$	41,283,233	39,172,758	38,188,201

Consolidated Statement of Comprehensive Income:

Total income	\$	24,376,184	23,706,080	24,447,994
Total expenses		17,308,719	18,068,286	19,221,206
Net income	\$	7,067,465	5,637,794	5,226,788

Ratios:

Return on equity: total comprehensive income/total equity		17%	14%	14%
Equity: equity/total assets		45%	38%	27%
Loss: net claims incurred/net premium earned		38%	81%	92%

Other Data:

Dividends per share	\$	0.60	0.58	0.64
Annual dividends	\$	4,792,800	4,633,040	5,112,320
Total shareholders' equity	\$	25,350,407	24,018,871	23,351,002
Earnings per share for the profit attributable to the equity holders of the Company	\$	0.77	0.67	0.65



Alister I. McKellar, FCI
Managing Director

Managing Director's Discussion & Analysis

While the 2018 hurricane season was again extremely active, thankfully our islands were spared any major impact for the first time in four years. In the absence of the resulting catastrophe claims and regular attritional losses also being well below budget, we've recorded a much improved performance for the full year. Both our underwriting (ICB) and agency (JSJ) segments were up, with combined total income up a healthy 25% at \$7,067,465 from \$5,647,597 in the prior year.

Underwriting saw net income increase by 175% to \$1,456,954 from \$529,093. Insurance expenses (claims) dropped from \$3,457,126 to \$1,506,917 net of reinsurance. The knock on affect of Hurricane Matthew, the costliest event in ICB's history, is still being felt and will continue to suppress results, to a lesser extent, into next year. In addition to the improved net income, the following are pleasing to note:

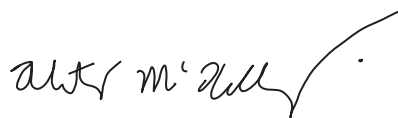
- Total gross written premium rose by 5% in challenging market conditions.
- At underwriting level, all main classes of business produced better than expected results.
- Total net claims incurred was 22% less than budget.
- Operational expenses were 11% less than budget.

The Agency segment in response to rate stabilization following Matthew and Irma, enjoyed a 6% increase in net commission & fees with total income up from \$18,409,207 to \$19,645,664. Despite an increase of 6% in operating expenses, we still achieved an impressive 10% increase in net income to \$5,610,511 from \$5,108,701. Strong new business success especially in the second half of the year was a contributing factor. This trend is expected to continue, as there are positive signs that the Bahamian economy is slowly beginning to pull out of recession, assisted by robust growth in the number of tourist arrivals. Against this backdrop, we expect to have another successful year in 2019.

This year saw the introduction of two major new financial reporting standards, IFRS 9 and IFRS 15, highlighted in 3(u) of the notes to this report. These require more disclosure for the company and increased provisioning for both underwriting and agency segments. Outside of these standards there were no changes in accounting estimates from the prior year. An analysis of key ratios reveal that the Company improved year on year in several categories. Return on equity increased to 17%, from a steady 14% the prior two years, indicative of the strong results posted. The equity ratio increased from 38% to 45% and we also saw healthy growth in earnings per share from \$0.67 to \$0.77 as profits rose by 25%. An overall indication of the strength and vitality of the company.

Our centenary celebrations got underway early with staff joining the Paper Boys group for a rush out at the New Year's Day Junkanoo Parade. It was a fun event and received very good coverage in the media. The official 100th anniversary falls on 3rd April 2019 and will be toasted at all offices. We look forward to welcoming you all to the various events which we have planned throughout the year to mark this special occasion.

Once again I wish to thank our dedicated Board of Directors for their unwavering support, the Shareholders for renewing their trust in our business, the Management and staff for their tireless commitment and exemplary service and last but by no means least, our customers for their continuous loyalty.



Alister I. McKellar, FCII

Managing Director

Consolidated Financial Statements For The Year Ended December 31, 2018

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Independent Auditors' Report



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The Shareholders and Directors
J.S. Johnson & Company Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of J.S. Johnson & Company Limited (the Company) which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provides the basis for our audit opinion on the accompanying consolidated financial statements.

Valuation of outstanding claims liability

The Company has outstanding claims liabilities of \$20.75 million, including \$1.05 million of claims incurred but not reported (IBNR). The estimation of outstanding claims involves a significant degree of judgement. Outstanding claims are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

Given the materiality of the outstanding claims liability and the complexity of management's judgements, we identified the valuation of outstanding claims liability as a key audit matter.

We assessed management's calculation of the outstanding claims liability by performing the following procedures:

- We gained an understanding of the outstanding claims liability process.
- We compared the data provided to the Company's external actuaries and our actuarial specialist to the Company's financial systems.

- Using our actuarial specialist team members, we compared the Company's methodology, models and assumptions to recognised actuarial practices.
- Our actuarial specialist team members performed independent re-projections on all classes of business, particularly focusing on the largest and longer tail lines of business which require more actuarial judgment. In order to re-project the claims liabilities we considered actual historical information and how losses emerged in the current period compared to previous expectations of loss emergence.
- We compared these re-projections of claim liabilities to management's recorded claim liabilities.

Responsibilities of Management and the Audit for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with management and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditors' report is Tiffany Norris-Pilcher.

March 27, 2019



A member firm of Ernst & Young Global Limited

J.S. Johnson & Company Limited

Consolidated Statement of Financial Position

(Expressed in Bahamian Dollars)

	December	
	2018	2017
Assets		
Cash and bank balances (Notes 6 and 25)	\$ 9,700,629	\$ 13,797,166
Term deposits (Notes 7 and 25)	6,084,607	5,059,413
Accounts receivable (Notes 4 and 25)	14,334,352	15,762,743
Due from insurance carriers (Notes 9 and 25)	45,233	451,226
Investment in securities (Notes 8 and 25)	21,457,934	20,408,019
Prepayments and other assets (Notes 10 and 25)	1,772,945	5,076,801
Prepaid reinsurance premiums (Note 14)	19,402,972	18,421,096
Reinsurance recoverables (Notes 5 and 25)	9,373,273	15,499,181
Intangible assets (Note 11)	10,693	42,510
Investment properties (Note 12)	973,935	976,180
Property, plant, and equipment (Note 13)	8,481,045	8,452,834
Total assets	<u>\$ 91,637,618</u>	<u>\$ 103,947,169</u>
Liabilities		
General insurance funds:		
Unearned premium reserve (Note 14)	\$ 22,897,180	\$ 21,778,705
Outstanding claims (Notes 14 and 25)	10,101,411	20,751,023
	<u>32,998,591</u>	<u>42,529,728</u>
Other liabilities		
Due to related parties (Notes 21, 23 and 25)	188,029	146,914
Accounts payable (Notes 15, 21 and 25)	5,202,717	6,189,734
Due to reinsurers (Notes 5 and 25)	4,582,436	7,204,336
Accrued expenses and other liabilities (Notes 18, 23, and 25)	2,139,004	3,719,210
Unearned commission reserve	5,243,608	4,984,489
Total liabilities	<u>50,354,385</u>	<u>64,774,411</u>
Equity		
Share capital		
Authorized, issued, and fully paid:-\$8,000,000		
ordinary shares of \$0.01 each	\$ 80,000	\$ 80,000
Retained earnings (Note 20)	25,355,007	23,972,941
Interest in own shares (Note 22)	(84,600)	(84,600)
Fair value reserve (Note 8)	-	50,530
	<u>25,350,407</u>	<u>24,018,871</u>
Non-controlling interest	15,932,826	15,153,887
Total Equity	<u>41,283,233</u>	<u>39,172,758</u>
Total Liabilities and Equity	<u>\$ 91,637,618</u>	<u>\$ 103,947,169</u>

See accompanying notes to consolidated financial statements.

These financial statements were authorized for issue on behalf of the Board of Directors on March 27, 2019 by:

Approved by the Board:

Director



Director



J.S. Johnson & Company Limited

Consolidated Statement of Comprehensive Income

(Expressed in Bahamian Dollars)

	Year Ended December 31	
	2018	2017
Income:		
Net revenue from contracts with customers (Notes 17 and 23)	\$ 18,721,693	\$ 17,506,867
Net premiums earned (Note 16)	3,960,020	4,266,028
Investment income (Note 17)	1,694,471	1,451,514
Change in net unrealized gain on investment in securities (Note 8)	—	481,671
Total income	24,376,184	23,706,080
Expenses:		
Salaries and employee benefits (Notes 19 and 23)	10,069,600	9,710,317
Net claims incurred (Notes 14 and 21)	1,506,917	3,457,126
Depreciation and amortization (Notes 11, 12, and 13)	544,139	657,608
Provision for tax assessment (Note 21)	378,802	—
Provision for expected credit loss (Note 8)	3,769	—
Change in net unrealized loss on investments in securities (Note 8)	213,364	—
Other operating expenses (Note 17)	4,592,128	4,243,235
Total expenses	17,308,719	18,068,286
Net income	\$ 7,067,465	\$ 5,637,794
Other comprehensive income to be reclassified to profit or loss in subsequent periods	—	—
Unrealized gain on available for sale investments	—	9,803
Total comprehensive income	\$ 7,067,465	\$ 5,647,597
Attributable to:		
Equity holders of the company (Note 22)	\$ 6,129,358	\$ 5,300,909
Non-controlling interest	938,107	346,688
	\$ 7,067,465	\$ 5,647,597
Basic & diluted earnings per share for the profit attributable to the equity holders of the Company (Note 22)	\$ 0.77	\$ 0.67

See accompanying notes to consolidated financial statements

J.S. Johnson & Company Limited
Consolidated Statement of Changes in Equity

(Expressed in Bahamian Dollars)

	Share Capital	Retained Earnings	Interest in Own Shares	Fair Value Reserve	Total Shareholders' Equity	Non- Controlling Interest	Total Equity
Balance at December 31, 2016	\$ 80,000	\$ 23,314,875	\$ (84,600)	\$ 40,727	\$ 23,351,002	\$ 14,837,199	\$ 38,188,201
Net income	–	5,291,106	–	–	5,291,106	346,688	5,637,794
Unrealized gain on available for sale securities	–	–	–	9,803	9,803	–	9,803
Distributions to owners:							
Dividends (Note 18)	–	(4,633,040)	–	–	(4,633,040)	(30,000)	(4,663,040)
Balance at December 31, 2017	80,000	23,972,941	(84,600)	50,530	24,018,871	15,153,887	39,172,758
Impact of adopting new accounting standards (Note 3u)	–	45,508	–	(50,530)	(5,022)	(7,534)	(12,556)
Balance at December 31, 2017 (restated)	80,000	24,018,449	(84,600)	–	24,013,849	15,146,353	39,160,202
Net income	–	6,129,358	–	–	6,129,358	938,107	7,067,465
Distributions to owners:							
Dividends (Note 18)	–	(4,792,800)	–	–	(4,792,800)	(151,634)	(4,944,434)
Balance at December 31, 2018	\$ 80,000	\$ 25,355,007	\$ (84,600)	\$ –	\$ 25,350,407	\$ 15,932,826	\$ 41,283,233

See accompanying notes to consolidated financial statements.

J.S. Johnson & Company Limited

Consolidated Statement of Cash Flows

(Expressed in Bahamian Dollars)

	Year Ended December 31	
	2018	2017
Operating activities		
Net income	\$ 7,067,465	\$ 5,637,794
Adjustments for:		
Unearned premium reserve (Note 14)	(136,601)	(214,366)
Depreciation and amortization	544,139	657,608
Provision for tax assessment	378,802	–
Provision for expected credit loss	3,769	–
Change in net unrealized loss/(gain) on investments		
in securities	213,364	(481,671)
Interest income (Note 17)	(684,971)	(758,235)
Dividend income (Note 17)	(365,209)	(449,211)
Bad debts	76,000	48,000
Cash from operations before changes in assets and liabilities	7,096,758	4,439,919
Decrease (increase) in assets:		
Accounts receivable	1,352,391	(3,361,271)
Due from insurance carriers	405,993	(306,329)
Prepayments and other assets	3,303,856	(973,131)
Prepaid reinsurance premiums	(981,876)	(797,423)
Reinsurance recoverable	6,125,908	29,180,283
Increase (decrease) in liabilities:		
Unearned premium reserve	1,255,076	1,226,157
Outstanding claims	(10,649,612)	(23,788,833)
Due to related parties	41,115	(416,275)
Accounts payable, accrued expenses and other liabilities	(2,946,027)	(704,846)
Due to reinsurers	(2,621,900)	(12,845,787)
Unearned commission reserve	259,119	95,843
Net cash provided by/(used in) operating activities	2,640,801	(8,251,693)
Investing activities		
Net (placement)/ maturity of term deposits	\$ (1,145,595)	\$ 5,002,843
Purchase of property, plant, and equipment (Note 13)	(538,288)	(224,880)
(Purchase)/sale of investments in securities	(1,408,748)	499,999
Proceeds from principal payments of investments	129,957	250,066
Interest received	804,561	872,540
Dividends received	365,209	449,211
Net cash (used in)/provided by investing activities	(1,792,904)	6,849,779
Financing activities		
Dividends paid to shareholders	(4,792,800)	(4,633,040)
Dividends paid to non-controlling interest	(151,634)	(30,000)
Net cash used in financing activities	(4,944,434)	(4,663,040)
Net decrease in cash and cash equivalents	(4,096,537)	(6,064,954)
Cash and cash equivalents, beginning of year	13,797,166	19,862,120
Cash and cash equivalents, end of year	\$ 9,700,629	\$ 13,797,166
Supplemental cash flow information		
Premium tax paid	\$ 1,774,977	\$ 1,608,443

See accompanying notes to consolidated financial statements.

1. INCORPORATION AND PRINCIPAL ACTIVITY

J.S. Johnson & Company Limited ("the Company") and its subsidiaries, Insurance Company of The Bahamas Limited ("ICB") and J.S. Johnson & Company (Turks & Caicos) Limited ("JSJ Turks & Caicos") (together, the Group) carry on general insurance business. The Company and JSJ Turks & Caicos carry on business as agents and brokers in The Bahamas and the Turks & Caicos Islands, respectively. ICB is licensed to operate as a property and casualty insurance company in The Bahamas and the Turks & Caicos Islands under the Insurance Act 2005, as amended, and the Insurance Ordinance, 1989, amended December 2015, respectively.

The Company is incorporated in The Commonwealth of The Bahamas. The registered office of the Company and ICB are situated at the offices of Messrs. McKinney, Bancroft & Hughes, Mareva House, No. 4 George Street, Nassau, The Bahamas. The registered office of JSJ Turks & Caicos is situated at the offices of Twa, Marcelin & Wolf, Chancery Court, Leeward Highway, Providenciales, Turks & Caicos Islands, BWI.

The Company's principal place of business is located at 34 Collins Avenue, Nassau, The Bahamas. ICB's principal place of business is located at 33 Collins Avenue, Nassau, The Bahamas. JSJ Turks & Caicos' principal place of business is located at Graceway Plaza, Leeward Highway, Providenciales, Turks & Caicos Islands, BWI.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets and financial liabilities that have been measured at fair value.

The methods used to measure fair value are discussed further in the significant accounting policies below.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Bahamian dollars, which is the Company's functional currency.

(d) Use of Estimates and Judgments

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Notes 3(b), 3(c), 3(f), 3(g), 3(h), 3(i), 3(j), 11, 12, 13, 14, 25 and 26.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies set out below have been applied consistently by the Group and are consistent with those used in the previous year, except as outlined in Notes 3(h), 3(i) and 3(u).

(a) Basis of Consolidation

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Entities of which the Company holds, directly or indirectly, the majority of voting rights are fully consolidated.

Entities that are less than 50% owned, but in which the Company exercises de facto control, that is, has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities, are considered to be subsidiaries of the Company. The financial statements of such entities are fully consolidated into the Group's consolidated financial statements from the date that control commences until the date that control ceases. Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in net income or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available for sale financial asset depending on the level of influence retained.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Goodwill at the acquisition date is measured as the fair value of the consideration transferred, plus the recognized amount of any non-controlling interests in the acquire, plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquire, less the net recognized amounts (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in net income or loss in the consolidated statement of comprehensive income. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in net income or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in net income or loss. The consolidated financial statements include the accounts of the Company and the following entities:

Name	Country of Incorporation	Ownership
Insurance Company of The Bahamas Limited	The Bahamas	40%
J.S. Johnson & Company (Turks & Caicos) Limited	Turks & Caicos Islands, BWI	80%

Inter-company transactions and balances are eliminated on consolidation. Subsidiaries' accounting policies are consistent with the policies adopted by the Group. Non-controlling interest in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interest consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(b) Insurance Contracts

(i) Classification, Recognition, and Measurement

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer insurance risks. Such contracts may also transfer financial risk. The Group considers an insurance risk to be significant where the sum insured or limit of indemnity exceeds \$250,000. The classification of contracts identifies both the insurance and reinsurance contracts entered into by the Group. Short term insurance contracts consist of Property, Casualty, Motor, and Marine insurance contracts.

Property insurance contracts, both personal and commercial, provide compensation for loss, or damage to property. Business interruption coverage provides compensation for loss of earnings following physical damage to the insured premises.

Casualty/liability insurance contracts protect the insured against the risk of causing financial loss or injury to third parties following some act of negligence. Liabilities covered include both contractual and non-contractual. Two of the most common protections offered are "Employer's Liability", designed to indemnify employers who become legally liable to pay compensation to injured employees, and "Public Liability", designed to indemnify individuals, and businesses who become legally liable to pay compensation to third parties.

Motor insurance contracts cover the driver's liability to third parties in respect of personal injury or property damage. If comprehensive cover is purchased, the policy also covers damage to the policyholder's vehicle.

Marine insurance contracts include the insurance of goods in transit over land or sea and also the insurance of hulls. Hull insurances typically cover both physical damage to the vessel and also the boat owner's liability to third parties in respect of personal injury or property damage.

Premiums generated from insurance and inward reinsurance contracts are recognized as revenue (gross written premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as unearned premium reserve, calculated using net retained premiums. Gross written premiums are shown before deduction of premium tax, premiums ceded to reinsurers, and commissions. Premiums received prior to the year end and processed after the year end by the agent are recognized at the time of processing.

Claims and loss adjustment expenses are charged to income as incurred based on the known or estimated liability for compensation owed to policyholders or third parties. They include direct or indirect claims settlement costs and arise from events that have occurred up to the reporting date regardless of whether or not they have been reported. Gross outstanding claims comprise the estimated cost of all claims incurred but not settled as of the reporting date whether reported or not. The Group does not discount its liabilities for outstanding claims. Liabilities for outstanding claims are estimated using: (a) the judgment of the Company's claims manager in regards to routine claims, (b) external legal opinion in connection with more complex claims, and (c) statistical analyses for claims incurred but not reported.

(ii) Liability Adequacy Test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. Tests include reviewing original estimates of ultimate claims cost for each accident year against the current year-end estimates. These tests are carried out at the portfolio level for the classes of motor and casualty lines of business. Should any trend in reserve deficiency, at total portfolio level, become apparent, the deficiency would immediately be charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

(iii) Reinsurance Contracts Held and Assumed

The Group cedes (or assumes) reinsurance under a variety of formal treaty arrangements, with retention limits varying by the line of business. Under these treaties which are classified as reinsurance contracts held (or assumed) the Group is compensated (or compensates) in respect of one or more losses under contracts that meet the classification requirements for insurance contracts. Contracts that do not meet these classification requirements are classified as financial assets (or financial liabilities).

The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets are classified as reinsurance recoverables and comprise:

- recoverables due from reinsurers in respect of claims paid, and
- the reinsured portion of the reserves for outstanding claims allocated in accordance with the treaty arrangements for the class of business in question.

Amounts paid to the reinsurers relating to the unexpired portion of reinsured contracts are classified as prepaid reinsurance premiums.

Reinsurance liabilities are classified as due to reinsurers and are primarily premiums payable under treaty reinsurance contracts after deduction of reinsurance recoverables on proportional contracts.

Premiums to be ceded are recognized as an expense from the date the gross premiums are written and over the term of the reinsurance in the consolidated statement of comprehensive income.

Amounts shown as reinsurance recoverables, prepaid reinsurance premiums or due to reinsurers are measured consistently with the amounts associated with reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Group assesses its reinsurance assets for any indication of impairment on an ongoing 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 recognizes that impairment loss in the consolidated statement of comprehensive income. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 3 (j).

(iv) Portfolio Transfer

At the anniversary date of the reinsurance agreements and at the Company's option proportional reinsurers agree to assume the unexpired liability of all risks in force at such anniversary date. The unexpired liability is computed in accordance with the method outlined in the reinsurance agreement and accounted for when determined in the consolidated statement of comprehensive income.

(v) Receivables and Payables Related to Insurance Contracts

Receivables and payables are recognized when the contractual right to receive payment and contractual obligation to make payment arise, respectively. These include amounts due to and from insurance carriers and reinsurers and the receivable balances are assessed for impairment and doubtful accounts. As at December 31, 2018 and 2017, no provision was made for impairment or doubtful accounts.

(vi) Fronting Arrangements

Gross Written Premium includes the risk premium from fronting arrangements whereby the company reinsures one hundred percent of an individual risk to an insurer not licensed to transact business in The Bahamas. The reinsured amounts are included within the amount shown as "Ceded to reinsurers", amounting to \$7,208,325 (2017: \$3,137,707).

(c) Accounts Receivable

Accounts receivable, other than receivables relating to insurance contracts, are recognized initially at fair value and subsequently measured at amortized cost less provision for impairment. The Group recognizes an allowance for expected credit losses (ECL's) for all receivables. The Group applied a simplified approach in calculating ECL's. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL's at each reporting date. The Group has established provisions based on historical credit loss experience, adjusting for forward-looking factors specific to the debtors and the economic environment.

(d) Segment Reporting

The Group determines and presents operating segments based on the information that is provided to the Managing Director, who is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any other Group entities. An operating segment's operating results are reviewed regularly by the Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(e) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate prevailing at that date. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities at year-end exchange rates are recognized in net income or loss in the consolidated statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences, if any, relating to investments at fair value through profit or loss are included in net realized gain/loss or change in net unrealized gain/loss on investments in securities in net income or loss in the consolidated statement of comprehensive income. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents are recognized in net income or loss in the consolidated statement of comprehensive income.

(f) Investment Property

The Group classifies property held for capital appreciation and rental as investment property. Investment property, which comprises land and buildings, is carried at cost using the cost model and measured in accordance with IAS 16 – Property, Plant, and Equipment, and is stated at historical cost less accumulated depreciation and impairment losses. Depreciation on the buildings is recognized in net income or loss in the consolidated statement of comprehensive income on a straight line basis either at the annual rate of 2.00% or over the estimated useful life of 50 years (2017 – 50 years). No depreciation is taken on land. The carrying value of the land and buildings are also assessed annually for any impairment losses.

The Group performs annual impairment assessments based on fair value less cost to sell. The fair value of investment property is determined by third-party professional appraisals, which are performed every three years. The fair value of the investment property is based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(g) Property, Plant, and Equipment

Property, plant, and equipment, except for land, are stated at historical cost less accumulated depreciation and impairment losses. Land is stated at cost and not subject to depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant, and equipment. The cost of replacing part of an item of property, plant, and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Repairs and maintenance are charged to net income or loss in the consolidated statement of comprehensive income when the expenditure is incurred.

Depreciation is recognized in the consolidated statement of comprehensive income on a straight line basis over the estimated useful lives of the items of the assets, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. In the year of acquisition, a full year's depreciation is charged to net income or loss in the consolidated statement of comprehensive income, regardless of the acquisition date.

The estimated depreciation rates for the current and corresponding period are as follows:

	Useful Lives	Depreciation Rates
Buildings	50	2%
Office furniture and equipment	6.67	15%
Computer equipment	5	20%
Motor vehicles	4 – 5	20% – 25%
Leasehold improvements		Lesser of useful life or Duration of lease

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in other income in the consolidated statement of comprehensive income. Repairs and maintenance are charged to net income or loss in the statement of comprehensive income when the expenditure is incurred.

(h) Financial Instruments

A financial instrument is recognized when the Company becomes a party to the contractual provisions that give rise to a financial asset for one entity and the financial liability for another entity. Regular way purchases and sales of financial instruments are accounted for at trade date, that is, the date the Company commits itself to purchase or sell the asset.

Financial instruments comprise investments in equity and debt securities, term deposits, loans and receivables, cash and bank balances and accounts payable and accruals.

Financial assets are initially measured at fair value. For assets not measured at fair value through profit or loss, any directly attributable transaction costs are added to the carrying value. Financial assets are subsequently measured into the below categories:

- Amortized cost
- Fair value through profit or loss
- Fair value through other comprehensive income

Each measurement category is determined by the business model for managing the asset and the asset's contractual terms. The assessment of the business model for financial instruments are performed at aggregate level groupings. The business model test aligns each instrument to the Company's business and operational objectives surrounding liquidity, risks and overall performance objectives. The assessment of the contractual cashflows are considered on an instrument by instrument basis and considers the timing and value of solely payments of principal and interest on the outstanding principal amount.

(i) Investments at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income. Financial assets classified as fair value through profit or loss include investments in common shares, preference shares and mutual funds.

(ii) Investments at Fair Value Through Other Comprehensive Income

An instrument is classified as fair value through other comprehensive income if it is a debt security held within a business model with the objective of both holding to collect contractual cash flows and selling and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company has not designated any financial assets under this classification.

(iii) Investments at Amortized Cost

The Company measures financial assets at amortized cost if it is both held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognised, modified or impaired.

Financial assets classified as investments at amortized cost include all notes and bonds, loans and other receivables and term deposits.

(iv) Cash and bank balances

Cash and bank balances comprise cash and deposits held with financial institutions with original maturities of less than three months. Bank overdrafts and margin loans, if any, that are repayable on demand and form an integral part of the Company's cash management, are included as a component of cash and bank balances for the purpose of the statement of cash flows.

(v) Loans and Receivables

Under IAS 39 loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are recognized initially at fair value plus any directly attributable transaction costs. This definition remains largely unchanged under IFRS 9; however, loans and receivable balances are no longer an individual measurement category. The categorization of loans and receivables under IFRS 9 also depends on the business model objective. Loans and receivables are held for collection of contractual payments of solely principal and interest payments under the current business model.

Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Receivables arising from insurance contracts, other receivables and cash and bank balances are measured amortized cost.

(vi) Financial Liabilities

Financial liabilities are initially classified at amortized cost using the effective interest method with specific exceptions. Financial liabilities may be subsequently measured at fair value through profit or loss by irrevocable option when permitted under the standard or when doing so results in more relevant information because it eliminates or reduces measurement or recognition inconsistency or if the financial liabilities performance is evaluated on a fair value basis.

The Group's financial liabilities are comprised of the accounts payable and accruals which are measured at amortized cost.

Financial liabilities arising from insurance contracts are measured at amortized cost.

(vii) Offsetting

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

(viii) Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either; in the principal or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible by the Group.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

Any equity security that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses, if any. If a reliable measure of fair value becomes available subsequently, the instrument is measured at fair value.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – quoted market price (unadjusted) in an active market for an identical instrument.

Level 2 – valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted market prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(i) Intangible Assets

Intangible assets include customer relationships acquired from third parties and are stated at cost less accumulated amortization and impairment losses, if any. Amortization is recognized in income or loss in the consolidated statement of comprehensive income on a straight line basis over the estimated useful life of the customer relationship from the date that it is acquired. The estimated useful life of customer relationships is five years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Impairment

(i) Financial assets

The Group recognizes a loss allowance for all debt securities measured at amortized cost or fair value through other comprehensive income using an expected credit loss model. The expected credit loss model uses forward looking information that is reasonable and supportable and does not depend solely on historical information. Expected credit losses (ECL) are the difference between the cashflows due in accordance with a contract and the cashflows that are expected to be received discounted using the effective interest rate. The expected credit loss model may assess financial assets on an individual basis or aggregated into groups with similar credit risk characteristics.

There are several approaches recommended for the calculations within the expected credit loss model including the below:

• General Approach

Under the general approach expected credit losses are categorized into one of three stages. Under stage 1 of the general approach, each financial asset or financial asset grouping will be measured for expected credit losses that result from default events that are possible within the 12 months subsequent to the current fiscal period (12-month ECL). Under stage 2 and 3 of the general approach, the financial asset or financial asset group must recognize an expected credit loss allowance for possible default events that may take place over the remaining life of the instrument (lifetime ECL). The categorization of an individual asset or asset group into stage 1, stage 2 or stage 3 is determined by whether there was a significant increase in credit risk since the initial recognition to the reporting date, with the exception that of an asset that is categorized as low credit risk. The stage 1 ECL classification is used for low credit risk assets or assets that have shown significant improvement in credit quality and is reclassified from stage 2 or has had no significant change in credit risk since initial recognition. The stage 2 ECL classification is used for assets for which there has been a significant decrease in credit quality since initial recognition, or stage 3 assets that have shown significant improvement in credit quality. The stage 3 ECL is reserved for assets considered to be credit impaired.

The Group considers an instrument to be in default when contractual payments are 90 days past due or when information obtained indicates that the debtor is unlikely to pay outstanding contractual outstanding amounts in full.

• Simplified Approach

The simplified approach is applied to trade receivables and contract assets under the scope of IFRS 15 and lease receivables under the scope of IFRS 16. The approach enforces a lifetime expected credit loss calculation if elected and allows the use of a provision matrix. The provision matrix makes use of historical default patterns adjusted for forward looking factors and the current economic environment. The simplified approach does not require an entity to track the changes in credit risk, but, instead, requires the entity to recognize a loss allowance based on lifetime ECLs at each reporting date. This approach is not used as the Group does not have qualifying assets.

• Purchased or Originated Credit-Impaired Assets Approach

This approach is reserved for financial assets with high credit risk at initial recognition and at initial recognition a lifetime credit loss must be recognized. At the reporting date, cumulative changes in the lifetime expected credit loss since initial recognition are to be recognized. This approach is not used as the Group does not have qualifying assets.

• Calculation of Expected Credit Losses

The approach elected by the Group is the general approach and all eligible assets have been assessed on an instrument by instrument basis. The calculation method selected by the Group is the probability of default method. The expected credit loss calculation considers several possible outcomes upon default and within certain outcomes a recovery rate is incorporated. Under this method factors including the probability of default (PD), the exposure at default (EAD), the loss given default (LGD) and the effective interest rate (EIR) are determined.

- The Probability of Default is an estimate of the likelihood of default over a given time horizon. It is estimated with consideration of economic scenarios and forward-looking information.
- The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and accrued interest from missed payments.
- The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive. It is usually expressed as a percentage of the EAD.

For each eligible asset, supportable and relevant information that includes both historical and forward looking was evaluated to determine the credit risk at initial recognition and at the reporting date. Qualitative and quantitative information assessed included, debtor background, external and internal credit ratings, payment history, financial report releases and general macroeconomic conditions. The asset is then allocated into one of three stages where either the 12-month ECL or the lifetime-ECL calculation is selected. All expected credit losses calculated are then discounted using the effective interest rate.

(ii) Non-Financial Assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in income or loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(k) Income and Expense Recognition

Premiums are recognized as revenue over the periods covered by the related policies after allowing for premiums ceded.

Net revenue from contracts with customers on agency business is recognized at the point in time when premiums are billed to customers as the Group has no further service obligations associated with these commissions. Net revenue from contracts with customers consists of three types:

- i. **Contracts with related parties** – see note 3(l) for the definition of related parties. Payment is typically due two to three months after month end depending on the related party.
- ii. **Agency contracts** – these contracts are usually long term contracts with fixed rates set per product line (e.g.: property, motor, marine) per contract. Payment is due two months after month end.
- iii. **Broker contracts** – these contracts are short-term and are negotiated on a one by one basis and can vary per product line depending on the broker. Payment is typically due the month after the premium is billed to the customer.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price, the Group has considered the effects of variable consideration, noncash consideration and consideration payable to the customer (if any).

Other revenues and expenses of the Group are recognized on an accrual basis, except as follows:

- **Dividend income** – recognized when the Group's right to receive payment has been established.
- **Treaty profit commission income** – recognized in the year in which the treaty profits are crystallized.
- **Loyalty commission income and profit commission expense** – recognized when the Group's right to receive or obligation to make payment has been established.
- **Fronting fees** – recognized when premiums are billed to customers as the Group has no further service obligations associated with these fees.
- **Cost to obtain a contract** – recognized when the obligation to pay the commissions has been established. These costs are usually associated with outside subagents or broker arrangements used to obtain the contracts.

(l) Taxation

Premium tax is incurred at a rate of 3.00% of gross written premiums written in The Commonwealth of The Bahamas and 2.50% of gross written premiums in the Turks & Caicos Islands, BWI. Premium tax is recognized when the Group's obligation to make payment has been established.

On January 1, 2015, the Value Added Tax Act, 2014 (VAT), came into force thereby imposing a tax on all Property and General (and other casualty insurance, except exempt supplies) insurance services provided by the Company and a tax on all taxable inputs purchased by the Group at a rate of 7.5%. The Group has paid VAT on taxable inputs comprised of claims and operating expenses from January 1, 2015 onward. On July 1, 2018, this rate was amended to 12%.

(m) Employee Benefits

(i) Defined Contribution Pension Plan

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

(ii) Short-Term Benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided in net income or loss.

A provision is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(n) Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to net income or loss using a straight-line method over the period of the lease.

(o) Related Parties

Related parties include affiliates of Aon Corporation, major shareholders, directors and key management personnel who have the authority and responsibility for planning, directing and controlling the activities of the Group (see Note 23 for further details).

(p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and, it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

(q) Treasury Share Capital (Interest In Own Shares)

Treasury share capital represents the Group's own equity instruments, which are acquired and are deducted from equity and accounted for at cost. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(r) Earnings Per Share

The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

(s) Dividends

Dividends proposed or declared after the reporting dates are not recognized at the reporting date.

(t) New Standards, Interpretations, and Amendments to Published Standards that are Not Yet Effective

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's accounting periods but which the Group has not early adopted are as follows:

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability)

and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by: (i) A specific adaptation for contracts with direct participation features (the variable fee approach) (ii) A simplified approach (the premium allocation approach) mainly for short-duration contracts. IFRS 17 is effective for reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

Amendments to IAS 1 and IAS 8 Definition of Material

Effective for annual periods beginning on or after 1 January 2020. The IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

(u) New Standards Adopted During the Year

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature of these changes is disclosed below. Although these new standards and amendments applied for the first time in 2018, they did not have a material impact on the annual financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

• IFRS 15: Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures. The Group adopted IFRS 15 using the modified retrospective method of adoption, which did not have a material impact; therefore no restatement was needed on prior year's statements.

• IFRS 9: Financial Instruments

IFRS 9 Financial instruments has superseded IAS 39 Financial instruments: Recognition and Measurement. The Company has applied IFRS 9 prospectively with initial application on January 1, 2018. The Company has not restated the comparative information reported under IAS 39 and differences arising directly from IFRS 9 have been recognized directly in retained earnings as at January 1, 2018. Therefore, the comparative information presented in these financial statements and notes to the financial statements for the classification and measurement of certain financial instruments for the fiscal year 2017 is not comparable to the information presented for 2018.

(i) Recognition and Measurement

In accordance with the mandatory requirements of IFRS 9, all preference shares and mutual funds carrying values have been reclassified from available for sale investments to investments at fair value through profit or loss at January 1, 2018. This reclassification was determined by the newly established business model for managing assets. The business objective of the cashflows of the preference shares and mutual funds have been determined as held for trading. IFRS 9 prohibits the election of any asset defined under IAS 32 to be classified as fair value through other comprehensive income if held for trading. As such the fair value gains and losses from under IAS 39 that have been previously recorded in fair value reserve (2017: \$50,530) under other comprehensive income has been transferred to retained earnings.

Debt securities classified previously as held to maturity investment are also reclassified as investments at amortized cost.

The reclassification and measurement of financial assets and liabilities transitioned from IAS 39 to IFRS 9 is shown below:

Asset Classification and Measurement Category under IAS 39	31 Dec 2017 Carrying value	1 Jan 2018 Adjustment	1 Jan 2018 Carrying value and Measurement category under IFRS 9	
			Fair value through profit or loss	Amortized cost
Term Deposits (at amortized cost)	5,059,413	(440)	–	5,058,973
Other Assets (at amortized cost)	160,398	–	–	160,398
Fair value through Profit or Loss	4,673,511	5,773,060	10,446,571	–
Held to Maturity Investments (at amortized cost)	9,961,448	(12,115)	–	9,949,333
Available-for-Sale Investments (at fair value through OCI)	5,773,060	(5,773,060)	–	–
Accounts payable and accruals (at amortized cost)	9,908,944	–	–	9,908,944

(iii) Impairment of Financial Assets

The impairment requirements under IFRS 9 mandate that the expected credit loss approach has replaced the IAS 39 incurred loss approach for the estimation of impairment losses. The new policy requires the assessment of forward-looking information obtained without undue cost or effort to assess the credit quality of debt securities. Once assessed each debt security is assigned an expected credit loss provision calculated from either of the probability of defaults method, the loss rate method or a provision matrix. See further detail under (g) Impairment and Note 17 Under IAS 39 incurred loss model there were no impairment loss allowances recorded.

• Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

• **Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The Company has not chosen to apply the temporary exemption or overlay approach in the current year

4. ACCOUNTS RECEIVABLE

Accounts receivable are stated at amortized cost less provision for expected credit losses. Interest is charged on accounts that are financed at a rate of nil (2017 – 10%) per annum on the total balance financed for periods of three months or six months. The Group reserves the right and from time to time may negotiate lower interest rates and longer periods for commercial customers. Collateral is not held against any of the outstanding balances; however the Group has the right to cancel the financed policy for non-payment. As at December 31, 2018, there were no premium finance receivables (2017 – rates of interest were 5% to 10% and were all financed for periods within three months).

As at December 31 accounts receivable consist of:

	2018	2017
Trade	\$ 14,922,819	\$ 16,032,218
Premium finance	–	250,759
	14,922,819	16,282,977
Provision for expected credit losses	(588,467)	(520,234)
	<u>\$ 14,334,352</u>	<u>\$ 15,762,743</u>

The aging analysis of accounts receivable as at December 31 is as follows:

2018

	0–6 Months	6–9 Months	9–12 Months	More than 12 Months	Gross Receivables	Expected credit losses	Net Receivables
Trade	\$ 12,830,459	\$ 1,225,006	\$ 184,147	\$ 683,207	\$ 14,922,819	\$ (588,467)	\$ 14,334,352
Premium finance	–	–	–	–	–	–	–
Total	<u>\$ 12,830,459</u>	<u>\$ 1,225,006</u>	<u>\$ 184,147</u>	<u>\$ 683,207</u>	<u>\$ 14,922,819</u>	<u>\$ (588,467)</u>	<u>\$ 14,334,352</u>

2017

	0–6 Months	6–9 Months	9 – 12 Months	More than 12 Months	Gross Receivables	Expected credit losses	Net Receivables
Trade	\$ 13,256,299	\$ 1,379,988	\$ 166,965	\$ 1,228,966	\$ 16,032,218	\$ (520,234)	\$ 15,511,984
Premium finance	250,759	–	–	–	250,759	–	250,759
Total	<u>\$ 13,507,058</u>	<u>\$ 1,379,988</u>	<u>\$ 166,965</u>	<u>\$ 1,228,966</u>	<u>\$ 16,282,977</u>	<u>\$ (520,234)</u>	<u>\$ 15,762,743</u>

An impairment analysis is performed at each reporting date using the aging above to measure expected credit losses. The calculation reflects the probability-weighted outcome, the time balance of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and historical loss experience. Generally, trade receivables are written-off if past due for more than one year and all collection attempts are exhausted. Cancellation or extension of the terms of the credit is instituted on a case by case basis. Specific provisions are made against trade balances based on the above procedure.

For premium financed receivables, in the event of default of payment by the customer on any of the agreed installments, the balance automatically and immediately becomes due and payable in full. The Group may in its sole discretion reinstate the finance agreement if the overdue installment is paid in full within the grace period. Failure to pay the overdue installments within the grace period will result in the cancellation of the underlying policy. The Group has the sole right to amend the policy after the grace period. As at December 31, 2018, \$nil (2017 – \$57,219) related to policies that were in default of payment of the agreed installments and are considered to be past due but not impaired.

The movement in the provision for expected credit losses as at December 31 is as follows:

	2018	2017
Balance as of January 1	\$ 520,234	\$ 472,234
Recoveries of expected credit losses	(7,767)	–
Provision for expected credit losses	76,000	48,000
Balance as at December 31	<u>\$ 588,467</u>	<u>\$ 520,234</u>

5. UNDERWRITING POLICIES AND REINSURANCE AGREEMENTS

The Group follows the policy of underwriting and reinsuring all contracts of insurance, which limit the retained liability of the Group. The reinsurance of contracts does not, however, relieve the Group of its primary obligation to the policyholders. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, the Group would also be liable for the reinsured amount. The Group's credit risk management procedures are detailed in Note 25.

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

Reinsurance recoverables consist of:

	2018	2017
Recoverables under excess of loss reinsurance for claims paid and outstanding	\$ 829,116	\$ (1,621,187)
Recoverables under proportional contracts for outstanding claims (Note 14)	8,544,157	17,120,368
	<u>\$ 9,373,273</u>	<u>\$ 15,499,181</u>

Amounts due to reinsurers of \$4,582,436 (2017 – \$7,204,336) represent premiums to be ceded to the reinsurers as at December 31, 2018, less reinsurance recoverables on proportional contracts.

6. CASH AND BANK BALANCES

The Group earned interest at varying rates up to 0.5% (2017 – varying rates up to 0.5%) per annum on accounts denominated in Bahamian dollars. Interest earned on demand deposits amounted to \$35,960 (2017 – \$45,468).

7. TERM DEPOSITS

Term deposits with banks include accrued interest totaling \$38,540 (2017 – \$158,096). The term deposits are held more than three months from the date of acquisition and have the following maturities and interest rates:

	Interest Rates 2018	2018	Interest Rates 2017	2017
Three months – one year	1.75%-2.00%	\$ 4,559,127	1.13%-1.75%	\$ 2,020,933
Over one year	1.75%-2.25%	1,525,480	2.75%-4.25%	3,038,480
		<u>\$ 6,084,607</u>		<u>\$ 5,059,413</u>

To meet the requirement under the Insurance Act 2005 in The Bahamas, as outlined in Note 27, ICB renewed its term deposit of \$1,229,747 (2017 – \$1,208,596) with maturity date of December 21, 2019. The term deposit is held with a recognized financial institution in The Bahamas.

ICB is also required under the Insurance Regulations in Turks and Caicos to meet certain capital requirements as outlined in Note 27, and maintained a restricted deposit of \$518,809 (2017–\$513,004), with a maturity date of December 6, 2019. The deposit is held with a recognized financial institution in Turks and Caicos.

8. INVESTMENTS IN SECURITIES

Securities at Fair Value Through Profit or Loss Securities at fair value through profit or loss principally comprise marketable equity securities, which are listed on The Bahamas International Securities Exchange, and are stated at fair value using quoted bid prices. Movements during the year were as follows:

	2018	2017
As at beginning of year	\$ 4,673,511	\$ 4,191,840
Impact of adopting new accounting standards	5,755,199	–
Change in net unrealized gains during the year	(213,364)	481,671
As of end of year	<u>\$ 10,215,346</u>	<u>\$ 4,673,511</u>

As of December 31, 2018, the cost of securities at fair value through profit or loss was \$7,809,407 (2017 – \$2,387,214).

The below table shows fair value of the preference shares and mutual funds transferred to securities at fair value through profit and loss.

	No. of Shares	2018 Fair Value	No. of Shares	2017 Fair Value
Commonwealth Bank Ltd. 7% (perpetuity)	10,000	\$ 1,000,000	10,000	\$ 1,000,000
Bank of The Bahamas 6.75% (perpetuity)	500	500,000	500	500,000
Cable Bahamas Ltd. Series Thirteen 6.25% (2019)	1,000	1,000,000	1,000	1,000,000
Cable Bahamas Ltd. Series Six 5.75% (2019)	539	539,000	539	539,000
Cable Bahamas Ltd. Series Nine 6.25% (2019)	1,249	1,249,500	1,249	1,249,500
APD Limited Series A 5.5%	1,000	482,139	1,000	500,000
Grand Bahama Power Company Limited 7.25%	322,000	184,030	322,000	184,030
Prime Income Fund Ser Four	100,000	520,514	100,000	509,977
High Yield Income Fund	25,000	292,013	25,000	290,553
		<u>\$ 5,767,196</u>		<u>\$ 5,773,060</u>
Change in net unrealized gains for preference shares and mutual funds		(11,997)		
Impact of Adopting new accounting standards		<u>\$ 5,755,199</u>		

Investments at Amortized Cost

Investments at Amortized Cost consist of the following:

	Interest Rates	Maturity	Amortized Cost 2018
The Bridge Authority Bond	6.25%	2024	\$ 130,078
Bahamas Government Registered Stocks	4.39% to 4.88%	2019 – 2037	5,822,384
Clifton Heritage Authority	5.50%	2035	282,980
Bahamas Electricity Corporation Bond	6.40%	2021	500,792
Nassau Airport Development: Company – senior secured note	7.50% to 8.50%	2031-2035	1,910,000
College of The Bahamas	7.00%	2026	285,769
Public Hospital Authority Ser A	6.00%	2033	801,412
Bahamas Govt Stock Tranche 1	6.25%	2044	501,370
Bahamas Govt Stock Tranche 2	4.50%	2022	1,021,674
Loss Allowance			(13,871)
			<u>\$ 11,242,588</u>

	Interest Rates	Maturity	Amortized Cost 2017
The Bridge Authority Bond	6.25%	2024	\$ 130,250
Bahamas Government Registered Stocks	4.39% to 4.88%	2019 – 2037	5,822,384
Clifton Heritage Authority	5.50%	2035	283,138
Bahamas Electricity Corporation Bond	6.40%	2021	500,792
Fidelity Bank (Bahamas) Ltd	6.00%	2019	100,510
Nassau Airport Development: Company – senior secured note	8.50%	2031	425,000
College of The Bahamas	7.00%	2026	321,490
Public Hospital Authority Ser A	6.00%	2033	854,840
Bahamas Govt Stock Tranche 1	6.25%	2044	501,370
Bahamas Govt Stock Tranche 2	4.50%	2022	1,021,674
			<u>\$ 9,961,448</u>

Included in investments at amortized is accrued interest totaling \$122,084 (2017-\$123,726). The interest income for investments at amortized cost was \$521,837.

In accordance with the Note Purchase Agreement dated March 20, 2009 for Nassau Airport Development Company – Senior Secured Note, the issuer has exercised its rights under the Agreement to prepay the principal in a number of installments until the maturity date in 2031. During 2018, ICB received \$18,750 (2017 – \$23,750) towards the principal of the Secured Note.

In accordance with the Note Purchase Agreement dated June 24, 2011 for The College of The Bahamas, the issuer has exercised its rights under the Agreement to prepay the principal in a number of installments until the maturity date in 2026. During 2018, the Company received \$35,714 (2017 – \$35,714) towards the principal of the Secured Note.

In accordance with the Note Purchase Agreement dated November 13, 2013, for Public Hospital Authority, the issuer has exercised its rights under the Agreement to prepay the principal in a number of installments until the maturity date in 2033. During 2018, the Company received \$52,632 (2017- \$52,632) towards the principal of the Secured Note.

Included in prepayments and other assets is \$11,737 (2017 – \$11,737) relating to dividends receivable (Note 10) at December 31, 2018.

Fair Value Hierarchy

Securities at fair value through profit or loss and at amortized cost are categorized as Level 2 as at December 31, 2018 and 2017. There has been no transfer of financial instruments between Level 1 and Level 2 during the year ended December 31, 2018 and 2017.

9. DUE FROM INSURANCE CARRIERS

As of December 31, 2018, balances totaling \$45,233 (2017 – \$451,226) comprise funds due from insurance carriers relating to cancellations and for policies that were processed subsequent to the year end.

10. PREPAYMENTS AND OTHER ASSETS

	2018	2017
Staff loans and advances (i)	\$ 678,433	\$ 721,516
Prepayments and security deposits	64,211	100,079
Capital projects – deposits (ii)	32,257	64,514
Proceeds due from sale of building	133,417	160,398
Commissions receivable	368,039	672,849
Other assets (Note 8)	496,588	3,357,445
	<u>\$ 1,772,945</u>	<u>\$ 5,076,801</u>

- (i) Staff loans are secured by the employee's pension fund and are granted based on an employee's tenure with the Group. The maturity dates normally extend up to 24 months of issuance.
- (ii) This balance represents payments made for architect fees related to the planned building extension project, for which the expected date of commencement has not yet been determined. During 2015, the Company began amortizing this balance over a five year period.

11. INTANGIBLE ASSETS

	2018	2017
Cost:		
At January 1	\$ 720,506	\$ 720,506
Acquisitions	–	–
At December 31	<u>\$ 720,506</u>	<u>\$ 720,506</u>
Accumulative amortization:		
At January 1	\$ 644,504	\$ 575,786
Charge for the year	31,817	68,718
At December 31	<u>\$ 676,321</u>	<u>\$ 644,504</u>
Impairment:		
At January 1	\$ 33,492	\$ 33,492
At December 31	<u>\$ 33,492</u>	<u>\$ 33,492</u>
Net carrying value	<u>\$ 10,693</u>	<u>\$ 42,510</u>

Intangible assets relate to the purchase of three portfolios of businesses ("business") consisting of customer relationships with insurance policies in the Turks and Caicos Islands and a recently acquired portfolio in Exuma, Bahamas. The first portfolio purchased in 2011 for \$383,600 was fully amortized as at December 31, 2017.

The second portfolio was acquired for \$256,708 in accordance with a Purchase and Sales Agreement, which represented commissions collected up to April 30, 2013.

The third portfolio was purchased on August 1, 2014. As of December 31, 2018, \$80,198 is the carrying value of the portfolio.

Amortization charged in 2018 of \$31,817 (2017 – \$68,718) is included in depreciation and amortization in the consolidated statement of comprehensive income.

There have been no changes in the estimates and assumptions that were initially used to assess the fair value of the intangible assets.

12. INVESTMENT PROPERTIES

Investment properties are accounted for using the cost model and are as follows:

	Land	Buildings	Total
Cost:			
Balance as at January 1, 2018	\$ 912,772	\$ 112,269	\$ 1,025,041
Disposals	–	–	–
Balance as at December 31, 2018	<u>\$ 912,772</u>	<u>\$ 112,269</u>	<u>\$ 1,025,041</u>
Accumulated depreciation:			
Balance as at January 1, 2018	\$ –	\$ 24,697	\$ 24,697
Charge for the year	–	2,245	2,245
Balance as at December 31, 2018	<u>\$ –</u>	<u>\$ 26,942</u>	<u>\$ 26,942</u>
Impairment:			
Balance as at January 1, 2018 and December 31, 2018	<u>\$ –</u>	<u>\$ 24,164</u>	<u>\$ 24,164</u>
Balance as at December 31, 2018	<u>\$ –</u>	<u>\$ 24,164</u>	<u>\$ 24,164</u>
Net Carrying Value as at December 31, 2018	<u>\$ 912,772</u>	<u>\$ 61,163</u>	<u>\$ 973,935</u>
Net Carrying Value as at December 31, 2017	<u>\$ 912,772</u>	<u>\$ 63,408</u>	<u>\$ 976,180</u>

As at December 31, 2018, the Company's investment properties are comprised of two parcels of land, one of which is a vacant lot with a carrying value of \$536,916 (2017 - \$536,916).

During 2016, a sale was recorded for one land and building. Considering the cost of this land and building with related accumulated depreciation a realized loss of \$97,333 was reflected. A receivable from this sale of 133,417 (2017-\$160,398) will be repaid over 7 years at a rate of 7% in eighty four equal installments. The second investment property is another land and building, which have carrying values and fair value of \$375,856 (2017 - \$375,856) for land and \$61,163 (2017 - \$63,408) for building.

Investment properties are being assessed annually for any indication of impairment, one of the factors being considered is the estimated fair value. During 2011, an impairment loss was recorded for the second investment property land and building. While impairment loss of 24,164 was recorded for the third investment property building. The Company has a policy in place to perform appraisals every three years for the purpose of facilitating impairment assessment only as the Company uses the cost method. The latest independent appraisals were performed for the years ended 31 December 2017. No other impairment losses were recognized in 2018 and 2017. Included in depreciation in the statement of comprehensive income is the depreciation charge on the building of \$2,245 (2017 - \$2,245).

13. PROPERTY, PLANT, AND EQUIPMENT

	Land	Building	Furniture, Equipment & Motor Vehicles	Leasehold Improvements	Computer Hardware & Software	Total
Cost:						
Balance as of January 1, 2018	\$ 2,340,044	\$ 7,162,481	\$ 2,045,690	\$ 1,398,936	\$ 2,401,477	\$ 15,348,628
Additions	–	66,285	298,910	37,393	135,700	538,288
Balance as of December 31, 2018	\$ 2,340,044	\$ 7,228,766	\$ 2,344,600	\$ 1,436,329	\$ 2,537,177	\$ 15,886,916
Accumulated depreciation:						
Balance as of January 1, 2018	–	2,393,474	1,634,893	648,703	2,218,724	6,895,794
Depreciation charge for the year	–	156,819	144,638	128,498	80,122	510,077
Balance as of December 31, 2018	\$ –	\$ 2,550,293	\$ 1,779,531	\$ 777,201	\$ 2,298,846	\$ 7,405,871
Net carrying value:						
December 31, 2018	\$ 2,340,044	\$ 4,678,473	\$ 565,069	\$ 659,128	\$ 238,331	\$ 8,481,045
December 31, 2017	\$ 2,340,044	\$ 4,769,007	\$ 410,797	\$ 750,233	\$ 182,753	\$ 8,452,834

14. OUTSTANDING CLAIMS AND NET CLAIMS INCURRED

Included in the consolidated statement of comprehensive income is net claims incurred as follows:

	2018	2017
Claims incurred	\$ 11,476,279	\$ 35,559,580
Less: recoverable from reinsurers	(9,969,362)	(32,102,454)
	\$ 1,506,917	\$ 3,457,126

Assumptions, change in assumptions and sensitivity

(i) Process Used to Decide on Assumptions

The reserving process commences at the moment an insured reports a claim and there is prima facie evidence that the Group is liable under the policy. An initial reserve is established at that point based on the best information available. Assuming liability is subsequently confirmed, the reserve is revised whenever more detailed information becomes available concerning the nature of the injury or physical damage involved. The setting of reserves is the responsibility of the Group's claims manager who will use external legal or other expert advice where appropriate. Where the initial reserve exceeds the claims manager's settling threshold, the adequacy of the reserve will also be discussed with the management of the Group. An established reserve is expected to be sufficient to meet the final cost of a claim whenever it is finally determined.

A provision for incurred but not reported ("IBNR") claims has been established for each class of business and is monitored for accuracy at each year end. In determining the accuracy of the provision, management reviews the historical cost of IBNR claims and amends the provision, where necessary, taking into account statistical trends and changes in the shape and size of the portfolio.

All claims reserves are established on a gross basis and the Group accounts to proportional reinsurers for their share through quarterly returns. Claims recoveries against Excess of Loss reinsurers are made on a case by case basis on proof of payment being established.

(ii) Sensitivity Analysis – Claims Development

The development of long tail insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. Accurate claims reserving is crucial to the long term health of the Group as it allows for more accurate pricing of products and also generates the necessary level of confidence on the part of both reinsurers and shareholders. Management uses a variety of statistical tools, including "Loss Triangulations" developed annually on an accident year basis to monitor the development of the Group's long tail liabilities.

The following tables show the development of the Group's claims costs by Accident year over the period of 2013 to 2018:

Insurance Claims Other Than Catastrophe – Gross:

Accident Year	2013	2014	2015	2016	2017	2018	Total
Original estimate of ultimate claims cost at end of accident year	\$ 14,439,443	\$ 10,929,613	\$ 12,532,624	\$ 70,176,155	\$ 22,949,341	\$ 11,847,932	\$ 142,875,108
	13,865,896	11,572,739	12,282,714	75,628,189	21,572,268		
	13,860,792	11,228,718	12,364,135	76,329,583			
	13,662,715	11,414,581	11,973,754				
	13,509,121	11,699,217					
	13,558,584						
Current estimate of cumulative claims	\$ 13,558,584	\$ 11,699,217	\$ 11,973,754	\$ 76,329,583	\$ 21,572,268	\$ 11,847,932	\$ 146,981,338
Cumulative payments to date	(13,337,278)	(11,179,073)	(11,616,438)	(75,427,679)	(19,652,643)	(7,937,777)	(139,150,888)
Liability recognized in the consolidated statement of financial position	\$ 221,306	\$ 520,144	\$ 357,316	\$ 901,904	\$ 1,919,625	\$ 3,910,155	\$ 7,830,450
Liability in respects of years prior to 2013							2,270,961
Gross claims outstanding included in the consolidated statement of financial position							\$ 10,101,411

Insurance Claims Other Than Catastrophe – Net Retention:

Accident Year	2013	2014	2015	2016	2017	2018	Total
Original estimate of ultimate cost at end of accident year	\$ 2,359,634	\$ 1,738,553	\$ 2,065,023	\$ 13,409,386	\$ 3,811,300	\$ 1,936,539	\$ 25,320,435
	2,295,205	1,853,769	2,023,374	16,698,793	12,910,534		
	2,311,576	1,801,686	2,340,500	16,912,663			
	2,282,079	1,829,324	1,974,827				
	2,258,790	1,877,082					
	2,266,160						
Current estimate of cumulative claims	\$ 2,266,160	\$ 1,877,082	\$ 1,974,827	\$ 16,912,663	\$ 12,910,534	\$ 1,936,539	\$ 37,877,803
Cumulative payments to date	(2,232,836)	(1,798,885)	(1,921,230)	(16,777,013)	(12,644,307)	(1,310,453)	(36,684,724)
Liability recognized in the consolidated statement of financial position	\$ 33,324	\$ 78,197	\$ 53,597	\$ 135,649	\$ 266,226	\$ 626,086	\$ 1,193,079
Liability in respects of years prior to 2013							364,174
Net claims outstanding included in the consolidated statement of financial position							\$ 1,557,254

(iii) Movements in Outstanding Claims

Outstanding Claims

As at December 31, 2018, outstanding claims of \$10,101,411 (2017 – \$20,751,023) are shown gross of reinsurance recoverables of \$9,373,273 (2017 – \$15,499,181) as disclosed in Note 5.

Included in gross outstanding claims is a provision of \$1,100,000 (2017 – \$1,050,000) for claims incurred but not reported as of the year end.

Year Ended December 31	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claim at January 1, consists of:						
Notified claims	\$ 19,701,023	\$ (16,241,317)	\$ 3,459,706	\$ 37,118,058	\$ (30,666,183)	\$ 6,451,875
Incurred but not reported	1,050,000	(879,050)	170,950	7,421,798	(7,169,758)	252,040
Total claims outstanding at beginning of the year	\$ 20,751,023	\$ (17,120,367)	\$ 3,630,656	\$ 44,539,856	\$ (37,835,941)	\$ 6,703,915
Cash paid for claims settled in the year	(22,172,141)	18,388,068	(3,784,073)	(53,057,704)	45,965,233	(7,092,471)
Increase in liabilities arising in current year claims	14,133,999	(11,901,477)	2,232,522	32,722,870	(29,292,526)	3,430,344
arising from prior years claims	(2,661,470)	2,135,869	(525,601)	2,917,799	(2,247,841)	669,958
movement in incurred but not reported	50,000	(46,250)	3,750	(6,371,798)	6,290,708	(81,090)
Total claims outstanding at end of the year	\$ 10,101,411	\$ (8,544,157)	\$ 1,557,254	\$ 20,751,023	\$ (17,120,367)	\$ 3,630,656
Outstanding claim at December 31, consist of:						
Notified claims	9,001,411	(7,618,857)	1,382,554	19,701,023	(16,241,317)	3,459,706
Incurred but not reported	1,100,000	(925,300)	174,700	1,050,000	(879,050)	170,950
Total claims outstanding at end of the year	\$ 10,101,411	\$ (8,544,157)	\$ 1,557,254	\$ 20,751,023	\$ (17,120,367)	\$ 3,630,656

(iv) Unearned Premium Reserve

Year Ended December 31	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At beginning of the year	21,778,705	(18,421,096)	3,357,609	20,766,914	(17,623,673)	3,143,241
Net increase in the year	1,118,475	(981,876)	136,599	1,011,791	(797,423)	214,368
Total claims outstanding at end of the year	\$ 22,897,180	\$ (19,402,972)	\$ 3,494,208	\$ 21,778,705	\$ (18,421,096)	\$ 3,357,609

Included in net premiums earned in the consolidated statement of comprehensive income is the net decrease in unearned premium reserve of \$136,601 (2017 – net increase of \$214,366).

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

15. ACCOUNTS PAYABLE

Included in accounts payable is \$2,072,213 (2017 – \$1,583,769) representing customer accounts with credit balances. These credit balances comprise funds received from customers for policies that were processed subsequent to the year-end or amounts due to customers as returned premiums for cancelled or amended policies.

16. NET PREMIUMS EARNED

	2018	2017
Gross written premiums	\$ 53,406,752	\$ 47,093,260
Premium tax	(1,371,771)	(1,307,502)
	52,034,981	45,785,758
Ceded to reinsurers	(44,912,369)	(38,817,366)
Excess of loss reinsurance	(3,025,991)	(2,487,997)
Net retained premiums	4,096,621	4,480,395
Change in unearned premium reserve (Note 14)	(136,601)	(214,367)
Net premium earned	\$ 3,960,020	\$ 4,266,028

17. INCOME AND EXPENSES

Net revenue from contracts with customers
consists of

	2018	2017
Reinsurance contracts	\$ 10,138,685	\$ 9,657,343
Agency contracts	4,415,902	4,124,823
Contracts with Related parties (Note 23)	1,514,702	1,089,033
Broker contracts	4,076,734	3,853,226
	20,146,023	18,724,425
	(1,424,330)	(1,217,558)
	\$ 18,721,693	\$ 17,506,867

Investment income consists of:

	2018	2017
Interest income (Notes 6 and 7)	\$ 684,971	\$ 758,236
Dividend income (Note 8)	365,209	449,211
Other income	644,291	244,067
	\$ 1,694,471	\$ 1,451,514

Other operating expenses consist of:

	2018	2017
Office expenses	\$ 1,551,405	\$ 1,415,704
General expenses	1,397,410	1,179,761
Premise costs	1,033,661	971,504
Computer related expenses	331,527	432,195
Travel and entertainment	278,125	244,071
	\$ 4,592,128	\$ 4,243,235

18. DIVIDENDS

During the year, the Company declared dividends of \$0.60 per share (2017 – \$0.58 per share) totaling \$4,792,800 (2017 – \$4,633,040) in respect of the final quarter of 2017 and the first three quarters of 2018. Included in accrued expenses and other liabilities in the consolidated statement of financial position are dividends payable of \$nil (2017 – \$nil).

19. PENSION PLAN

The Group's employees are members of a defined contribution plan covering all eligible employees. This plan provides for benefits to be paid upon retirement. Employees are required to contribute an amount equal to 5% of their eligible earnings, which is matched by the Group. The amount charged to salaries and employee benefits in the consolidated statement of comprehensive income during the year for pension costs was \$400,351 (2017 – \$368,898).

20. RETAINED EARNINGS

ICB has made an appropriation to a general reserve for unforeseeable risks and future losses. The general reserve can only be distributed following approval by the Board of Directors of ICB. Included in retained earnings is \$800,000 (2017 – \$800,000) representing the Company's 40% share of this reserve.

21. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Group leases certain premises under non-cancellable operating leases. Future minimum rental commitments are as follows:

	2018	2017
Not later than one year	\$ 128,904	\$ 85,936
More than one year but not later than five years	–	–
	<u>\$ 128,904</u>	<u>\$ 85,936</u>

The Group also leases certain premises on a month-to-month basis, which have not been included in the future minimum rental commitments.

Contingencies

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

Insurance Company of The Bahamas Limited is currently engaged in a dispute with a third party and is exposed to a contingent liability. In the opinion of our legal counsel, it is more likely than not that the dispute will be resolved and if not that we have a strong arguable case. Moreover, management of the Group is confident that if legal efforts were unsuccessful the amounts in question would be recoverable under our reinsurance treaties and does not anticipate that the costs, including any legal expenses that might be incurred in resolving this matter, will materially affect the financial position of the Company further than those disclosed. The most likely outcome has been recorded in the income statement as a provision for tax assessment of \$378,802 and an offsetting reinsurance recoverable of \$318,564 as a reduction to net claims incurred.

22. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net income attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Net income attributable to equity holders of the Company	\$ 6,129,358	\$ 5,300,909
Weighted average number of ordinary shares in issue	8,000,000	8,000,000
Less: Interest in own shares	(30,000)	(30,000)
	<u>7,970,000</u>	<u>7,970,000</u>
Basic & diluted earnings per share	<u>\$ 0.77</u>	<u>\$ 0.67</u>

ICB holds 30,000 (2017 – 30,000) shares at a cost of \$84,600 (2017 – \$84,600) in the Company's own shares, which have been excluded from the weighted average number of ordinary shares in issue in the calculation of the earnings per share.

23. RELATED-PARTY TRANSACTIONS

Related parties comprise: i) major shareholders, directors and key management personnel of the Group; ii) entities in which the parties in (i) have control or significant influence; and iii) entities that have control or significant influence of the parties in (i).

Aon UK Holdings Intermediaries Ltd. (formerly Bain Hogg Management Ltd.), a company incorporated in the United Kingdom, and a subsidiary of Aon Corporation ("Aon"), is the Company's principal shareholder with a shareholding of 40% (2017 – 40%) of the Company's outstanding shares. Aon, through its subsidiaries, serves as the Group's reinsurance broker. In these consolidated financial statements, an affiliate is defined as a subsidiary, or associate of Aon.

The consolidated financial statements include the following balances and transactions with related parties:

	2018	2017
Assets/(Liabilities)		
Due to related parties	\$ (188,029)	\$ (146,914)
Dividends payable	nil	nil
Transactions		
Net revenue from contracts with customers and net premiums earned	5,474,722	5,470,700
Key management compensation:		
Salaries and other short-term employee benefits, including directors fees	2,278,656	2,153,429
Post employee benefits	52,639	48,650
Dividends paid	1,920,000	2,560,000

24. SEGMENT INFORMATION

The Group is organized into two business segments, which are described below. Each segment offers different services, and is managed separately. For each business segment, the Group's Managing Director reviews internal management reports on, at least, a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Insurance agents & brokers, where the Group sells and administers insurance policies on behalf of those insurance companies it represents. The Group bears no business risk associated with the insurance policies.
- General insurance underwriting where the Group assumes its portion of the business risk associated with the insurance policies.

All transactions between the business segments are conducted on normal commercial terms and conditions.

The segment results for the year ended December 31, 2018, are as follows:

	Agents & Brokers	Underwriting	Total
Net commissions & fees	\$ 19,256,976	\$ (535,283)	\$ 18,721,693
Net premiums earned (Note 16)	–	3,960,020	3,960,020
Interest income (Note 17)	77,540	607,431	684,971
Dividend income (Note 17)	–	365,209	365,209
Other income (Note 17)	311,148	333,143	644,291
	<u>\$ 19,645,664</u>	<u>\$ 4,730,520</u>	<u>\$ 24,376,184</u>
	Agents & Brokers	Underwriting	Total
Insurance expenses	\$ –	\$ 1,506,917	\$ 1,506,917
Depreciation and amortization	499,395	44,744	544,139
Change in net unrealized loss on investments in securities	–	213,364	213,364
Provision for tax assessment	–	378,802	378,802
Provision for expected credit loss	–	3,769	3,769
Other expenses	13,535,758	1,125,970	14,661,728
	<u>\$ 14,035,153</u>	<u>\$ 3,273,566</u>	<u>\$ 17,308,719</u>
Net income	<u>\$ 5,610,511</u>	<u>\$ 1,456,954</u>	<u>\$ 7,067,465</u>

The segment results for the year ended December 31, 2017 are as follows:

	Agents & Brokers	Underwriting	Total
Net commissions & fees	\$ 18,176,449	\$ (669,582)	\$ 17,506,867
Net premiums earned (Note 16)	–	4,266,028	4,266,028
Interest income (Note 17)	94,871	663,365	758,236
Dividend income (Note 17)	–	449,211	449,211
Other income (Note 17)	137,887	106,180	244,067
Change in net unrealized gains on investments in securities	–	481,671	481,671
	<u>\$ 18,409,207</u>	<u>\$ 5,296,873</u>	<u>\$ 23,706,080</u>

	Agents & Brokers	Underwriting	Total
Insurance expenses	\$ –	\$ 3,457,126	\$ 3,457,126
Depreciation and amortization	616,520	41,088	657,608
Other expenses	12,683,986	1,269,566	13,953,552
	<u>\$ 13,300,506</u>	<u>\$ 4,767,780</u>	<u>\$ 18,068,286</u>
Net income	<u>\$ 5,108,701</u>	<u>\$ 529,093</u>	<u>\$ 5,637,794</u>

The segment assets and liabilities at December 31, 2018, for the year then ended are as follows:

	Agents & Brokers	Underwriting	Total
Total assets	\$ 27,736,090	\$ 63,901,528	\$ 91,637,618
Total liabilities	\$ 12,759,783	\$ 37,594,602	\$ 50,354,385

The segment assets and liabilities at December 31, 2017, for the year then ended are as follows:

	Agents & Brokers	Underwriting	Total
Total assets	\$ 35,674,850	\$ 68,272,319	\$ 103,947,169
Total liabilities	\$ 21,539,054	\$ 43,235,357	\$ 64,774,411

25. RISK MANAGEMENT

The Group is exposed to insurance risk and financial risk through its insurance assets and insurance liabilities, financial assets and financial liabilities. The insurance risk covers such things as the vagaries of the weather, the unpredictability of serious injury losses and fortuitous events such as outbreaks of fire. The main components of the financial risk are credit risk, liquidity risk and interest-rate risk. The Group's financial performance is affected by its capacity to understand and effectively manage these risks. The Group's challenge is not only to measure and monitor these risks but also to manage them as profit opportunities. A critical goal of the Group is to ensure that its financial assets are always more than sufficient to fund the obligations arising from its insurance contracts. Close attention is also paid to cash management policies.

The following notes expand on the nature of the aforementioned risks and the manner in which the Group manages them.

(a) Insurance Risk

Insurance risk is the risk that the insured event might occur. At the individual policy level and also at the portfolio level, there is uncertainty in terms of both frequency of occurrence and severity of loss. For any given portfolio of insurance contracts, where the theory of probability is applied to pricing and loss reserving, the principal risk that the Group faces is that claims and other costs might exceed premiums earned. This could occur because the frequency or severity of claims is greater than estimated or that estimated original policy rates prove not to be sustainable or a combination of both. Experience shows that the greater the commonality of risk within a class of business, the smaller will be the relative variability in the expected outcome. In addition, a more diversified portfolio is less vulnerable to deterioration in the loss experience in any particular class of business. The Group has developed its underwriting strategy to produce a diversified portfolio of insurance risks. Within each of the individual classes of business it has sought to achieve, wherever possible, a sufficiently large population of risks to reduce the variability of the expected outcome.

At the macro level, the Group suffers from a lack of diversification in the sense that it only insures the non-life risks of individuals located in The Bahamas and Turks and Caicos; therefore, there is a concentration of insurance risk within the industry sector and territory in which the Group operates.

Casualty Insurance Risks

(i) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. Claims frequency can be influenced by changes in the size, composition and quality of a portfolio. Changes in social/economic conditions can also severely impact claims frequency. Claim severity is impacted by such things as general inflation. In the case of liability claims, the most significant factor is the increasing level of awards for personal injury. Claims involving serious long term injury can take five years or more to settle.

The Group manages these risks by means of its well-developed underwriting and reinsurance strategies and also by adopting a proactive approach to claims handling. The underwriting strategy attempts to ensure that the portfolio remains biased towards high quality risks. Underwriting guidelines are in place to enforce appropriate risk selection criteria. The reinsurance arrangements include both proportional and catastrophe excess of loss coverage.

The effect of such reinsurance arrangements is to limit the total net insurance loss that the Group can suffer in any one year.

(ii) Sources of uncertainty in the estimation of future claim payments

Claims on casualty contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occur during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and an element of the claims provision relates to IBNR claims and unexpired risks. Given the uncertainty in establishing claims provisions, it is likely in many cases that the final cost of a claim will vary significantly from the initial reserve. In calculating the estimated cost of outstanding claims (both reported or not), the Group uses various industry standard loss estimation techniques and the experience of its staff in settling claims of similar types.

Property Insurance Contracts

(i) Frequency and severity of claims

For property insurance contracts, climatic changes are giving rise to more frequent severe extreme weather events (e.g., hurricanes, flooding, etc.) and their consequences. The Group has the right to re-price each individual risk on renewal. It also has the ability to impose or increase deductibles. Contracts are priced on the basis of the commercial replacement value of the properties and contents insured. The sum insured represents the maximum amount payable under a policy. The cost of repairing or rebuilding properties, the cost of providing indemnity for damaged or stolen contents and time taken to restart business operations (business interruption insurances) are the key factors that influence the value of claims under these policies. The most likely cause of major loss under the property portfolio arises from a hurricane event or other serious weather related event. The Group has reinsurance coverage in place to limit the impact of such losses in any one year.

The Group underwrites property insurance in The Bahamas and Turks and Caicos.

(ii) Sources of uncertainty in the estimation of future claim payments

The development of large losses/catastrophes is analyzed separately. Property claims can be estimated with greater reliability due to the shorter settlement period for these claims resulting in lesser amounts of IBNR held at year end.

(b) Financial Risks

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

In the normal course of business, the Group seeks to limit its exposure to losses that may arise from any single occurrence. Reinsurance is primarily placed using a combination of proportional and excess of loss treaties. Obtaining reinsurance does not, however, relieve the Group of its primary obligations to the policyholders; therefore the Group is exposed to the risk that the reinsurers may be unable to fulfill their obligations under the contracts. The Group seeks to mitigate this risk by placing its reinsurance coverage with large multi-national companies and syndicates. The Group, with the assistance of its reinsurance broker, also evaluates the financial condition of its reinsurers and monitors the credit risk of the reinsurers on an ongoing basis to minimize its exposure to significant losses from insurer insolvency. The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

The Group's credit risk exposure emanates from reinsurers in the form of prepaid premiums held or claims recoveries still to be made/paid under the various proportional and excess of loss treaties and is disclosed in total on the consolidated statement of financial position. It is the Group's policy that no single counterparty exposure with specific reinsurers should exceed 25% of the total reinsurance assets at any given time. In addition, the Group's proportional treaties contain a "Reinsurer Participation Review Clause", which provides the Group with the option of canceling any individual reinsurer's participation whose financial strength rating (as determined by Standard & Poor and/or A.M. Best) falls below A- or equivalent and to call for the return of prepaid premiums and loss reserves. The Group is required to serve notice of its intention within thirty days of the date of downgrade.

The Group monitors its credit risk exposure relating to accounts receivable on a daily basis. Management separately reviews all trade receivables (provided mainly to commercial businesses) that are in excess of \$100,000 on a monthly basis for any indication of impairment. As at December 31, 2018, the total of trade receivables in excess of this amount was \$7,794,023 (2017 – \$8,222,768). Historically, the Company has not experienced significant credit losses on the trade receivables. On the premium financed receivables the Company may, at its discretion, cancel the policies being financed after a 14-day grace period from the date of the missed contractual payment.

The following procedures are also in place to mitigate the Group's exposure to credit risk:

- places cash with credit-worthy banks;
- monitors the payment history of its customers before continuing to do business with them; and
- invests in debt securities of The Bahamas Government, Government-backed companies and financially sound companies.

The carrying amounts of the financial assets, excluding reinsurance balances, on the consolidated statement of financial position represents the current risk exposure.

Liquidity Risk

The objective of liquidity management is to ensure the availability of sufficient funds to honor all of the Group's financial commitments including claims. The Group maintains a level of liquid assets, which mature or could be sold immediately to meet cash requirements for normal operating purposes. The tables included in Note 7 for term deposits and Note 8 for investments in securities show the expected recovery or settlement of financial instruments held from the dates of acquisition. Cash and bank balances as disclosed in Note 6 have original maturities of less than three months.

The following table summarizes the expected recovery or settlement of financial assets held (within 12 months from the reporting date and the maturity profile of the Group's liabilities relating to financial instruments and insurance contracts:

Year Ended December 31

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Financial assets						
Cash and bank balances	\$ 9,700,629	\$ –	\$ 9,700,629	\$ 13,797,166	\$ –	\$ 13,797,166
Term deposits	4,559,127	1,525,480	6,084,607	2,020,933	3,038,480	5,059,413
Accounts receivable	14,239,612	94,740	14,334,352	15,054,011	708,732	15,762,743
Due from insurance carriers	45,233	–	45,233	451,226	–	451,226
Investments in securities:						
fair value through profit						
or loss	10,215,346	–	10,215,346	4,673,511	–	4,673,511
Amortized cost		11,242,588	11,242,588	100,510	9,860,938	9,961,448
fair value through other						
comprehensive income	–	–	–	–	5,773,060	5,773,060
Other assets	1,575,315	133,418	1,708,733	4,816,324	160,398	4,976,722
Reinsurance recoverables	2,379,269	6,994,004	9,373,273	7,869,440	7,629,741	15,499,181
Total	\$ 42,714,531	\$ 19,990,230	\$ 62,704,761	\$ 48,783,121	\$ 27,171,349	\$ 75,954,470
Financial liabilities						
Outstanding claims	3,910,155	6,191,256	10,101,411	11,898,297	8,852,726	20,751,023
Due to related-parties	188,029	–	188,029	146,914	–	146,914
Accounts payable	5,202,717	–	5,202,717	6,189,734	–	6,189,734
Due to reinsurers	4,582,436	–	4,582,436	7,204,336	–	7,204,336
Accrued expenses and						
other liabilities	2,112,279	26,725	2,139,004	3,694,605	24,605	3,719,210
Total	\$ 15,995,616	\$ 6,217,981	\$ 22,213,597	\$ 29,133,886	\$ 8,877,331	\$ 38,011,217
Liquidity gap	\$ 26,718,915	\$ 13,772,249	\$ 40,491,164	\$ 19,649,235	\$ 18,294,018	\$ 37,943,253

Market Risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest-Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group mitigates this risk by investing in interest-bearing assets with floating interest rates, or investing for short time periods. The rates of interest on financial instruments are disclosed in Notes 4, 6, 7 and 8 in the consolidated financial statements. All other financial assets and financial liabilities are non-interest bearing.

At December 31, 2018, an increase of 25 basis points in interest rates with all other variables remaining constant, would have increased the net income of the Company by approximately \$43,318 (2017 – \$51,985). A decrease of 25 basis points would have an opposite effect with all other variables remaining constant.

Price Risk

Price risk is the risk that the value of the financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all financial instruments traded in the market.

As the Group's investments in securities at fair value through profit or loss are carried at fair value with fair value changes recognized in net income or loss in the consolidated statement of comprehensive income, all changes in market conditions will directly affect operating income.

The Group is exposed to price risks arising from equity investments. Price risk is mitigated by the Group by investing in a diversified portfolio of instruments.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Most of the Group's financial assets and liabilities are measured at cost or amortized cost, except for financial instruments at fair value through profit or loss and available for sale financial instruments which are measured at fair value as of the reporting date or are carried at values which approximate fair value. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision.

The Group measures fair values of financial assets using the fair value hierarchy as disclosed in Note 8.

Except as stated elsewhere in the notes, the carrying amounts of the Group's financial assets and liabilities approximate their fair values due to one or both of the following reasons:

- a) immediate or short-term maturity; or
- b) carrying amount approximates or equals fair value.

27. CAPITAL MANAGEMENT

The Group's capital management policies are based on the following requirements:

Externally imposed capital requirements are set by The Insurance Commission of the Bahamas ("the Commission") and by the Financial Services Commission in Turks and Caicos Islands. These requirements are put in place to ensure sufficient solvency margins.

The Company and ICB are registered under the Insurance Act 2005 ("the Act") and the Company and ICB have met the required minimum paid up and unencumbered capital of \$50,000 and \$2,000,000 respectively. ICB is also required to establish and maintain a statutory deposit in respect of its insurance business in The Bahamas, such deposit to be held in trust pursuant to Section 43(2) of the Act and regulation 62 of the Insurance (General) Regulations, 2010 ("the Regulations"). ICB established a Statutory Deposit Trust ("the Trust") in the sum of \$1,000,000 included in the term deposit (Note 7) in the consolidated statement of financial position with a recognized financial institution appointed as trustees of the Trust and the Insurance Commission of The Bahamas ("the Commission") as the protectors of the Trust.

Solvency ratios are established on the basis of risk assessment for each particular entity. ICB is required to meet a minimum margin of solvency. The Act defines solvency as the inability of any Company to pay its debts if, at any time, the value of its admissible assets does not exceed its liabilities by such amount as the Commission may prescribe. Of the value of admissible assets, at least 75% must be in the form of qualifying assets, as defined in Section 70 of the Regulations. As at December 31, 2018, ICB exceeded the minimum margin of solvency required under the Act.

As at December 31, 2018, the Group has complied with the regulatory imposed capital requirement, met the required restricted deposit and exceeded the minimum margin of solvency required under the Act.

ICB is registered as a Foreign Ordinary Company in accordance with the Insurance Ordinance (Ordinance) 1989 in TCI and as such ICB's annual return, pursuant to section 4 of the Ordinance, includes the filing of the solvency margins on the consolidated business and TCI domestic business. ICB is required to maintain a minimum solvency margin relating to an excess of permitted assets over its liabilities. In addition, ICB is required to maintain a restricted deposit, as approved by the Financial Services Commission in TCI, with an approved financial institution in TCI, and as such \$500,000 is included in term deposits (Note 7) in the consolidated statement of financial position.

As at December 31, 2018, ICB has met the required restricted deposit and its solvency requirement in accordance with the Ordinance.

The Group's policy is to maintain a strong capital base to sustain future development of the business and limit the need to borrow funds. Dividends are paid after the Group ensures that it has sufficient cash on demand to meet operational expenses. There has been no change in the Group's management of capital during the year.

28. SUBSEQUENT EVENTS

Subsequent to December 31, 2018, the Company declared a quarterly dividend of \$0.15 per share as of record date February 22, 2019. There are no other subsequent events from December 31, 2018 through to the date of these financial statements.



J. S. JOHNSON DONATES TO CLEANING UP THE BAHAMAS!

Let's do It! Bahamas, the local branch of the global initiative Let's Do It! World, brings organizations and individuals across the globe to participate in an annual clean-up campaign. The focus is to reach people all across the Bahamas and invite them to take part in a one day clean-up campaign.

Because of our love and commitment to the Bahamas and its environment, we immediately jumped on board as the first corporate sponsor of **LET'S DO IT! BAHAMAS.**

Remembering Charles T. Fernie



1930-2018

We at J. S. Johnson & Company Limited proudly honour the life and memory of Charles T. Fernie for his invaluable and enduring contribution to the growth and expansion of the Company and for his pivotal role in the ongoing development of the insurance industry in the Bahamas. Charles, or "CTF" as he was affectionately known to our corporate family, was an inspirational leader who provided employment opportunities for many Bahamians in the insurance sector. His legacy as a remarkably successful insurance executive will serve as an example to aspiring entrepreneurs throughout our country.

Charles Fernie joined J. S. Johnson & Company, Limited in 1959 and through his industry, vision, competence, skill and old fashioned hard work ultimately became the Managing Director in 1967. He held that position until his retirement from the day to day activities of the Company in 1985. During his tenure of leadership, J. S. Johnson experienced substantial growth and consolidated its position as one of the premiere insurance agents and brokers within the Commonwealth of the Bahamas. The success of the Company during that period was largely attributable to Mr. Fernie's adroit leadership, his business acumen and his perceptive understanding of the insurance industry. He had a special bond with his staff and was thoughtful and generous in his dealings with other people. His sense of humour was always welcomed around the office and contributed to the overall congeniality of the working environment at J. S. Johnson.

The Company became a public company in 1986 and Mr. Fernie was elected the first Chairman of the Board of Directors. In that role he led the Board through the transition to a public company where today there are approximately 800 public shareholders of J. S. Johnson & Company Limited. That is an eloquent tribute to Mr. Charles T. Fernie and we thank him for his immense contributions to the Company. He will always have a special and elevated place in the history of J. S. Johnson.

In recent years Mr. Fernie experienced declining health and after a short illness passed away on August 7th, 2018. We celebrate his life and his accomplishments with all who had the privilege of knowing Charles.

The Directors, Senior Management and Staff of J. S. Johnson convey our condolences to his widow, Dorothea, his children and all his family.

May his soul rest in peace!

Board of Directors



Brian M. Moree, QC

Director since 2002. Appointed Chairman in 2010. Senior Partner, McKinney, Bancroft & Hughes.



Alister I. McKellar

Executive Director since 1989. Appointed Managing Director in 2012.



William P. Mills

Executive Director since February 2018. Appointed Deputy Managing Director in 2015.



Marvin V. Bethell

Director since 1985. Retired Managing Director in 2012, J.S. Johnson & Co. Ltd.



Betty A. Roberts

Director since 2004. Retired Banker, CEO First Trust Bank Limited.



C. R. Bruce Fernie

Director since 2006. Former Insurance Executive, J.S. Johnson & Co. Ltd.



Sharon E. Brown

Director since 2010. Retired Banker, MD CIBC First Caribbean International Bank.



Thomas F. Hackett

Director since 2007. CEO Fidelity Bank.



Terry L. Wilcox (USA)

Director since 1998. Retired AON Executive.

Senior Managers



Robertha Brown
Senior Manager

(31 Years)

Ms. Brown oversees staff in the Commercial Underwriting and Commercial Processing Departments, with particular focus on the enhancement of internal controls and improving efficiency in these areas.



Racardo Underwood
Chief Financial Officer (CFO)

(7 Years)

Mr. Underwood manages Financial risks, planning and reporting for the organization, focusing on automation and process improvement.



Robert Bartlett
Senior Manager

(41 Years)

Mr. Bartlett is specifically responsible for Customer Service at the Collins Avenue Office and deals with customer complaints for our entire organization.



Charles Johnson
Senior Manager

(30 Years)

Mr. Johnson is responsible for the management and production of motor, sub agents and new business in general.

- Homeowners
- Automobile
- Annuities
- Pensions
- Marine
- Aviation
- Computers
- Life & Health
- Special Risks
- Crime
- Bankers' Bonds
- Office
- Travel
- Sports
- Personal Accident
- Directors & Officers
- Commercial Liability
- Professional Indemnity



Shareholder Information

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McKinney, Bancroft & Hughes

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Registrar and Transfer Agent:

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Fort Nassau Centre
British Colonial Hilton
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Nassau, Bahamas

Auditors:

Ernst & Young

One Montague Place
3rd Floor
East Bay Street
P.O. Box N-3231
Nassau, Bahamas

Corporate Head Office:

J.S. Johnson & Company Limited

34 Collins Avenue
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Nassau, Bahamas

Subsidiary Company:

J.S. Johnson & Company (Turks & Caicos) Ltd.

Grace Way Plaza
P.O. Box 229
Providenciales
Turks & Caicos Islands, BWI

Secretary:

April N. Turner

New Providence:

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J.S. JOHNSON
PEACE OF MIND
INSURANCE AGENTS & BROKERS

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