

Financial Statements of

**THE BAHAMAS BRANCH OF ISLAND HERITAGE  
INSURANCE COMPANY, LTD.**

December 31, 2021



## Independent auditor's report

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

### Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bahamas Branch (the Branch) of Island Heritage Insurance Company, Ltd. (the Company) as at December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *What we have audited*

The Branch's financial statements comprise:

- the balance sheet as at December 31, 2021;
- the statement of income for the year then ended;
- the statement of changes in head office account for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

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

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

### *Independence*

We are independent of the Branch and the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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### Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for evaluating whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Branch's and the Company's ability to continue as a going concern within one year after the date that the financial statements are issued, or available to be issued, and disclosing, as applicable, matters related to this evaluation unless the liquidation basis of accounting is being used by the Branch or the Company.



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## **Auditor's responsibilities for the audit of the financial statements**

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

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

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

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



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**Other matters*****Required Supplemental Information***

ASC 944-40-50 *Disclosure: Short-Duration Contracts*, issued by the US Financial Accounting Standards Board, requires certain information to be disclosed by insurance companies issuing short-duration insurance contracts to supplement, although not required to be part of, the basic financial statements. The Branch has not presented this information.

***Restriction on distribution and use***

This report, including the opinion, is intended solely for the information and use of the Company for the purposes of filing with the Bahamas Financial Services Board and is not intended to be and should not be distributed to or used by anyone other than these specific parties.

***Other***

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

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PricewaterhouseCoopers

March 31, 2022

**THE BAHAMAS BRANCH  
OF ISLAND HERITAGE INSURANCE COMPANY, LTD.**

Balance Sheet

December 31, 2021  
(stated in Bahamian Dollars)

	Note	2021
<b>Assets</b>		
Cash and cash equivalents	5	13,814,944
Regulatory assets	11	15,072,481
Premiums receivable		6,264,665
Claims recoverable	4	12,380,790
Claims receivable	4	1,764,530
Other receivables and assets	6	2,501,362
Ceding commission receivable		1,141,804
Deferred reinsurance premiums		17,346,996
Deferred acquisition costs		3,486,898
<b>Total Assets</b>		<b>BSD 73,774,470</b>
<b>Liabilities and Head Office Account</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	7	2,343,757
Reinsurance balances payable		6,511,119
Outstanding claims	4	16,510,231
Deferred ceding commissions		2,082,361
Unearned premiums		22,548,825
		49,996,293
<b>Head Office Account</b>		
Head office account	3 & 9	23,778,177
<b>Total Liabilities and Head Office Account</b>		<b>BSD 73,774,470</b>

See accompanying notes to financial statements.

**THE BAHAMAS BRANCH  
OF ISLAND HERITAGE INSURANCE COMPANY, LTD.**

Statement of Income

Year ended December 31, 2021  
*(stated in Bahamian Dollars)*

	Note	2021
<b>Underwriting income</b>		
Insurance premiums written		64,557,985
Movement in unearned premiums		(111,422)
Reinsurance premiums ceded		(52,864,024)
Movement in deferred reinsurance premiums		(430,882)
Ceding commissions		5,897,505
Movement in deferred ceding commissions		179,614
		<u>17,228,776</u>
<b>Underwriting expenses</b>		
Claims and claim expenses paid	4	28,000,667
Movement in outstanding claims	4	(16,941,453)
Claims and claim expenses recovered		(26,032,449)
Movement in outstanding claims recoverable		17,774,342
Acquisition costs		9,414,626
		<u>12,215,733</u>
<b>Net underwriting income</b>		<u>5,013,043</u>
Investment loss		(332,368)
Administration expenses	8	(4,367,282)
<b>Net income for year</b>		<b>BSD 313,393</b>

*See accompanying notes to financial statements.*

**THE BAHAMAS BRANCH  
OF ISLAND HERITAGE INSURANCE COMPANY, LTD.**

Statement of Changes in Head Office Account

Year ended December 31, 2021  
*(stated in Bahamian Dollars)*

	Note	2021
<b>Balance at December 31, 2020</b>		<b>12,831,667</b>
Net income for year		313,393
Other Head Office Transactions, net	3 & 9	10,633,117
<b>Balance at December 31, 2021</b>		<b>BSD 23,778,177</b>

*See accompanying notes to financial statements.*

**THE BAHAMAS BRANCH**  
**OF ISLAND HERITAGE INSURANCE COMPANY, LTD.**

Statement of Cash Flows

Year ended December 31, 2021  
*(stated in Bahamian Dollars)*

	Note	2021
<b>Operating activities</b>		
Net income for year		313,393
Adjustment for non-cash items:		
Realised loss on sale of regulatory assets		12,718
Movement in unrealised loss on regulatory assets		914,020
Net changes in operating assets and liabilities:		
Premiums receivable		(1,595,700)
Claims recoverable*		17,776,687
Claims receivable*		852,837
Deferred reinsurance premiums*		430,882
Ceding commissions receivable*		129,437
Deferred acquisition costs		(262,437)
Other receivables and assets*		5,794,459
Accounts payable and accrued expenses*		(12,602,494)
Deferred ceding commissions*		(179,614)
Reinsurance balances payable*		251,949
Unearned premiums		111,422
Outstanding claims*		(16,941,453)
Non-cash transactions for Branch Operations*	3 & 9	10,633,117
<b>Net increase in operating activities</b>		<b>5,639,223</b>
<b>Investing activities</b>		
Purchase of regulatory assets		(2,933,201)
Sale of regulatory assets		1,461,644
Cash movement in regulatory assets		865,345
<b>Net cash used in Investing activities</b>		<b>(606,212)</b>
Increase in cash and cash equivalents during the year		5,033,011
Cash and cash equivalents at beginning of year		8,781,933
<b>Cash and cash equivalents at end of year</b>	<b>5</b>	<b>BSD 13,814,944</b>

\* During the year ended December 31, 2021 multiple transactions (largely transactions “allocated” to the Branch (see note 3)) were settled through the Head Office Account. Accordingly, the changes in the identified operating assets and liabilities include non-cash transactions.

*See accompanying notes to financial statements.*



## THE BAHAMAS BRANCH

### OF ISLAND HERITAGE INSURANCE COMPANY, LTD.

Notes to the Financial Statements

December 31, 2021

*(stated in Bahamian Dollars)*

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#### 1. Incorporation and background information

Island Heritage Insurance Company Ltd. Bahamas Branch (the “Branch”) is a branch of Island Heritage Insurance Company Ltd. (the “Company”), which is owned by BF&M General Insurance Company Limited (the “Parent”). The financial statements presented are for the individual Branch which operates in the Bahamas. The Company has been authorised to transact insurance business in the Bahamas from July 17, 2000 through the Branch. The Branch receives full financial support from the Company. The Company holds a class A external insurance license under the Cayman Islands Insurance Act 2010 and operates in multiple locations across the Caribbean.

The Company’s primary business is the underwriting of a select property insurance portfolio in the Bahamas and Caribbean. The Company also underwrites some casualty cover as part of its standard homeowners’ policy.

The Branch, through the Company, has a reinsurance programme to limit its exposure and has entered into reinsurance arrangements with various reinsurers. These reinsurance arrangements include Quota Share, Risk Excess and Catastrophe Excess of Loss programmes. The Company allocates to the Branch certain transactions and balances attributable to the reinsurance program and also allocates Company operating costs to the Branch.

Reinsurance contracts are jointly and severally entered into by the Company directly on a stand-alone basis as well as part of a general reinsurance pool, for catastrophe excess of loss coverage, with the Parent company (collectively referred to as the “Reinsurance Pooling Arrangement”). Specific treaties such as the Quota Shares and Facultative Reinsurance are placed on an individual contract basis for the Company.

The Reinsurance Pooling Arrangement is a related party arrangement entered into to mitigate their catastrophic insurance risk and collectively participate in shared reinsurance coverage, including shared limits on each of the catastrophe excess of loss reinsurance contracts.

The policy aggregate limits of the Reinsurance Pooling Arrangement reinsurance contracts are shared between the entities party to the Reinsurance Pooling Arrangement, with each entity able to recover claims, individually or in combination, up until the point where the aggregate limit for the entire Reinsurance Pooling Arrangement is exhausted. There is no cap on the amount of recoveries an individual entity is permitted to claim under the Reinsurance Pooling Arrangement, however, once the aggregate limited is exhausted, no further recoveries are possible for any entity. Accordingly, the risk exists that any one entity’s catastrophe loss experience will reduce the coverage available to the other territories and could potentially exhaust the catastrophe coverage for the entire Reinsurance Pooling Arrangement.

## THE BAHAMAS BRANCH

### OF ISLAND HERITAGE INSURANCE COMPANY, LTD.

Notes to the Financial Statements

December 31, 2021

*(stated in Bahamian Dollars)*

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#### **1. Incorporation and background information (continued)**

The 2021-2022 reinsurance programmes provide coverage for a 1:350 event for the collective Reinsurance Pooling Arrangement as modelled by certain proprietary catastrophe models. Under all the reinsurance agreements, should the reinsurers default on their obligations, the Company is ultimately responsible for all claims made by insured's.

#### **2. Significant accounting policies**

These financial statements have been prepared by the Branch in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The principal accounting policies applied in the preparation of these financial statements are set out below:

##### *(a) Management estimates and assumptions*

The preparation of the financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from these estimates.

##### *(b) Insurance premiums written and assumed*

Premiums written and assumed are recognised as earned on a pro-rata basis over the periods of the policies written. Premium income not relating to the Branch's accounting period, if any, is deferred and recorded as unearned premiums in the Balance Sheet. For any policies written where there has been a total loss on sums insured, any unearned premium still recorded in the Balance Sheet will be recognised in full in the Statement of Income. Any retrospective premium adjustments will be recorded in the accounting period in which they are determined.

##### *(c) Reinsurance premiums ceded and ceding commissions*

Reinsurance premiums ceded and ceding commissions are recorded in the period in which the policies are issued and expensed on a pro-rata basis over the policy period with the unexpensed portion, if any, at the balance sheet dates, transferred to deferred reinsurance premiums and deferred ceding commissions. For any reinsurance coverage that are exhausted before the policy end date, any deferred balances still recorded in the Balance Sheet will be recognised in full in the Statement of Income. The reinsurance premiums ceded and ceding commissions related to the Catastrophe Excess of Loss programmes are allocated to the Branch and other territories based on premiums for the year as determined by the Company.

## THE BAHAMAS BRANCH

### OF ISLAND HERITAGE INSURANCE COMPANY, LTD.

Notes to the Financial Statements

December 31, 2021

*(stated in Bahamian Dollars)*

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#### 2. Significant accounting policies (continued)

##### *(c) Reinsurance premiums ceded and ceding commissions (continued)*

In the event of additional Catastrophe Excess of Loss coverage being purchased due to limits being utilized during a catastrophe event, the cost of any additional Catastrophe Excess of Loss coverage purchased is allocated to the Branch and other territories by the Company based on the actual losses incurred from the catastrophe event that originally utilized the existing Catastrophe Excess of Loss limits.

##### *(d) Reinsurance recoveries*

Expected reinsurance recoveries on claims, net of any required provision for doubtful amounts, are estimated using principles consistent with the Branch's method for establishing the related liability, and are in accordance with the terms of the Company's reinsurance agreements. Recoveries from any claims under the Catastrophe Excess of Loss programmes are allocated to the participant who actually incurred the claim and are not allocated by the Company. Reinsurance recoverable is estimated on a basis consistent with that of the corresponding claim liabilities, accordingly the reinsurance recoveries will settle over the same period as the claim liabilities which may extend beyond one year.

##### *(e) Provision for uncollectible receivables*

Management evaluates credit quality by evaluating the exposure to individual counterparties; where warranted management also considers the credit rating or financial position, operating results and/or payment history of the counterparty. Management establishes provisions for amounts for which collection is considered doubtful. Adjustments to previous assessments are recognized as income in the year in which they are determined. At December 31, 2021 all receivables are due within one year; BSD 3,289 of receivables were determined to be past due. A provision for doubtful collections of BSD 1,316 has been established by management.

##### *(f) Outstanding claims*

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

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Branch will ultimately pay for such claims. The provision for unpaid claims is necessarily based on estimates due to the fact that ultimate disposition of claims incurred prior to the date of the statement of financial position, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include, inter alia, jury decisions, court interpretations, legislative changes, and the cost of property repair materials.

## THE BAHAMAS BRANCH

### OF ISLAND HERITAGE INSURANCE COMPANY, LTD.

Notes to the Financial Statements

December 31, 2021

*(stated in Bahamian Dollars)*

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#### 2. Significant accounting policies (continued)

*(f) Outstanding claims (continued)*

Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. Management engage independent actuaries, Towers Watson Canada Inc., to assist them in making such estimates, based on the Branch's own loss history and relevant industry data.

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

*(g) Deferred acquisition costs*

Acquisition costs, principally commissions paid, are deferred and amortised on a pro-rata basis over the periods of the policies written. For any policies written where there has been a total loss on sums insured, any deferred acquisition costs still recorded in the Balance Sheet will be recognised in full in the Statement of Income. Internal administration expenses in relation to policy acquisition are not deferred.

*(h) Investment income/loss*

Investment income/loss includes interest income together with amortization of premiums and accretion of discounts and realized gains and losses. Interest income is recorded on an accrual basis. Realized gains and losses on sales of investments are determined using the specific identification cost method and are included in income.

*(i) Foreign currency translation*

The Branch's accounting records are maintained in United States Dollar; the presentation currency selected by management is Bahamian Dollars. Assets and liabilities in foreign currencies are translated into Bahamian Dollars at rates of exchange ruling at the balance sheet dates. Transactions in foreign currencies are translated into Bahamian Dollars ("BSD") at appropriate rates of exchange prevailing throughout the period (see note 10). Gains and losses, if any, are included in income.

*(j) Regulatory assets*

Regulatory assets are comprised of a current account and a fixed income securities trading account, both held with a Bahamian financial institution. Cash is recorded in the balance sheets at amortised cost and the fixed income securities are initially recorded at cost on trade date (being the fair value at date of acquisition) and are subsequently revalued to fair value through profit and loss.

## THE BAHAMAS BRANCH

### OF ISLAND HERITAGE INSURANCE COMPANY, LTD.

Notes to the Financial Statements

December 31, 2021

*(stated in Bahamian Dollars)*

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#### 2. Significant accounting policies (continued)

*(j) Regulatory assets (continued)*

The fair value of fixed income securities (including US treasury securities, Non-US government agencies debt securities and corporate and foreign bonds) are generally based on quoted prices in active markets or recently executed transactions.

When quoted prices are not available, fair value is determined based on a valuation model that uses observable inputs that include interest rates, bond and credit default swap spreads and volatility.

*(k) Cash and cash equivalents*

For the purposes of the statements of cash flows, the Branch considers all unrestricted current accounts with banks to be cash and cash equivalents.

*(l) Disclosures about fair value of financial instruments*

U.S. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Branch has the ability to access at the measurement date;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and

Level 3 - Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Branch's investment custodian. The investment custodian considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant markets. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the investment custodian's perceived risk of that instrument.

**THE BAHAMAS BRANCH**

**OF ISLAND HERITAGE INSURANCE COMPANY, LTD.**

Notes to the Financial Statements

December 31, 2021

*(stated in Bahamian Dollars)*

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**2. Significant accounting policies (continued)**

*(l) Disclosures about fair value of financial instruments (continued)*

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include debt securities issued by US government agencies and corporate and foreign bonds. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

*(m) Uncertain tax positions*

Uncertain income tax positions: The authoritative guidance on accounting for and disclosure of uncertainty in tax positions requires the Company to determine whether an income tax position of the Branch is more likely than not to be sustained upon examination. There was no effect on the financial statements from the application of this authoritative guidance.

**3. Head Office Account**

This account is used by the Branch to account for all transactions with the Company as the head office. It is credited for all expenses paid and allocated by the head office on behalf of the Branch and capital contributions of cash funding. It is debited for all cash collected and receipts/income allocated, by the head office on behalf of the Branch and capital distributions of cash (see note 9). This account represents the net investment by the head office in the Branch.

## THE BAHAMAS BRANCH

### OF ISLAND HERITAGE INSURANCE COMPANY, LTD.

Notes to the Financial Statements

December 31, 2021

*(stated in Bahamian Dollars)*

#### 4. Outstanding claims

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	2021
Claims and adjustment expenses	9,532,134
Claims incurred but not reported	6,978,097
Total outstanding claims	BSD 16,510,231

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Activity on the outstanding claims during the year is as follows:

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	2021
Balance at beginning of year	33,451,684
Incurred related to:	
Current period	2,319,464
Prior years	8,739,750
Total incurred	11,059,214
Paid related to:	
Current period	(1,245,911)
Prior period	(26,754,756)
Total paid	(28,000,667)
	BSD 16,510,231

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In the opinion of the Company Directors, these provisions are adequate to cover the estimated ultimate liability for claims at the balance sheet dates. Losses incurred relating to prior years consist of BSD 6,928,339 of unfavourable development over Hurricane Dorian claims. Consistent with most companies with similar insurance operations, the liability for outstanding claims is ultimately based on management's reasonable expectation of future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e., within one year) and that the effect of such changes could be material to the financial statements.

On October 6, 2016, Freeport experienced Hurricane Matthew which resulted in current year claims incurred of BSD 52,545 and claims paid of BSD 187,872.

## THE BAHAMAS BRANCH

### OF ISLAND HERITAGE INSURANCE COMPANY, LTD.

Notes to the Financial Statements

December 31, 2021

*(stated in Bahamian Dollars)*

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#### 4. Outstanding claims (continued)

On August 28, 2019, the Bahamas experienced Hurricane Dorian which resulted in current year claims incurred of BSD 6,928,339 and claims paid of BSD 25,059,685.

The Company Directors have estimated BSD 12,380,790 as the amount included in the provision for the outstanding claims at December 31, 2021 that is recoverable from reinsurers, of which BSD 4,819,112 specifically relate to Hurricane Dorian in 2021. Should any of the reinsurers be unable to reimburse the losses, then the Branch would still be liable to pay the losses but would only receive reimbursement to the extent possible from the reinsurers. Reinsurance claims receivable on settled claims was BSD 1,764,530 as December 31, 2021.

Further details on the incurred and paid claims by significant line of business and accident year; losses and loss adjustment expenses incurred but not reported by line of business and accident year, loss development in the year ended December 31, 2021 by line of business and accident year, and cumulative numbers of reported claims by accident year are included below.

The following factors are relevant to the additional information included in the tables below:

- **Table Organization:** The tables are organized by accident year and include policies written on an occurrence basis.
- **Groupings:** We believe our groupings by line of business have homogenous risk characteristics with similar development patterns and would generally be subject to similar trends.
- **Data excluded from tables:** Information with respect to accident years older than the 2016 accident year has been excluded from the development tables, as are lines of business considered by management to be immaterial to the financial statements and additional information taken as a whole.
- **Claim counts:** We consider a reported claim to be one claim for each claimant for each loss occurrence.
- There are limitations that should be considered on the reported claim count data in the tables below, including claim counts are presented only on a reported (not an ultimate) basis.



**THE BAHAMAS BRANCH**

**OF ISLAND HERITAGE INSURANCE COMPANY, LTD.**

Notes to the Financial Statements

December 31, 2021

*(stated in Bahamian Dollars)*

**4. Outstanding claims (continued)**

Schedules of incurred and paid losses and loss adjustment expenses by accident year for the current reporting period

(a) Property

**December 31, 2021 (BSD\$000s)**

	<b>Cumulative incurred losses</b>	<b>Reserves for losses and loss adjustment expenses incurred but not reported</b>	<b>Cumulative paid losses</b>	<b>Cumulative number of reported claims</b>
<b>Accident year</b>				
<b>2016</b>	5,923	-	5,918	3,617
<b>2017</b>	288	-	288	689
<b>2018</b>	1,018	-	1,018	495
<b>2019</b>	5,461	-	5,451	2,953
<b>2020</b>	452	-	357	177
<b>2021</b>	577	166	240	103
<b>Total</b>	<b>13,721</b>	<b>166</b>	<b>13,272</b>	
<b>Cumulative paid losses and loss adjustment expenses from the column on the right</b>	<b>(13,272)</b>			
<b>Reserves for losses and loss adjustment expenses before the 2016 accident year</b>	-			
<b>Reserves for losses and loss adjustment expenses, undiscounted and net of reinsurance</b>	<b>447</b>	<b>166</b>		

**THE BAHAMAS BRANCH**

**OF ISLAND HERITAGE INSURANCE COMPANY, LTD.**

Notes to the Financial Statements

December 31, 2021

*(stated in Bahamian Dollars)*

**4. Outstanding claims (continued)**

Schedules of incurred and paid losses and loss adjustment expenses by accident year for the current reporting period

(b) Automobile

<b>December 31, 2021 (BSD\$000s)</b>				
	Cumulative incurred losses	Reserves for losses and loss adjustment expenses incurred but not reported	Cumulative paid losses	Cumulative number of reported claims
<b>Accident year</b>				
<b>2016</b>	1,096	-	841	1,738
<b>2017</b>	880	-	764	1,635
<b>2018</b>	873	-	779	1,841
<b>2019</b>	1,244	-	733	1,451
<b>2020</b>	658	-	548	392
<b>2021</b>	1,246	331	502	427
<b>Total</b>	<b>5,997</b>	<b>331</b>	<b>4,167</b>	
<b>Cumulative paid losses and loss adjustment expenses from the column on the right</b>	<b>(4,167)</b>	-		
<b>Reserves for losses and loss adjustment expenses before the 2016 accident year</b>	<b>178</b>	-		
<b>Reserves for losses and loss adjustment expenses, undiscounted and net of reinsurance</b>	<b>2,008</b>	<b>331</b>		

## THE BAHAMAS BRANCH

### OF ISLAND HERITAGE INSURANCE COMPANY, LTD.

Notes to the Financial Statements

December 31, 2021

*(stated in Bahamian Dollars)*

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#### 4. Outstanding claims (continued)

The reconciliation of the reserves for losses and loss adjustment expenses from the tables of incurred losses and loss adjustment expenses by accident year to the balance above is shown below:

	<b><u>December 31, 2021</u></b>		
	Outstanding claims, net of claims recoverable	Claims recoverable	Outstanding claims, gross of claims recoverable
Property	447,277	11,422,577	11,869,854
Automobile	2,007,511	655,921	2,663,432
Total	<u>2,454,788</u>	<u>12,078,498</u>	<u>14,533,286</u>
<b>Other reconciling items:</b>			
Other product lines not included in the tables above	1,674,653	302,292	1,976,945
<b>Total outstanding claims</b>	<b><u>BSD 4,129,441</u></b>	<b><u>12,380,790</u></b>	<b><u>16,510,231</u></b>

#### Reserving Methodology

The Branch uses a combination of methods to project ultimate losses for all lines of business, which include:

- **Paid Development method:** The Paid Development method estimates ultimate losses by reviewing paid loss patterns and selecting paid ultimate loss development factors. These factors are then applied to paid losses by applying them to accident years, with further expected changes in paid loss. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.
- **Incurred Development method:** The Incurred Development method is similar to the Paid Development method, but it uses case incurred losses instead of paid losses. Since this method uses more data (case reserves in addition to paid losses) than the Paid Development method, the incurred development patterns may be less variable than paid development patterns.
- **Expected Loss Ratio method:** The Expected Loss Ratio method multiplies premiums by an expected loss ratio to produce ultimate loss estimates for each accident year. This method may be useful if loss development patterns are inconsistent, losses emerge very slowly, or there is relatively little loss history from which to estimate future losses.

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#### 4. Outstanding claims (continued)

- **Bornhuetter-Ferguson method:** The Bornhuetter-Ferguson method using premiums and paid losses is a combination of the Paid Development method and the Expected Loss Ratio method where the weights given to each method is the reciprocal of the loss development factor. This method normally determines expected loss ratios similar to the method used for the Expected Loss Ratio method. The Bornhuetter-Ferguson method using premiums and incurred losses is similar to the Bornhuetter-Ferguson method using premiums and paid losses except that it uses case incurred losses.
- **Paid Bornhuetter-Ferguson method:** The paid Bornhuetter-Ferguson method is analogous to the reported Bornhuetter-Ferguson method using paid losses and development patterns in place of reported losses and patterns.
- **Paid-to-Paid Method:** The paid-to-paid method is used to project ultimate ULAE. The historical calendar year paid-to-paid ratios are calculated as the ratio of paid ULAE to paid losses. The selected paid-to-paid ratio is multiplied by the selected ultimate losses to estimate the ultimate ULAE.

In updating the Branch's loss reserve estimates, inputs are considered and evaluated from many sources, including actual claims data, the performance of prior reserve estimates, observed industry trends, internal review processes, including as well as the views of the Branch's engaged third party actuary. These inputs are used to improve evaluation techniques, and to analyze and assess the change in estimated ultimate losses for each accident year by line of business. These analyses produce a range of indications from various methods, from which management's best estimate is selected.

A substantial source of uncertainty relates to the emergence of the COVID-19 pandemic in early 2020. This uncertainty could impact the estimation of unpaid claims in several different ways including distortion of development patterns as companies handle claims differently, sudden changes in exposure to specific coverages as the peril emerges. The COVID-19 pandemic may have a material impact on our reserve estimates as its effects emerge. There have been no significant changes in methodologies and assumptions during the year ended December 31, 2021.

#### 5. Cash & Cash Equivalents

The cash and cash equivalents consist of cash held at Royal Bank of Canada Ltd, Bahamas totalling BSD 13,814,944.

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#### 6. Other receivables and other assets

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	2021
Claims funds advanced to agents	873,790
Broker rebate receivable	674,153
Other receivables	338,494
VAT receivable	254,992
Reinsurance receivables	181,700
Interest income receivable	173,233
Prepayments	5,000
	<u>BSD 2,501,362</u>

#### 7. Accounts payable and accrued expenses

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	2021
Commission payable	1,028,783
Premium taxes payable	758,805
Accounts payable	380,135
Claims funds advanced by reinsurers	176,034
	<u>BSD 2,343,757</u>

#### 8. Administration expenses

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	2021
Salaries, wages, occupancy and administrative costs (see note 9)	4,408,762
Professional fees	149,536
Business development & compliance	21,600
Bad debts recovery	(212,616)
	<u>BSD 4,367,282</u>

All of the Branch's day-to-day activities are administered by the Company during the year ended December 31, 2021. The Branch is allocated its share of all non-territory specific administrative operating expenses which reflect the majority of the expenses analysed above.

The Branch has no employees based in the Bahamas and accordingly is dependent upon the Company for administrative support.

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#### **9. Transactions with Related Parties**

The Branch is charged by the Company for certain expenses incurred in the administration of services rendered on behalf of the Branch. In 2021, these charges amounted to BSD 4,408,762. Included within this amount is a management fee charged by the Company of BSD 208,131 to the Branch.

There is no balance payable or receivable to the Company as of December 31, 2021 as all amounts are settled through the Head Office account.

The Company head office transactions included payments, collections and allocations on behalf of the Branch for premiums, claims, reinsurance premiums, commissions and general expenses as well as capital contributions/distributions. Related party transactions do not necessarily represent arm's length transactions.

#### **10. Financial instruments and certain risks and uncertainties**

##### *Interest rate risk*

At December 31, 2021 the Branch is exposed to interest rate risk in that the fair value of its regulatory assets will be impacted by changes in market interest rates. Change in market interest rates can impact the reinvestment of matured investments, as the returns available on the new investment may be significantly different from the returns previously achieved. The Company manages these risks through the investment guidelines, which include:

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

##### *Foreign exchange risk*

It is the current monetary policy of the Bahamian Government to maintain parity between the USD and the BSD on a one-to-one basis. Accordingly there is currently no foreign exchange risk faced by the Branch.

##### *Concentration of underwriting risks*

All of the Branch's insurance business relates to property and casualty risks domiciled in the Bahamas, accordingly the Branch's underwriting risks are not diversified.

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#### 10. Financial instruments and certain risks and uncertainties (continued)

##### *Credit risk*

Credit risk is the risk of counterparty default. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for the non-exchange traded financial instrument is not backed by an exchange-clearing house. Financial assets which potentially expose the Branch to credit risk mainly consist of cash and cash equivalents, regulatory assets (consisting of cash deposits and a fixed income securities trading account), premiums receivable, claims recoverable, other receivables/other assets and ceding commissions receivable.

All cash and cash equivalents are held with one financial institution in the Bahamas with a S&P Rating of AA-. The regulatory assets are held with one financial institution in the Bahamas (which is not rated) on behalf of the Bahamian Insurance Regulator.

Reinsurance is placed with counterparties that have AM Best ratings between A++ and B++. Concentration of credit risk is managed by following policy guidelines set each year by the Company's Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

All reinsurance recoverable balances are recoverable from large reputable reinsurers and all other insurance balances receivable are due from regulated insurance brokers who are regularly evaluated by management. The Branch is also exposed to the credit risk of the brokers' underlying customers. The brokers manage this risk by transacting only with customers of good credit quality and monitoring collection of recoverable on a timely basis. Accordingly, management does not anticipate any significant losses from these exposures in the near term.

##### *Custody risk*

There are risks involved in dealing with custodians who settle trades. Under certain circumstances, the securities and other assets deposited with the custodian may be exposed to a credit risk with regard to such parties. In addition, there may be practical or timing issues associated with enforcing the Branch's rights to its assets in the case of an insolvency of any such party.

##### *Prepayment Risk*

If interest rates fall, the principal on debt securities held by the Branch may be paid earlier than expected. Expected maturities on asset backed securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

##### *Other risks*

Global public health issues, such as a pandemic (e.g. the novel coronavirus COVID-19) or other event that causes a large number of illnesses or deaths, could impact our insurance operations and have significant consequences on the global economy and financial markets.

Governmental and non-governmental organizations may not effectively combat the spread and severity of such a pandemic. Such an event may affect our business operations and financial markets across the globe, thereby affecting our results of operations or financial condition.

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#### *Other risks (continued)*

The majority of the general insurance business underwritten by the Branch is of a short term nature such as property, motor and marine insurances. The Branch's general insurance exposures are located in The Bahamas, and climate change may impact the frequency and severity of tropical cyclone activity in the Bahamas, which in turn may impact the frequency and severity of claims.

#### **11. Regulatory assets**

The regulatory assets represents restricted balances placed with a financial institution in the Bahamas on behalf of the Bahamian Insurance Regulator to satisfy licensing criteria. Regulatory assets cannot be removed or sold, nor the balances reduced, without the prior written consent of the regulator. Included within the Head Office Account is the funding provided by the Company to establish the required regulatory assets. The current year regulatory assets consists of cash deposits and a fixed income securities trading account. The fixed income securities trading account balance consists of all United States Dollar denominated Level 1 and Level 2 investments, namely US treasury and cash Level 1 securities (BSD 354,616), Non-US government Level 2 securities (BSD 7,788,864) and corporate and foreign Level 2 bonds (BSD 4,728,427). The remaining BSD 2,200,574 of regulatory assets is made up of cash.

There have been no transfers between level 1, 2 or 3 securities during the year.

#### **12. Regulatory compliance**

The Branch is required to comply with the minimum margin of solvency in accordance with the requirements of section 78 of the Insurance Act and the relevant provisions of the Insurance (General) Regulations, 2010, of the Bahamas. As of December 31, 2021, the Branch met this requirement.

#### **13. Subsequent events**

Management has performed a subsequent events review from January 1, 2022 through to March 31, 2022, being the date that the financial statements were available to be issued. Management concluded that there were no material subsequent events which required additional disclosure in these financial statements