

Financial Statements of

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

December 31, 2016



## **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, 2016, and its financial performance 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, 2016;
- 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 a summary of significant accounting policies.

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

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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 assessing the Branch's and 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 Branch or the Company or to cease operations, or has no realistic alternative but to do so.



## Independent Auditor's Report (continued)

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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 of 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 matter**

This report, including the opinion, has been prepared for and only for the Board of Directors of Island Heritage Insurance Company, Ltd. 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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## **Independent Auditor's Report (continued)**

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### **Other Matter - Restriction on distribution and use**

This report, including the opinion, is intended solely for the information and use of the Board of Directors of Island Heritage Insurance Company, Ltd. 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 specified parties.

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*PricewaterhouseCoopers*

April 11, 2017

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# ISLAND HERITAGE INSURANCE COMPANY, LTD.

## BAHAMAS BRANCH

### Balance Sheet

December 31, 2016

*(stated in Bahamian Dollars)*

	Note	2016
<b>Assets</b>		
Cash and cash equivalents	5	16,804,030
Regulatory deposits	11	1,036,804
Premiums receivable		4,223,816
Claims recoverable	4	31,497,101
Claims receivable	4	77,282
Other receivables/other assets	6	14,973,922
Ceding commission receivable		907,839
Deferred reinsurance premiums		8,675,619
Deferred acquisition costs		2,782,766
<b>Total Assets</b>		<b>BSD 80,979,179</b>
<b>Liabilities and Head Office Account</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	7	6,256,192
Reinsurance balances payable		3,150,713
Outstanding claims	4	33,800,458
Deferred ceding commissions		1,643,887
Unearned premiums		14,242,080
		59,093,330
<b>Head Office Account</b>		
Head office account	3 & 11	21,885,849
		21,885,849
<b>Total Liabilities and Head Office Account</b>		<b>BSD 80,979,179</b>

*See accompanying notes to financial statements.*

**ISLAND HERITAGE INSURANCE COMPANY, LTD.**

**BAHAMAS BRANCH**

Statement of Income

Year ended December 31, 2016  
*(stated in Bahamian Dollars)*

	Note	2016
<b>Underwriting income</b>		
Insurance premiums written		33,445,248
Movement in unearned premiums		(1,194,250)
Reinsurance premiums ceded		(23,922,657)
Movement in deferred reinsurance premiums		566,518
Ceding commissions		4,559,796
Movement in deferred ceding commissions		(211,542)
		<hr/> 13,243,113
<b>Underwriting expenses</b>		
Claims and claim expenses paid	4	26,379,463
Movement in outstanding claims	4	30,227,469
Claims and claim expenses recovered		(19,486,545)
Movement in outstanding claims recoverable		(29,696,959)
Acquisition costs		6,734,724
		<hr/> 14,158,152
<b>Net underwriting loss</b>		<hr/> (915,039)
Interest income		63,221
Administration expenses	8	(3,659,785)
<b>Net loss for year</b>		<hr/> BSD (4,511,603) <hr/>

*See accompanying notes to financial statements.*

**ISLAND HERITAGE INSURANCE COMPANY, LTD.**

**BAHAMAS BRANCH**

Statement of Changes in Head Office Account

Year ended December 31, 2016  
*(stated in Bahamian Dollars)*

	Note	2016
<b>Balance at December 31, 2015</b>		12,457,354
Net loss for the year		(4,511,603)
Other Head Office Transactions, net	3 & 11	13,940,098
<b>Balance at December 31, 2016</b>		<b>BSD 21,885,849</b>

*See accompanying notes to financial statements.*

# ISLAND HERITAGE INSURANCE COMPANY, LTD.

## BAHAMAS BRANCH

### Statement of Cash Flows

Year ended December 31, 2016  
(stated in Bahamian Dollars)

	Note	2016
<b>Operating activities</b>		
Net loss for year		(4,511,603)
Net changes in operating assets and liabilities:		
Experience deposit receivable*		-
Premiums receivable		(354,203)
Claims recoverable*		(29,696,959)
Claims receivable*		835,727
Deferred reinsurance premiums*		(566,518)
Ceding commissions receivable*		649,586
Deferred acquisition costs		(674,434)
Other receivables		(13,923,339)
Accounts payable and accrued expenses		4,620,631
Deferred ceding commissions*		211,542
Reinsurance balances payable*		129,292
Unearned premiums		1,194,250
Outstanding claims		30,227,469
Non-cash transactions for Branch Operations*	3 & 11	(2,559,902)
		<u>(14,418,461)</u>
<b>Investing activities</b>		
Withdrawal of regulatory deposits	11	8,633,146
		<u>8,633,146</u>
<b>Financing activities</b>		
Net settlement for Branch Operations	3 & 11	16,500,000
		<u>16,500,000</u>
<b>Increase in cash and cash equivalents during year</b>		<b>10,714,685</b>
Cash and cash equivalents at beginning of year		6,089,345
<b>Cash and cash equivalents at end of year</b>	<b>5</b>	<b>BSD 16,804,030</b>

\* During the years ended December 31, 2016 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.



# ISLAND HERITAGE INSURANCE COMPANY, LTD.

## BAHAMAS BRANCH

Notes to Financial Statements

December 31, 2016

*(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 “Ultimate 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 Law 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 two other BF&M Limited affiliated entities (collectively referred to as the “Reinsurance Pooling Arrangement”). Specific treaties such as the Quota Shares and Facultative Reinsurance are placed on an individual contract basis for the 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. In 2016 one catastrophe event occurred within the Reinsurance Pooling Arrangement which utilised some of the coverage available under the Reinsurance Pooling Arrangement, see note 4.

# ISLAND HERITAGE INSURANCE COMPANY, LTD.

## BAHAMAS BRANCH

Notes to Financial Statements

December 31, 2016

*(stated in Bahamian Dollars)*

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

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

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 sheets. 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. 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.

# ISLAND HERITAGE INSURANCE COMPANY, LTD.

## BAHAMAS BRANCH

Notes to Financial Statements

December 31, 2016

*(stated in Bahamian Dollars)*

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### 2. Significant accounting policies (continued)

#### *(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.

#### *(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, 2016 all receivables are due within one year; no receivables were determined to be past due or impaired and, accordingly, no provision for doubtful collections has been established.

#### *(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.

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.

# ISLAND HERITAGE INSURANCE COMPANY, LTD.

## BAHAMAS BRANCH

Notes to Financial Statements

December 31, 2016

*(stated in Bahamian Dollars)*

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### 2. Significant accounting policies (continued)

*(f) Outstanding claims (continued)*

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. Internal administration expenses in relation to policy acquisition are not deferred.

*(h) Interest income*

Interest income is recorded on an accrual basis.

*(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 deposits*

Regulatory deposits are recorded in the balance sheets at amortised cost.

*(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*

With the exception of balances in respect of insurance contracts, the carrying amounts of all financial instruments approximate their fair values due to their short-term maturities, and have been determined using Level 2 inputs; aside from cash and cash equivalents which have been determined using Level 1 inputs, and outstanding claims and claims and claim expenses paid which have been determined using Level 2 inputs.

# ISLAND HERITAGE INSURANCE COMPANY, LTD.

## BAHAMAS BRANCH

Notes to Financial Statements

December 31, 2016

*(stated in Bahamian Dollars)*

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### 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.

### 4. Outstanding claims

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	2016
Claims and adjustment expenses	27,751,520
Claims incurred but not reported	6,048,938
Total paid	BSD 33,800,458

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

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	2016
Balance at beginning of year	3,572,989
Incurred related to:	
Current period	56,445,917
Prior years	161,015
Total incurred	56,606,932
Paid related to:	
Current period	(24,674,910)
Prior period	(1,704,553)
Total paid	(26,379,463)
	BSD 33,800,458

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In the opinion of the Directors, these provisions are adequate to cover the estimated ultimate liability for claims at the balance sheet dates. Losses incurred relating to prior years are not attributable to any specific individual claims but rather adverse development. 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.

# ISLAND HERITAGE INSURANCE COMPANY, LTD.

## BAHAMAS BRANCH

Notes to Financial Statements

December 31, 2016

*(stated in Bahamian Dollars)*

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### 4. Outstanding claims (continued)

On October 6, 2016, Freeport experienced Hurricane Matthew which resulted in current year claims incurred of BSD 48,809,140 including claims paid of BSD 23,617,200.

The Company Directors have estimated BSD 31,497,101 as the amount included in the provision for the outstanding claims at December 31, 2016 that is recoverable from reinsurers, of which BSD 30,008,938 specifically relate to Hurricane Matthew in 2016. Should any of the reinsurers be unable to reimburse the recoverable 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 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. Reinsurance claims receivable on settled claims was BSD 77,282 as December 31, 2016.

### 5. Cash & Cash Equivalents

The cash and cash equivalents consist of cash held at Royal Bank of Canada Ltd, Bahamas totalling BSD 16,804,030.

### 6. Other receivables/other assets

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	2016
Claims funds advanced to agents	12,082,135
VAT advanced and refund recoverable	2,178,926
Other receivables	338,494
Broker rebate receivable	249,801
Reinsurance receivables	122,016
Interest income receivable	1,300
Prepayments	1,250
	<hr/> BSD 14,973,922 <hr/>

### 7. Accounts payable and accrued expenses

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	2016
Claims funds advanced by reinsurers	4,499,528
Commission payable	831,069
Accounts payable	511,014
Premium taxes payable	414,581
	<hr/> BSD 6,256,192 <hr/>

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# ISLAND HERITAGE INSURANCE COMPANY, LTD.

## BAHAMAS BRANCH

Notes to Financial Statements

December 31, 2016

*(stated in Bahamian Dollars)*

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### 8. Administration expenses

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	2016
Salaries, wages, occupancy and administrative costs (see note 9)	3,429,906
Professional fees	164,388
Business development & compliance	62,220
Advertising and promotions	3,271
	<hr/> BSD 3,659,785 <hr/>

All of the Branch's day-to-day activities are administered by the Company during the year ended December 31, 2016. 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.

### 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 2016, these charges amounted to BSD 3,429,906. Included within this amount is a management fee charged by the Company of BSD 158,894 to the Branch.

There is no balance payable or receivable to the Company as of December 31, 2016 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, 2016 the Branch is exposed to interest rate risk in that the fair value of its cash and regulatory deposits will be impacted by changes in market interest rates. Due to the cash being on demand, management consider this interest rate risk to be insignificant. Due to the relatively short maturity period and repricing of the regulatory deposits, management consider this interest rate risk to be insignificant on regulatory deposits.

# ISLAND HERITAGE INSURANCE COMPANY, LTD.

## BAHAMAS BRANCH

Notes to Financial Statements

December 31, 2016

*(stated in Bahamian Dollars)*

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

#### *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.

#### *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 deposits, premiums receivable, claims recoverable and receivable, other receivables and ceding commissions receivable.

All cash and cash equivalents are held with one financial institution in the Bahamas. The regulatory deposits are held with one financial institution in the Bahamas on behalf of the Bahamian Insurance Regulator. 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 Company 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 recoverables on a timely basis. Accordingly, management does not anticipate any significant losses from these exposures in the near term.

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



# ISLAND HERITAGE INSURANCE COMPANY, LTD.

## BAHAMAS BRANCH

Notes to Financial Statements

December 31, 2016

(stated in Bahamian Dollars)

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

#### *Credit risk (continued)*

The following is an analysis of the reinsurance companies per line of coverage, along with any concentrations:

	<b>Total number of reinsurers by line</b>	<b>Largest % placed with a single reinsurer</b>	<b>Location of that single reinsurer</b>	<b>A.M. Best rating of that single reinsurer</b>
Property catastrophe excess of loss	38	15.0%	Switzerland	A+
		15.0%	Germany	A+
		15.0%	Germany (1)	A+
Property catastrophe excess of loss (sub layer)	1	100.0%	Switzerland	A+
Reinstatement premium protection	4	60.0%	Germany (1)	A+
Casualty & Motor excess of loss	11	15.0%	UK	A
Marine excess of loss	7	25.0%	UK	A
Fire per risk	6	20.0%	Germany	A+
		20.0%	Germany (1)	A+
		20.0%	Ireland	A
Bank program property quota share	1	100.0%	US	A
Property quota share	19	12.0%	Germany	A+
Bonds quota share	1	100.0%	Germany (1)	A+
Personal accident quota share	1	100.0%	UK	A
Marine quota share	10	24.17%	UK	A

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

### 11. Regulatory deposits

The regulatory deposit represents restricted balances placed on deposit with a bank in the Bahamas on behalf of the Bahamian Insurance Regulator to satisfy licensing criteria. Regulatory deposits 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 deposits. During the year regulatory deposits of BSD 8,633,146 were withdrawn to pay for claims related to Hurricane Matthew losses as permitted by the Bahamian Insurance Regulator. The regulatory deposit has been replenished post year end as required by the Bahamian Insurance Regulator

**ISLAND HERITAGE INSURANCE COMPANY, LTD.**

**BAHAMAS BRANCH**

Notes to Financial Statements

December 31, 2016

*(stated in Bahamian Dollars)*

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**12. Subsequent events**

Management has performed a subsequent events review from January 1, 2017 through to April 11, 2017, 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.