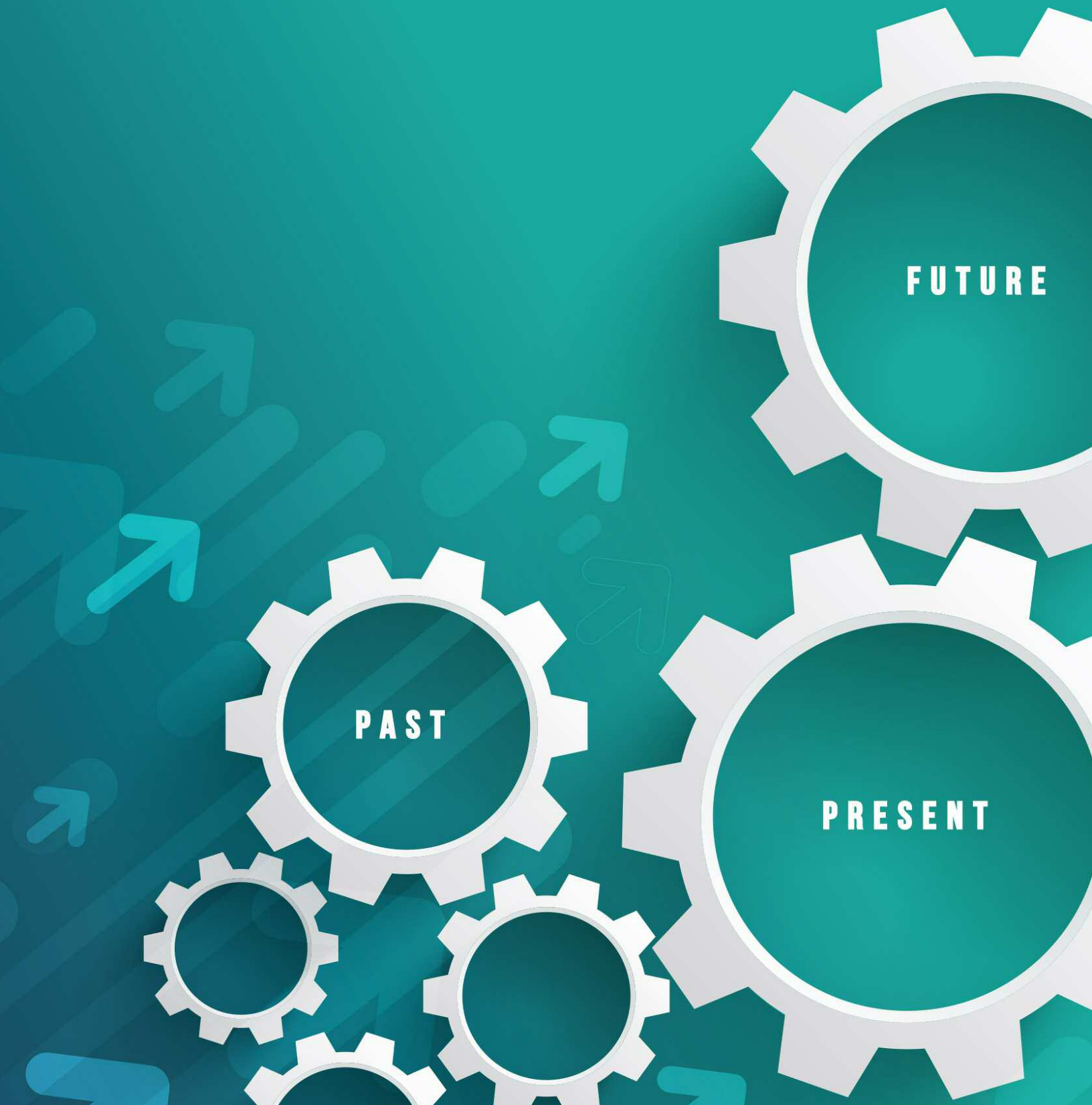
RoyalStar Holdings Ltd.

ANNUAL REPORT AND ACCOUNTS 2018



RE·SPON·SIVE

ADJ.
REACTING QUICKLY AND POSITIVELY;
WILLING TO EMBRACE NEW IDEAS

RoyalStar Holdings Ltd.
- RSHL-

COMMITMENT

ROYALSTAR GROUP IS COMMITTED TO PROVIDING OUR CUSTOMERS WITH THE CONFIDENCE AND KNOWLEDGE THAT OUR SERVICES AND PRODUCTS ARE THE BEST AVAILABLE.

OUR CUSTOMERS

AT RSHL, WE ARE CONTINUALLY SEEKING WAYS TO IMPROVE OUR CUSTOMER SERVICE. TO THIS END, WE ARE DEVELOPING INNOVATIVE SOLUTIONS TO RESPOND TO THE FUTURE INSURANCE NEEDS OF OUR CUSTOMERS. THROUGH OUR NEW CLAIM'S APP AND WEBPAGE, CUSTOMERS NOW HAVE THE ABILITY TO REPORT CLAIMS AT THEIR CONVENIENCE.

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NATURE

THE BEAUTY OF THE CARIBBEAN IS ITS SANDY BEACHES, UNIQUE LANDSCAPES, AND MARINE LIFE. THE RSHL GROUP SUPPORTS THE EFFORTS OF CONSERVATION GROUPS AND REGULATORS THAT ARE PROACTIVE IN RESPONDING TO THE ENVIRONMENTAL CHANGES CAUSED BY HUMAN INFLUENCES AND NATURAL DISASTERS.

CORPORATE INFORMATION

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CORPORATE RESPONSIBILITY

THE RSHL GROUP FULLY SUPPORTS A WELL-REGULATED INSURANCE INDUSTRY. WE ARE PROACTIVE IN ENSURING THAT OUR POLICIES AND PROCEDURES ARE IN LINE WITH INDUSTRY BEST PRACTICES. THE GROUP REMAINS COMPLIANT WITH ALL REGULATIONS IN THE TERRITORIES IN WHICH IT OPERATES AND IS COMMITTED TO CREATING AND SUSTAINING LONG TERM VALUE FOR ALL STAKEHOLDERS.

CHAIRMAN'S STATEMENT

The anticipated hardening of the 2018 reinsurance market cycle, as a result of the significant losses from the 2017 Atlantic hurricane season, failed to materialize. The continued availability of worldwide reinsurance capacity resulted in minimal increases in property catastrophe prices at renewal. There was, however, some significant upward movement in original property pricing, which was limited to the Caribbean region, especially on islands that were devastated by the 2017 events.

During 2018, RoyalStar Assurance Ltd. (RSA) increased its property aggregates in various islands where the pricing margins were favorable compared to 2017. Remaining disciplined in its underwriting approach, RSA accepted business from new opportunities in the British Virgin Islands (BVI), which contributed to the overall profitability of the Group.

Our joint venture partnership between RoyalStar Holdings Ltd. (RSHL), Sunshine Holdings Ltd. (SHL) and Ascendancy Holdings Limited (AHL) continues to perform above expectation and is now a stable source of investment income for the Group. During 2019, the Group is seeking to explore new investment opportunities in the region.

I am pleased to advise on behalf of the Board of Directors that the net profits for the RoyalStar Group of Companies for the fiscal year ended 31 December 2018 was $5,230,100 which was a 13.51% increase over the net profit of $4,607,400 as at 31 December 2017. We can also report that the Net Written Premium (NWP) for 2018 grew by $654,000 compared to 2017. Based on these results and the commitment of management and staff, RSA continued to maintain its A.M. Best rating of 'A' Excellent.

The fundamental business strategy of the Group is very strong; however, we must continue to be "Responsive", ensuring that we are flexible in our service and products, which must be aligned with the changing social and economic patterns of our customers.

The Board of Directors wishes to thank Richard Espinet, Director and Peter Muscroft, Vice President, Technical Operations for their years of service and dedication to the RSHL Group. We wish them a happy and healthy retirement.

The Board would also like to express its appreciation to our valuable policyholders, reinsurers, agents and shareholders for the continued trust and support they have placed in the RoyalStar Group of Companies.

Sir Franklyn R. Wilson, KCMG
Chairman

RoyalStar Holdings Ltd.

FINANCIAL HIGHLIGHTS

(EXPRESSED IN BAHAMIAN DOLLARS)

		2018	2017	2016	2015	2014
COMPREHENSIVE INCOME						
Gross Premium	$	67,151,100	69,572,800	64,728,000	63,351,000	66,229,000
Net Written Premium		21,448,000	20,793,800	21,620,100	17,172,400	19,274,900
Underwriting Results		3,203,600	2,656,200	(91,000)	2,466,000	2,755,400
Investment and Other Income		2,026,500	1,951,200	1,099,800	1,245,800	1,044,600
Net Profit		5,230,100	4,607,400	1,008,800	3,711,800	3,800,000
BALANCE SHEET						
Total Assets	$	136,753,900	310,245,800	365,104,200	91,794,300	85,894,800
Shareholders' Equity		49,325,900	47,190,800	43,214,900	44,971,100	44,874,300
Solvency Ratio		229.98%	226.95%	199.88%	261.88%	232.81%
COMMON SHARE INFORMATION						
Book Value per Share	$	4.14	3.91	3.50	3.50	3.59
Earnings per Ordinary Share		0.55	0.42	0.04	0.30	0.32
Dividend per Ordinary Share		0.26	0.00	0.22	0.47	0.20
Return on Equity (ROE)		12.04%	11.29%	0.98%	8.70%	9.08%

(2014 - 2015 Figures relate to RoyalStar Assurance Ltd.)

MANAGING DIRECTOR'S STATEMENT

Introduction

The economic challenges impacting the reinsurance and insurance sectors continued during 2018, despite the numerous worldwide catastrophes and the extraordinary number of claims reported in 2017 from Hurricanes Irma, Maria and Harvey. With an estimated cost of $140 billion, the losses from these events were expected to change the market cycle of the industry. However, reinsurers maintained their capacity levels, resulting in no noticeable changes in the market fundamentals. Consequently, pressure on the existing business models of reinsurers and insurers will continue, due to years of inadequate pricing and low investment yields.

Insurers that did not change their risk appetite and renewed their portfolio of business in the Caribbean had marginal success in increasing rates, mainly in the territories which were damaged by the 2017 hurricanes.

2018 Financial Performance

The 2018 consolidated results for the RoyalStar Group were both ahead of prior year and budget. The Group produced a positive financial performance reporting a net income of $5,230,100 which comprised of an underwriting profit of $3,203,600 and an investment income of $2,026,500. This represented an increase of $622,700 over the prior year results. Our total equity as at 31 December 2018 was $49,325,900, an increase of $2,135,100. The ROE was an acceptable 12.04% compared to 11.29% for 2017. The Group's assets totaling $136,753,900 included $48,772,400 in cash and other investments. It should also be noted that gross claims reserves decreased by $166,044,900 as a result of the Group settling the majority of claims notified from the various hurricanes in 2017.

Gross Written Premium (GWP) in the amount of $67,151,100 declined by 3.48% compared to prior year. This decline was due to the loss of global business from our network partners. Net Written Premium (NWP) after deduction of excess of loss reinsurance costs was flat at $15,876,800 compared to prior year. Administrative expenses of $5,888,100 were in line with year-end projections. We are pleased to confirm that our insurance rating of 'A' Excellent has been confirmed by A.M. Best during 2018.

Responsive

With changing customer expectations and their need for timely and continuous communication, RSA must leverage modern technology to improve customer satisfaction. We must continue to monitor trends and be "Responsive" in reacting quickly and positively to our customers, offering them more efficient service and innovative products for their business and personal insurance needs.

Our clients currently have the ability to report claims, at their convenience through our website 24/7. We are also looking forward to the upcoming release of our claims app. This tool will allow customers to report claims using their mobile device in real-time via video sessions, therefore digitally transforming the claims process from first notification of loss to settlement.

Future

During 2018 Peter Muscroft, Vice President, Technical Operations, retired after thirty-seven years of service in the local insurance industry. Peter was unselfish and shared his technical knowledge with all industry colleagues. Based on the Group's succession policy, Reginald Munroe, a very talented young insurance professional, was promoted to the role of Executive Manager, Technical Operations.

The results for 2018 continue to validate that our core business model of disciplined underwriting, fair claims settlement, focused customer service and quality reinsurance protection is still an effective business strategy for the Group.

We will continue to embrace profitable opportunities as they are presented, especially those which further diversify the profit stream of the Group.

Conclusion

We would like to thank our Shareholders and Directors for the support given to Management and Staff. We are committed to listening and responding to the needs of our customers, to ensure that we remain the company of choice for all their future insurance solutions.

Anton A. Saunders
Managing Director

RETIREMENT
PETER MUSCROFT, ACII

30 SEPTEMBER 2018

Mr. Muscroft has served the local insurance industry for over thirty-seven years. He joined RSA as Operations Manager in 1991 and after holding many positions was promoted to Vice President, Technical Operations. From 1974 to June 1981, he was employed by Sun Alliance & London Insurance Company in the UK, following which he was seconded to Insurance Management (Bahamas) Limited.

During Mr. Muscroft's career at RSA he was instrumental in helping the Company transform from a UK subsidiary company of Sun Alliance to a majority Bahamian owned entity. Through his leadership and technical expertise, the Company's underwriting performance has improved significantly. However, Mr. Muscroft's greatest achievement was his ability to transfer his insurance knowledge to co-workers, agents and industry colleagues.

Mr. Muscroft is an Associate of the Chartered Insurance Institute and is a Chartered Insurer. He has held several positions with the Bahamas Insurance Association, including Chairman from 2006 to 2008 and is a past Director of the Bahamas Financial Services Board. He is a current Board Member and Treasurer of the Bahamas Crime Stoppers Foundation. Peter is an avid golfer and rugby enthusiast. He is married to Islee and they have two sons, Brannard and Ashlee.

We, the Directors, Management and staff of RoyalStar Assurance Ltd. wish Peter an Exciting and Healthy retirement.

UNDERWRITING DEPARTMENT
L to R: Tatika McIntosh, Camille Burnside, Carla Adderley, Reginald Munroe, Peter Muscroft, Rod Purvis, Shavon McHardy, Dianna Hepburn, Gayle Farquharson

STATEMENT OF CORPORATE GOVERNANCE

Introduction

The Board of Directors, hereinafter referred to as "The Board", and the management of RoyalStar Group of Companies (RSHL or the Company) believe that good Corporate Governance is essential to the effective, efficient and prudent operation of the Company's business. Therefore, the Company has implemented an internal control environment, which contains strong Corporate Governance Structures and Procedures.

The Company's Corporate Governance system is based on regular contact between The Board and the management of the Company. It is supported by a high level of management supervision, compliance with all regulations and an annual external audit conducted by a chartered accounting firm.

Mandate of the Board of Directors

The Board supervises the management of the Company's business and affairs with the objective of maintaining the strength, dynamism and integrity of the Company. In particular, The Board oversees the Company's strategic direction and organization structure to reflect these objectives and to serve the interests of the Company, its customers, shareholders, employees and the community.

Responsibilities of The Board include supervising the Company's principal risk management policies and related monitoring systems. The Board monitors the integrity of the internal control systems and oversees the major activities performed by the Company. In addition, The Board appoints the Managing Director.

The Board fulfills its responsibilities and duties in a variety of ways. For example, at least annually, The Board is apprised of internal control and risk management policies related to insurance, credit, investment, legal and reputation risks. In addition, Board Members review the quarterly performance of the Company. Results are compared and measured against a previously established and approved budget and the performance of the previous year. The quarterly performance review includes significant performance ratios, large claims, aging of receivables and review of all compliance requirements.

Throughout the year, The Board conducts meetings where management is invited to make presentations and respond to questions. There are five committees focused on separate areas that meet at least twice annually. The committees are as follows: Audit & Compliance, Conduct Review, Investment, Risk and Administration & Compensation.

The assessment of management's performance by The Board is based on both quantitative and qualitative factors such as experience, personal performance, leadership ability and the achievement of business objectives. Quantitative criteria primarily relate to the achievement of profit plan targets. Qualitative measures include maintenance of quality customer service standards and business ethics and the preservation of customer protection through compliance with solvency and other regulatory requirements stipulated by the relevant insurance authorities.

The Audit & Compliance Committee reviews any matters referred to in the Internal Control and Business Issues Report issued by the external auditor. In conjunction with The Board, the Audit & Compliance Committee recommends to shareholders the approval of the audited accounts and the appointment of the external auditor. In addition, the Audit & Compliance Committee meets with the external auditor as necessary throughout the year.

The Board of Directors

The Company's Board comprises eight non-executive members, all of whom are senior executives in their respective other businesses, providing vast experience highly relevant to the business of the Company. The knowledge, skill and experience of the Directors are deemed invaluable to the Company.

TEAMWORK

AT RSHL, OUR GOAL IS TO FOSTER A WORK ENVIRONMENT THAT WELCOMES NEW AND INNOVATIVE IDEAS, WHERE TEAM MEMBERS ARE DRIVEN BY THE CORE VALUES AND GOALS OF THE GROUP. OUR EMPLOYEES UNDERSTAND THAT EFFECTIVE COMMUNICATION AND COMMITMENT IS KEY TO A SUCCESSFUL ORGANIZATION.

BOARD OF DIRECTORS

James M. Pinder
President

Sir Franklyn R. Wilson KCMG
Chairman

Anton Saunders
Managing Director

Ian Rolle

Julian Rolle

Barry J. Malcolm

Herbert H. Thompson

Kyron Strachan

Dean Romany

INDEPENDENT AUDITORS' REPORT

To the Shareholders of RoyalStar Holdings Ltd.

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of RoyalStar Holdings Ltd. (the Company) and its subsidiaries (together 'the Group') as at 31 December 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 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 Group 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.

Other information

Management is responsible for the other information. The other information comprises the information presented in the RoyalStar Holdings Ltd. Annual Report 2018 (but does not include the consolidated financial statements and our auditors' report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance 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.

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Responsibilities of management and those charged with governance for the consolidated financial statements (continued)

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

Other Matter

This report, including the opinion, has been prepared for and only for the Group 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.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

1 April 2019

RoyalStar Holdings Ltd.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

(Incorporated under the laws of the Commonwealth of The Bahamas)

Expressed in Bahamian dollars

		2018	2017
ASSETS			
Cash on hand and at banks (Note 3)	$	14,145,911	7,610,978
Term deposits (Note 3)		10,007,944	9,915,508
Due from reinsurers		971,652	937,076
Due from agents (Note 4)		9,497,414	11,356,335
Accounts receivable, prepayments and other assets		525,865	6,951,540
Unearned premiums reserve – reinsurance (Note 9)		16,536,424	19,615,322
Deferred commissions expense (Note 9)		2,878,542	2,792,563
Outstanding claims recoverable from reinsurers (Note 9)		43,581,845	211,757,236
Investments in securities (Note 5):			
Fair value through profit or loss		5,889,183	6,104,473
Loans and receivables		13,054,875	13,114,136
Investment in associate (Note 6)		5,674,497	4,804,102
Investment property (Note 7)		–	900,000
Property, plant and equipment (Note 8)		13,989,722	14,386,543
Total assets		**136,753,874**	**310,245,812**
LIABILITIES			
General insurance liabilities			
Unearned premiums reserve (Note 9)		26,372,320	28,805,639
Deferred commissions income (Note 9)		2,074,876	1,981,607
Outstanding claims reserve (Note 9)		52,139,026	218,183,911
		80,586,222	248,971,157
Other liabilities			
Cash advance from reinsurers (Note 9)		–	46,608
Due to reinsurers		4,344,644	6,559,607
Accounts payable and accrued expenses		2,497,095	7,477,624
Total liabilities		**87,427,961**	**263,054,996**
EQUITY			
Equity attributable to shareholders of the Company			
Share capital:			
Ordinary shares			
Authorized:			
10,000,000 shares of $0.30 each			
Issued and fully paid:			
9,500,000 shares of $0.30 each		2,850,000	2,850,000
Contributed surplus		32,121,141	32,121,141
Accumulated surplus		4,354,772	2,219,675
		39,325,913	**37,190,816**
Non-controlling interests (Note 10)		10,000,000	10,000,000
Total equity		**49,325,913**	**47,190,816**
Total liabilities and equity		**136,753,874**	**310,245,812**

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED ON ITS BEHALF BY :

27 MARCH, 2019

Date

DIRECTOR

DIRECTOR

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

Expressed in Bahamian dollars

		2018	2017
REVENUE			
Premiums written (Note 11)	$	67,151,124	69,572,819
Premiums ceded to reinsurers		(45,703,151)	(48,778,964)
Net premiums written		21,447,973	20,793,855
Change in net unearned premiums (Note 9)		(645,579)	228,199
Portfolio transfer (Note 12)		–	(7,564)
Net premiums earned		**20,802,394**	**21,014,490**
DIRECT EXPENSES			
Net claims incurred (Note 9)		4,309,613	5,873,073
Net commissions incurred (Note 13)		1,829,913	2,069,287
Catastrophe and excess of loss reinsurance		5,571,179	4,881,381
Total direct expenses		**11,710,705**	**12,823,741**
Underwriting gain		**9,091,689**	**8,190,749**
OTHER INCOME			
Interest, dividends and other income		1,814,808	1,721,849
Rental income		286,516	208,390
Fair value adjustment to investment property (Note 7)		–	75,000
Net realized gain on investments in securities		(284,718)	–
Net change in unrealized (depreciation)/appreciation of investments in securities (Note 5)		29,803	(31,072)
Total other income		**1,846,409**	**1,974,167**
OPERATING EXPENSES			
Personnel costs		2,890,211	2,778,596
General and administrative		2,172,634	1,957,640
Depreciation and amortization (Note 8)		712,267	685,304
Directors' costs		113,000	113,000
Total operating expenses		**5,888,112**	**5,534,540**
Share of net results of associate (Note 6)		180,111	(22,994)
Net income and total comprehensive income		**5,230,097**	**4,607,382**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

Expressed in Bahamian dollars

	Ordinary Shares $	Contributed Surplus $	Retained Earnings $	Total Shareholders' Equity $	Non-Controlling Interests $	Total Equity $
Balance as at 1 January 2017	**2,850,000**	**32,121,141**	**(1,756,222)**	**33,214,919**	**10,000,000**	**43,214,919**
Total comprehensive income	–	–	4,607,382	4,607,382	–	4,607,382
Transactions with owners						
Dividends – non-controlling interest	–	–	(631,485)	(631,485)	–	(631,485)
Dividends - ordinary shares	–	–	–	–	–	–
Total transactions with owners	–	–	(631,485)	(631,485)	–	(631,485)
Balance as at 31 December 2017	**2,850,000**	**32,121,141**	**2,219,675**	**37,190,816**	**10,000,000**	**47,190,816**
Balance as at 1 January 2018	**2,850,000**	**32,121,141**	**2,219,675**	**37,190,816**	**10,000,000**	**47,190,816**
Total comprehensive income	–	–	5,230,097	5,230,097	–	5,230,097
Transactions with owners						
Dividends – non-controlling interest	–	–	(625,000)	(625,000)	–	(625,000)
Dividends - ordinary shares	–	–	(2,470,000)	(2,470,000)	–	(2,470,000)
Total transactions with owners	–	–	(3,095,000)	(3,095,000)	–	(3,095,000)
Balance as at 31 December 2018	**2,850,000**	**32,121,141**	**4,354,772**	**39,325,913**	**10,000,000**	**49,325,913**

Dividends per non-controlling interest: $0.625 (2017: $0.63)

Dividends per ordinary share: $0.26 (2017: $Nil)

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

Expressed in Bahamian dollars

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,230,097	4,607,382
Adjustments for:		
Interest and dividends income	(1,001,063)	(808,842)
Fair value adjustment to investment property	–	(75,000)
Net realized gain on investments in securities	284,718	–
Net change in unrealized depreciation/(appreciation) of investments in securities	(29,803)	31,072
Share of net results of associate	(180,111)	22,994
Loss on disposals of property, plant and equipment	–	2,065
Depreciation and amortization	712,267	685,304
(Increase)/Decrease in operating assets		
Term deposits with original maturities of more than three months and restricted term deposits	(91,404)	(529,152)
Due from reinsurers	(34,576)	275,106
Due from agents	1,858,921	(3,280,286)
Accounts receivable, prepayments and other assets	6,425,675	(4,860,947)
Unearned premiums reserve – reinsurance	3,078,898	(2,586,928)
Deferred commissions expense	(85,979)	114,850
Outstanding claims recoverable from reinsurers	168,175,391	56,091,573
Increase/(Decrease) in operating liabilities		
Unearned premiums reserve	(2,433,319)	2,358,729
Deferred commissions income	93,269	(1,034)
Outstanding claims reserve	(166,044,885)	(56,232,684)
Cash advance from reinsurers	(46,608)	(14,235,449)
Due to reinsurers	(2,214,963)	2,816,300
Accounts payable and accrued expenses	(4,980,529)	6,459,840
Net cash (used in)/from operating activities	**8,715,996**	**(9,145,107)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	1,077,297	808,810
Dividends received from associates	–	–
Purchase of investments in securities	(4,723,230)	(1,000,000)
Proceeds from sales/maturities of investments in securities	4,665,600	847,707
Proceeds from sale of investment property	900,000	–
Capital injection in associate	(690,284)	(71,664)
Proceeds from disposals of property, plant and equipment	85,280	–
Purchase of property, plant and equipment (Note 8)	(400,726)	(154,747)
Net cash (used in)/from investing activities	**913,937**	**430,106**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends on non-controlling interest	(625,000)	(631,485)
Payment of dividends on ordinary shares	(2,470,000)	–
Net cash used in financing activities	**(3,095,000)**	**(631,485)**
Net increase/(decrease) in cash and cash equivalents	**6,534,933**	**(9,346,486)**
Cash and cash equivalents as of beginning of year	7,610,978	16,957,464
Cash and cash equivalents as of end of year (Note 3)	**14,145,911**	**7,610,978**

NON-CASH TRANSACTION:
See Note 4 for significant related party non-cash transaction.

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

1. General Information

RoyalStar Holdings Ltd. (the Company) was incorporated on 2 October 2012 under the Companies Act, 1992 of the Commonwealth of The Bahamas (The Bahamas). The Company's sole activity is the holding of investments in RoyalStar Assurance Ltd. (RSA), a company incorporated in The Bahamas and licensed under the relevant statutes and regulations to operate as a property and casualty insurance company in The Bahamas, the Cayman Islands, the Turks and Caicos Islands and the British Virgin Islands, and SFL RSA Limited, which is a subsidiary company of Ascendancy TCI Limited, that specializes in the purchase and restructuring of non-performing loans. Additionally, RSA through a wholly owned subsidiary, RoyalStar Investments Ltd. (RIL), invests in commercial real estate.

RSA is sole beneficiary of trusts established to comply with regulations promulgated by the insurance regulators in The Bahamas, the Cayman Islands and the British Virgin Islands (Notes 3 and 5). RSA consolidates the trusts for financial reporting purposes. The Company and its subsidiaries are collectively referred to as the Group.

The Group's primary shareholder is SunStar Ensure Limited, which owns 53.05% (2017: 53.05%) of the Company's outstanding ordinary shares and is majority owned by Sunshine Holdings Limited.

The Company's registered office is at Mareva House, 4 George Street, Nassau, The Bahamas.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, except as disclosed in the accounting policies below. The preparation of financial statements in accordance with IFRS requires management to exercise judgement in the process of applying the Group's accounting policies. It also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Notes 2(e), 2(f), 2(h), 2(i) and 2(l).

New standards, amendments and interpretations adopted by the Group

With the exception of IFRS 15 - *Revenue from Contract with Customers* (IFRS 15) and Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (Amendments to IFRS 4) standards and amendments and interpretations to published standards that became effective for the Group's financial year beginning on 1 January 2018 were either not relevant or not significant to the Group's operations and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

IFRS15, *'Revenue from Contracts with Customers'* issued in May 2014 is effective for annual periods beginning on or after 1 January 2018. This standard provides clear guidance over when and how much revenue should be recognized. It provides a principles-based approach for revenue recognition, and introduces the concept of recognizing revenue for obligations as they are satisfied. The standard does not apply to business classified as insurance contracts, and therefore there has been no material impact from implementing this accounting standard.

2. Summary of Significant Accounting Policies (continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations adopted by the Group (continued)

Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* provides an exemption from applying IFRS 9 for entities whose predominant activities is issuing contracts within the scope of IFRS 4 until adoption of IFRS 17 or 1 January 2021, whichever is earlier. (In November 2018, the IASB also agreed to issue an exposure draft proposing to extend the deferral by one year, to align with the proposed delay in the adoption date of IFRS 17).

For an insurer to apply this exemption for deferral:

i. Total liabilities related to insurance must exceed 90% of total liabilities; or
ii. Total liabilities related to insurance are greater than 80% of total liabilities but less than 90% of total liabilities so long as the insurer does not engage in significant activity unconnected to insurance.

Total liabilities connected to insurance within the Group at the initial assessment date of 31 December 2015 (which is the date which precedes the issuance of the amendment to IFRS 4) were 98% of total liabilities. The Group therefore qualified to defer implementation of IFRS 9 and is making use of this deferral.

The Group is required to retest if it is eligible for deferral of IFRS 9 if and only if there is a significant change in business activities during the year. There have been no indicators of such a change in 2018 and therefore the Group continues to apply the deferral.

As required by the amendments, the disclosures below are presented in order to provide users of the financial statements with information which allows them to compare financial assets with those of entities applying IFRS 9.

i. Fair value of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principle and interest on the principle amount outstanding (i.e. passing SPPI test):

	Financial assets passing the SPPI test 2018 $	All other financial assets 2018 $
Equity securities	–	5,889,183
Debt securities	–	–
Total financial investments at fair value	–	5,889,183
Loans and receivable at amortized cost	13,054,875	–
Reinsurance receivables	971,652	–
Insurance and intermediaries receivables	9,497,414	–
Other receivables	525,865	–
Total financial assets (excluding cash and cash equivalents)	**24,049,806**	**5,889,183**

2. Summary of Significant Accounting Policies (continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations adopted by the Group (continued)

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (continued)

ii. Carrying value of financial assets passing the SPPI test and fair value of financial assets not deemed to have low credit risk:

	AAA	AA	A	BBB	BB or below	Unrated	Total
	2018 $	2018 $	2018 $	2018 $	2018 $	2018 $	2018 $
Loans and receivable at amortized cost	–	–	–	2,856,265	–	10,198,610	13,054,875
Reinsurance receivables	–	–	971,652	–	–	–	971,652
Insurance and intermediaries receivables	–	–	–	–	–	9,497,414	9,497,414
Other receivables	–	–	–	–	–	525,865	525,865
Total financial assets (excluding cash and cash equivalents)	**–**	**–**	**971,652**	**2,856,265**	**–**	**20,221,889**	**24,049,806**

New standards, amendments and interpretations not yet adopted by the Group

With the exception of the following standards and amendments, the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Group's accounting policies or consolidated financial statements in the financial period of initial application.

IFRS 9 *Financial Instruments* (IFRS 9) addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss and fair value through other comprehensive income. The determination is made at initial recognition, and the basis of classification depends on the Group's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset.

In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39. For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for financial liabilities designated at fair value through profit or loss. The Group has not yet assessed the full impact of adopting IFRS 9, which is effective for financial periods beginning on or after 1 January 2022 as described above.

IFRS 16 *Leases* (IFRS 16) sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 *Leases* (IAS 17) and, instead, introduces a single lessee accounting model.

2. Summary of Significant Accounting Policies (continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations not yet adopted by the Group (continued)

Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group has not yet assessed the full impact of adopting IFRS 16, which is effective for annual periods on or after 1 January 2019.

IFRS 17 *Insurance contracts* (IFRS 17) was issued in May 2017. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Under IFRS 17, the 'general model' requires entities to measure an insurance contract, at initial recognition, at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognized over the coverage period.

Aside from this general model, the standard provides, as a simplification, the 'premium allocation approach'. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the 'variable fee approach' applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognized in profit or loss in the period in which they occur but over the remaining life of the contract.

The new standard is applicable for annual periods beginning on or after 1 January 2022. Early application is permitted for entities that apply IFRS 9, 'Financial instruments', and IFRS 15, 'Revenue from contracts with customers', at or before the date of initial application of IFRS 17. The standard can be applied retrospectively in accordance with IAS 8, but it also contains a 'modified retrospective approach' and a 'fair value approach' for transition, depending on the availability of data.

(b) Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group 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 to direct the activities of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Acquisition costs are expensed as incurred.

2. Summary of Significant Accounting Policies (continued)

(b) Consolidation (continued)

Subsidiaries (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealized gains on transactions between group entities are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests

Interests in the equity of subsidiaries not attributable to the shareholders of the Company are reported in consolidated equity as non-controlling interests. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of comprehensive income, changes in equity and balance sheet respectively.

Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in associates equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of investment in associates is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

(c) Foreign currency translation

The consolidated financial statements are presented in Bahamian dollars, which is the Group's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and

2. Summary of Significant Accounting Policies (continued)

(c) Foreign currency translation (continued)

liabilities at year-end exchange rates are recognized in the consolidated statement of comprehensive income. Translation differences on financial assets measured at fair value through profit or loss are included as a part of the fair value gains and losses.

(d) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, current accounts at banks and unrestricted term deposits with original contractual maturities of three months or less.

(e) Financial assets

The Group classifies its financial assets into the following categories: loans and receivables (cash on hand and at bank, term deposits, due from reinsurers and agents; accounts receivable; and investments in government bonds, corporate bonds and certain preference shares) and financial assets at fair value through profit or loss (investments in equity securities). Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market, other than those that the Group intends to sell in the short term or that it has designated as at fair value through profit or loss.

A financial asset is classified into the financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Information about these financial assets is provided internally on a fair value basis to the Group's key management personnel. All of the Group's investments in securities classified as at fair value through profit or loss have been so designated by management.

Regular-way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs, except for financial assets at fair value through profit or loss where transaction costs are expensed as incurred. Financial assets are derecognized when the rights to receive cash flows from them have expired or when they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Loans and receivables are carried at amortized cost using the effective interest method, less any provision for impairment.

Financial assets at fair value through profit or loss are subsequently carried at fair value based on quoted prices for financial assets traded in active markets or valuation techniques, including recent arm's length transactions, discounted cash flow analyses and other valuation techniques commonly used by market participants for financial assets not traded in active markets.

Gains and losses arising from sales or changes in fair value of financial assets are recognized in the consolidated statement of comprehensive income in the financial period in which they arise.

(f) Impairment of financial assets

The Group evaluates at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired

2. Summary of Significant Accounting Policies (continued)

(f) Impairment of financial assets (continued)

and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. By comparison, the amount of loss on financial assets at fair value through profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of interest for a similar financial asset.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of comprehensive income. When a financial asset is uncollectible, it is written off against the related allowance account. Recoveries of accounts previously written off are recognized directly in the consolidated statement of comprehensive income.

(g) Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and amortization, except land which is not depreciated. Historical cost includes expenditures that are directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the assets' costs (net of residual values) over their estimated useful lives, as follows:

Building	40 years
Land and building improvements	6 to 20 years
Furniture, equipment and software	5 to 20 years
Motor vehicles	3 years
Leasehold improvements	Lesser of lease term and 10 years

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are recognized in the consolidated statement of comprehensive income.

2. Summary of Significant Accounting Policies (continued)

(h) Investment property

Property held for capital appreciation that is not occupied by the Group is classified as investment property. Investment property comprises freehold land and is carried at fair value. Changes in fair values are recognized in the consolidated statement of comprehensive income.

(i) General insurance funds

Insurance contracts are those that transfer significant insurance risk, which is defined as the risk of having to pay benefits on the occurrence of a specified uncertain future event (the insured event) that significantly exceed the benefits that would be paid if the insured event did not occur. The insurance contracts issued by the Group principally comprise property and casualty insurance contracts. Property and casualty insurance contracts, which typically are one year renewable insurance contracts, compensate policyholders for damage to or loss of property; and/or compensate third parties for damage by policyholders as a result of legitimate activities.

General insurance funds comprise unearned premiums reserve and unearned premiums reserve – reinsurance; deferred commissions income and deferred commissions expense; and outstanding claims reserve and outstanding claims recoverable from reinsurers.

Unearned premiums

Unearned premiums reserve and unearned premiums reserve – reinsurance represent the portion of premiums written and premiums ceded to reinsurers, respectively, which relate to periods of insurance coverage subsequent to the balance sheet date.

Deferred commissions

Deferred commissions income represents the portion of commissions earned on premiums ceded, which relate to periods of insurance coverage subsequent to the balance sheet date. Deferred commissions expense represents the portion of commissions incurred on premiums written, which relate to periods of insurance coverage subsequent to the balance sheet date.

Outstanding claims

The outstanding claims reserve comprises liabilities for unpaid claims that are estimated using: the input of assessments for individual cases reported to the Group; and statistical analyses for claims incurred but not reported, and the estimate of the expected ultimate cost of more complex claims that may be affected by external factors. The Group does not discount its liabilities for outstanding claims.

Outstanding claims recoverable from reinsurers represent the portion of unpaid claims to be recovered from reinsurers based on reinsurance contracts applicable to the claims.

Until 31 December 2017, the Group performed at each balance sheet date a liability adequacy test to ensure the sufficiency of insurance contract liabilities, using current estimates of the related expected future cash flows. If the test indicated that the carrying value of insurance contract liabilities is inadequate, the liabilities were adjusted to correct the deficiency. Effective 1 January 2018, the Group engaged an Appointed Actuary to perform the valuation of its policy liabilities (refer to Note 20 for details).

(j) Accounts payable

Accounts payable, including balances due to reinsurers, are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2. Summary of Significant Accounting Policies (continued)

(k) Share capital

Ordinary shares, and preference shares whose terms do not create contractual obligations, are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where the Company acquires its own equity shares (treasury shares), the consideration paid including any directly attributable incremental costs is deducted from equity until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received net of any directly attributable incremental costs is included in equity. No gain or loss is recognized in the consolidated statement of comprehensive income on treasury share transactions.

(l) Income and expense recognition

Net premiums written (premiums written less premiums ceded) are recognized as revenue over the periods covered by the related policies. Commissions expense incurred on premiums written and commissions income earned on premiums ceded are recognized in the same manner as net premiums written.

The Group's net share of claims and loss adjustment expenses are recognized as incurred based on the estimated liability for compensation owed to policyholders or third parties damaged by policyholders. They include direct and indirect claims settlement costs that arise from events that have occurred up to the balance sheet date regardless of whether or not they have been reported.

Interest income and expense for all interest-bearing financial instruments are recognized using the effective interest method. Other income and expenses are recognized on the accrual basis, except for profit commissions and dividend income, which are recognized when the Group's right to receive, or obligation to make, payment has been established.

(m) Taxation

Premium tax is incurred at the rate of 3.00% and 2.50% of premiums written in The Bahamas and the Turks and Caicos Islands, respectively. Effective 1 July 2018, the value added tax rate changed from 7.5% to 12% and is now levied on non-residential premiums written in The Bahamas. In the Cayman Islands, stamp duty of KY$12.00 is incurred for each policy written in that jurisdiction. All premium taxes, stamp duties and value added taxes are charged separately to policyholders. No premium taxes, stamp duties or value added taxes are incurred in other jurisdictions in which the Group operates.

Under the current laws of The Bahamas, the country of domicile of the Group, there are no income, capital gains or other corporate taxes imposed. The Group's operations do not subject it to taxation in any other jurisdiction.

(n) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Where the Group is lessee, payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Where the Group is lessor, lease income is recognized over the term of the lease on a straight-line basis. Properties leased out under such leases are included in property, plant and equipment in the consolidated balance sheet.

(o) Employee benefits

The Group has a defined contribution pension plan for its employees, whereby the Group makes fixed contributions to a privately administered pension plan. The Group has no further obligations to pay

2. Summary of Significant Accounting Policies (continued)

(o) Employee benefits (continued)

contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

The Group's contributions to the defined contribution pension plan are charged to the consolidated statement of comprehensive income in the financial period to which they relate.

3. Cash and Cash Equivalents

	2018 $	2017 $
Cash on hand and at banks	14,145,911	7,610,978
Term deposits	10,007,944	9,915,508
Accrued interest	(35,963)	(34,930)
Restricted term deposits	(5,675,941)	(5,603,536)
Term deposits with original contractual maturities greater than three months	(4,296,040)	(4,277,042)
	14,145,911	**7,610,978**

The restricted term deposits represent funds placed by the Group in a trust and other term deposit accounts that cannot be distributed without the permission of the insurance regulators in the Cayman Islands, the Turks and Caicos Islands and the British Virgin Islands. Interest rates on term deposits range from 0.00% to 2.04% (2017: 0.18% to 1.75%) per annum.

4. Due from Agents

	2018 $	2017 $
Premium receivable from agents	9,522,673	11,381,594
Provision for doubtful debts	(25,259)	(25,259)
	9,497,414	**11,356,335**

Movements in the provision for doubtful debts comprise:

	2018 $	2017 $
Balance as of beginning of year	25,259	25,259
Provision for doubtful debts	–	–
Write-offs	–	–
Balance as of end of year	**25,259**	**25,259**

4. Due from Agents (continued)

During 2017, a related party issued a promissory note to the Group totaling $2,850,000 (Note 5) in settlement of receivables of equal value. As of 31 December 2018, the Group had balances that are past due totaling $Nil (2017: $Nil) that are impaired, and $1,308,000 (2017: $985,000) with an ageing over 90 days that are past due but not impaired (this excludes balances with network partners and policies under installment arrangements).

5. Investments in Securities

Financial assets at fair value through profit or loss

The Group ranks its investments in securities based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs lead to the following fair value hierarchy:

Level 1 – The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

Level 2 – The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Level 3 – If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This is the case for unlisted equity securities.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset.

The determination of what constitutes 'observable' requires significant judgement by the Group. The Group considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from the exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These financial instruments are included in Level 1.

Financial instruments 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.

Financial instruments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 financial instruments include unlisted securities that have significant unobservable components, including investment funds and equity securities. The valuation techniques used for Level 3 investments in securities include net asset values based on audited financial statements and interim financial information, latest trade information and discounted cash flow analyses.

5. Investments in Securities (continued)

Financial assets at fair value through profit or loss (continued)

As of 31 December 2018, the cost of financial assets at fair value through profit or loss totaled $3,637,511 (2017: $3,800,397) of which $1,850,775 (2017: $2,122,775) represented Level 3 securities.

	2018 $	2017 $
Level 2		
Equity securities	3,128,657	3,322,933
Level 3		
Equity securities	2,502,846	2,526,390
Investment funds	257,680	255,150
	2,760,526	2,781,540
Total financial assets at fair value through profit or loss	**5,889,183**	**6,104,473**

Movements in financial assets at fair value through profit or loss comprise:

	Level 2 $	Level 3 $	Total $
Balance as of 1 January 2018	3,322,933	2,781,540	6,104,473
Purchases	60,727	–	60,727
Sales	(21,102)	–	(21,102)
Net realized gain/(loss)	(12,718)	(272,000)	(284,718)
Net change in unrealized appreciation/(depreciation)	(221,184)	250,987	29,803
Balance as of 31 December 2018	**3,128,656**	**2,760,527**	**5,889,183**

	Level 2 $	Level 3 $	Total $
Balance as of 1 January 2017	3,038,240	3,097,305	6,135,545
Purchases	–	–	–
Sales	–	–	–
Net realized gain/(loss)	–	–	–
Net change in unrealized appreciation/(depreciation)	284,693	(315,765)	(31,072)
Balance as of 31 December 2017	**3,322,933**	**2,781,540**	**6,104,473**

The Level 3 equity securities represent investments in a related party property development company, with real estate development in Eleuthera, Bahamas; the Group does not have a controlling interest in any of the investee companies. The underlying net asset values of the investee companies are most sensitive to changes in property prices and development costs. A decrease in property prices of 25% would result in a decrease in the fair value of Level 3 equity securities of $588,212 (2017: $594,072).

5. Investments in Securities (continued)

Loans and receivables

	Interest Rate	Maturity	2018 $	2017 $
The Government of The Bahamas Bridge Authority bonds	Prime + 1.25%	24/03/2019	13,600	13,600
	Prime + 1.50%	24/03/2024	51,200	51,200
	Prime + 1.63%	24/03/2029	23,300	23,300
Bahamas Government Registered Stocks	4.25%	16/07/2027	1,000,000	1,000,000
	4.82%	15/12/2027	–	1,000,000
	5.22%	15/12/2037	1,000,000	–
Nassau Airport Development Bond	7.50%	31/12/2035	250,000	–
Gateway Financial Ltd. Corporate bonds	6.75%	05/05/2021	–	2,750,000
Gateway Financial Ltd. Corporate bonds	6.50%	05/05/2021	2,500,000	–
Gateway Financial Ltd. Corporate bonds	6.50%	30/06/2020	2,500,000	2,500,000
Gateway Financial Ltd. Corporate bonds	6.50%	30/06/2020	605,410	–
Gateway Financial Ltd. Corporate bonds	6.50%	31/03/2020	292,000	–
Cable Bahamas Ltd. non-voting cumulative redeemable preference shares	5.75%	15/05/2024	250,000	250,000
Cable Bahamas Ltd. US$ non-voting cumulative redeemable preference shares	6.25%	15/05/2024	250,000	250,000
Fidelity Bank (Bahamas) Limited Series F redeemable floating rate note	Prime + 1.25%	30/05/2022	50,000	50,000
Public Hospitals Authority Series A redeemable term notes	Prime + 1.25%	30/09/2033	394,736	421,052
Luxury Nirvana Limited promissory notes payable	12.00%	30/04/2018	–	480,000
Star General Investments – (G.B.) Ltd. notes payable	Prime + .5%	31/12/2025	2,800,000	2,850,000
Public Hospitals Authority Mortgage	3.00%	31/12/2024	368,735	426,395
Sunshine Holdings Limited corporate bonds	6.00%	30/11/2020	500,000	750,000
The College of The Bahamas redeemable term notes	7.00%	30/06/2026	123,429	138,857
			12,972,410	12,954,404
Accrued interest			82,465	159,732
Total loans and receivables			**13,054,875**	**13,114,136**

5. Investments in Securities (continued)

Loans and receivables (continued)

Investments in Bahamas Government registered stocks in the amount of $1 million are placed in a trust and cannot be distributed from the trust without the permission of the insurance regulator in The Bahamas.

6. Investment in Associate

	2018 $	2017 $
Movements in investment in associate are as follows:		
Balance at beginning of year	4,804,102	4,755,432
Capital injection in associate	690,284	71,664
Share of net results of associate	180,111	(22,994)
Dividends received	–	–
Balance at end of year	**5,674,497**	**4,804,102**

Investment in associate is comprised of the following; a 19% (2017:19%) ownership interest in Luxury Homes Bahamas Limited (Luxury Homes), a real estate holding company incorporated in the Bahamas and a 45% ownership interest in SFL RSA Limited.

A director of the Group is a member of the board of directors of Luxury Homes and management has concluded that subsequent to this appointment, the Group has significant influence over this entity.

Summarized unaudited financial information for Luxury Homes Bahamas Limited, as at and for the year ended 31 December 2018 and 31 December 2017 is as follows:

	2018 $	2017 $
Assets	28,750,669	28,782,139
Liabilities	–	3,497,391
Net Income	(48,731)	(330,301)

Summarized unaudited financial information for SFL RSA Limited, as at and for the year ended 31 December 2018 is as follows:

	2018 $	2017 $
Assets	477,531	–
Liabilities	6,708	–
Net Income	7,600	–

Commitments and contingent liabilities in respect of associate

Luxury Homes obtained a loan of $7 million from FirstCaribbean International Bank (Bahamas) Limited ("FirstCaribbean") to assist with the purchase of investment property, to which the Group and the remaining shareholders have agreed to contribute towards the repayment.

6. Investment in Associate (continued)

Commitments and contingent liabilities in respect of associate (continued)

During January 2018, the Directors of Luxury Homes decided to repay the outstanding loan balance due to FirstCaribbean. This required a capital injection by the Group in the amount of $658,525 (2017: $53,431) which represents the Group's obligation of the outstanding loan balance.

7. Investment Property

	2018 $	2017 $
Non-current assets - at fair value		
As at 1 January	900,000	825,000
Fair value adjustment to investment property	–	75,000
Proceeds from sale of investment property	(900,000)	–
As at 31 December	**–**	**900,000**

During November 2017, the Group signed an agreement to sell the land it owns on Collins Avenue, New Providence. The fair value of the land was adjusted to reflect the net agreed sale price of the property and a fair value adjustment of $75,000 was recognized in the statement of comprehensive income. The transaction was completed on 27 March 2018.

The fair value hierarchy for non-financial assets is similar to the hierarchy for financial assets disclosed in Note 5. Investment property is classified as Level 3, as inputs are generally unobservable. The valuation technique used was based on comparable sales and on knowledge of transactions involving similar properties in the vicinity.

8. Property, Plant and Equipment

	Land and Building	Land and Building Improvements	Furniture, Equipment and Software	Motor Vehicles	Leasehold Improvements	Total
Cost:	**$**	**$**	**$**	**$**	**$**	**$**
As at 1 January 2018	12,993,295	1,766,859	2,814,744	235,032	89,944	17,899,874
Additions	150,892	32,927	216,907	–	–	400,726
Disposals	(85,280)	–	–	(38,495)	–	(123,775)
As at 31 December 2018	13,058,907	1,799,786	3,031,651	196,537	89,944	18,176,825
Accumulated Depreciation/ Amortization:						
As at 1 January 2018	1,130,282	445,785	1,687,733	188,071	61,460	3,513,331
Disposals	–	–	–	(38,495)	–	(38,495)
Charge for the year	253,979	87,187	334,854	27,253	8,994	712,267
As at 31 December 2018	1,384,261	532,972	2,022,587	176,829	70,454	4,187,103
Net book value as at 31 December 2018	**11,674,646**	**1,266,814**	**1,009,064**	**19,708**	**19,490**	**13,989,722**

8. Property, Plant and Equipment (continued)

	Land and Building	Land and Building Improvements	Furniture, Equipment and Software	Motor Vehicles	Leasehold Improvements	Total
Cost:	$	$	$	$	$	$
As at 1 January 2017	12,993,295	1,766,859	2,690,718	292,421	89,944	17,833,237
Additions	–	–	131,496	23,251	–	154,747
Disposals	–	–	(7,470)	(80,640)	–	(88,110)
As at 31 December 2017	12,993,295	1,766,859	2,814,744	235,032	89,944	17,899,874
Accumulated Depreciation/ Amortization:						
As at 1 January 2017	878,788	358,880	1,388,302	235,636	52,466	2,914,072
Disposals	–	–	(5,405)	(80,640)	–	(86,045)
Charge for the year	251,494	86,905	304,836	33,075	8,994	685,304
As at 31 December 2017	1,130,282	445,785	1,687,733	188,071	61,460	3,513,331
Net book value as at 31 December 2017	**11,863,013**	**1,321,074**	**1,127,011**	**46,961**	**28,484**	**14,386,543**

Land and building comprise a commercial building complex on John F. Kennedy Drive, New Providence, Bahamas, a portion of which the Group occupies. The remainder of the complex is being leased to third parties.

9. Insurance Liabilities, Reinsurance Assets and Net Claims Incurred

General insurance funds comprises:

	2018 $	2017 $
General insurance liabilities (Gross)		
Outstanding claims reserve	52,139,026	218,183,911
Unearned premiums reserve	26,372,320	28,805,639
Deferred commissions income	2,074,876	1,981,607
	80,586,222	248,971,157
Reinsurance assets		
Outstanding claims recoverable from reinsurers	43,581,845	211,757,236
Unearned premiums reserve – reinsurance	16,536,424	19,615,322
Deferred commissions expense	2,878,542	2,792,563
	62,996,811	234,165,121
General insurance liabilities (Net)		
Outstanding claims reserve	8,557,181	6,426,675
Unearned premiums reserve	9,835,896	9,190,317
Deferred commissions income	(803,666)	(810,956)
General insurance funds	**17,589,411**	**14,806,036**

Net claims incurred comprise:

	2018 $	2017 $
Gross claims incurred	(34,492,713)	89,902,168
Amounts recoverable from reinsurers	(38,802,326)	(84,020,831)
Portfolio transfer (Note 12)	–	(8,264)
	4,309,613	**5,873,073**

As at 31 December 2018, cash advances received from reinsurers to settle the claims related to Hurricane Matthew totaled $Nil (2017: $46,608).

9. Insurance Liabilities, Reinsurance Assets and Net Claims Incurred (continued)

Developments in the ultimate incurred claims, including notified and IBNR, based on the accident year to which claims relate, can be analyzed as follows:

Insurance claims – Gross

Accident year	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Estimate of ultimate claims cost:									
At end of accident year	10,228,227	10,024,081	7,451,939	6,835,188	13,465,475	255,102,671	58,488,299	8,543,701	370,139,581
One year later	12,759,762	7,940,321	7,926,691	7,387,364	63,523,329	278,874,890	53,368,565		
Two years later	13,986,697	7,954,128	7,598,175	7,138,136	70,908,987	257,735,820			
Three years later	13,902,551	9,227,174	7,466,653	7,237,420	54,894,050				
Four years later	14,075,730	10,268,685	7,213,898	7,301,361					
Five years later	14,021,693	12,491,593	7,200,122						
Six years later	14,081,035	11,978,423							
Seven years later	14,074,895								
Current estimate of cumulative claims	14,074,895	11,978,423	7,200,122	7,301,361	54,894,050	257,735,820	53,368,565	8,543,701	415,096,937
Cumulative payments to date	(13,982,725)	(11,819,917)	(7,023,784)	(7,149,687)	(53,708,975)	(224,511,823)	(42,699,693)	(2,605,602)	(363,502,206)
Liability included in gross provision of claims	**92,170**	**158,506**	**176,338**	**151,674**	**1,185,075**	**33,223,997**	**10,668,872**	**5,938,099**	**51,594,731**
Liability in respect of prior years									544,295
Total liability included in gross provision of claims									**52,139,026**

Insurance claims – Net

Accident year	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Estimate of ultimate claims cost:									
At end of accident year	6,073,331	3,764,959	4,793,079	4,099,951	4,650,023	9,354,395	6,312,245	8,263,057	47,311,040
One year later	5,498,678	4,240,332	5,267,255	4,580,129	4,837,901	9,289,889	5,165,490		
Two years later	6,031,754	4,260,372	5,150,045	4,429,944	4,701,524	8,596,808			
Three years later	5,895,198	4,572,960	5,259,056	4,518,066	4,674,270				
Four years later	6,113,908	4,852,532	5,032,296	4,574,629					
Five years later	6,072,305	4,868,480	5,019,898						
Six years later	6,131,647	4,788,608							
Seven years later	6,125,507								
Current estimate of cumulative claims	6,125,507	4,788,608	5,019,898	4,574,629	4,674,270	8,596,808	5,165,490	8,263,057	47,208,267
Cumulative payments to date	(6,033,337)	(4,630,102)	(4,861,193)	(4,445,179)	(4,537,864)	(7,987,206)	(4,186,712)	(2,513,791)	(39,195,384)
Liability recognized in balance sheet	**92,170**	**158,506**	**158,705**	**129,450**	**136,406**	**609,602**	**978,778**	**5,749,266**	**8,012,883**
Liability in respect of prior years									544,298
Total liability included in consolidated balance sheet									**8,557,181**

9. Insurance Liabilities, Reinsurance Assets and Net Claims Incurred (continued)

Movements in insurance liabilities and reinsurance assets

(a) Outstanding claims reserve

	2018 Gross $	2018 Reinsurance $	2018 Net $	2017 Gross $	2017 Reinsurance $	2017 Net $
Notified claims	201,283,911	196,757,236	4,526,675	273,205,998	267,848,809	5,357,189
Incurred but not reported	16,900,000	15,000,000	1,900,000	1,210,597	-	1,210,597
Total at beginning of year	218,183,911	211,757,236	6,426,675	274,416,595	267,848,809	6,567,786
Cash paid for claims settled in year	(131,552,173)	(126,842,181)	(4,709,992)	(146,134,852)	(140,112,404)	(6,022,448)
Increase in liabilities – Arising from current-year claims	5,938,099	188,833	5,749,266	52,073,780	48,848,408	3,225,372
– Arising from prior-year claims	(40,430,811)	(41,522,043)	1,091,232	37,828,388	35,172,423	2,655,965
Total at end of year	52,139,026	43,581,845	8,557,181	218,183,911	211,757,236	6,426,675
Notified claims	49,089,026	43,581,845	5,507,181	201,283,911	196,757,236	4,526,675
Incurred but not reported	3,050,000	-	3,050,000	16,900,000	15,000,000	1,900,000
Total at end of year	**52,139,026**	**43,581,845**	**8,557,181**	**218,183,911**	**211,757,236**	**6,426,675**

(b) Unearned premiums reserve

	2018 Gross $	2018 Reinsurance $	2018 Net $	2017 Gross $	2017 Reinsurance $	2017 Net $
At beginning of year	28,805,639	19,615,322	9,190,317	26,446,910	17,028,394	9,418,516
Increase in the period	29,969,008	18,678,393	11,290,615	29,153,066	19,840,636	9,312,430
Release in the period	(32,402,327)	(21,757,291)	(10,645,036)	(26,794,337)	(17,253,708)	(9,540,629)
At end of year	**26,372,320**	**16,536,424**	**9,835,896**	**28,805,639**	**19,615,322**	**9,190,317**

(c) Deferred commissions income/expense

	2018 Deferred commissions income $	2018 Deferred commissions expense $	2018 Net $	2017 Deferred commissions income $	2017 Deferred commissions expense $	2017 Net $
At beginning of year	1,981,607	2,792,563	(810,956)	1,982,641	2,907,413	(924,772)
Increase in the period	2,448,424	3,368,400	(919,976)	2,023,800	2,838,137	(814,337)
Release in the period	(2,355,155)	(3,282,421)	927,266	(2,024,834)	(2,952,987)	928,153
At end of year	**2,074,876**	**2,878,542**	**(803,666)**	**1,981,607**	**2,792,563**	**(810,956)**

10. Non-Controlling Interests

Non-controlling interests represent RSA's issued and fully paid preference shares, which are variable rate cumulative redeemable preference shares with a par value of $10 per share, redeemable solely at the option of RSA with the declaration of dividends at the discretion of the Directors of RSA. The dividend rate is Bahamian dollar Prime rate plus 2.00% payable semi-annually, and any dividends undeclared are cumulative and payable before any distribution to ordinary shareholders. The preference shares issued and fully paid as of 31 December 2018 and 2017 total 1,000,000 shares comprised of 500,000 Series A preference shares and 500,000 Series B preference shares.

11. Premiums Written

	2018 $	2017 $
Policy amounts written	71,606,702	75,537,548
Premium tax recovered from policyholders	(1,341,518)	(1,653,927)
Value added tax recovered from policyholders	(3,114,060)	(4,310,802)
	67,151,124	**69,572,819**

12. Portfolio Transfer

Effective 1 January 2017, the Group increased the percentage of risk retained on its non-catastrophe fire property portfolio, which resulted in changes to net unearned premiums and outstanding claims reserves relative to the respective insurance policies in force as of that date, along with the relevant transfer of funds.

13. Net Commissions Incurred

	2018 $	2017 $
Amounts paid to agents	7,535,380	7,236,417
Amounts received from reinsurers	(5,712,757)	(5,280,946)
	1,822,623	1,955,471
Movement in deferred commissions expense	(85,979)	114,850
Movement in deferred commissions income	93,269	(1,034)
	1,829,913	**2,069,287**

14. Related Party Balances and Transactions

Related parties include: i) key management personnel, including directors; ii) entities that have the ability to control or exercise significant influence over the Group in making financial or operational decisions; and iii) entities that are controlled, jointly controlled or significantly influenced by parties described in i) and ii). Related parties comprise significant shareholders, directors, key management personnel and entities in which these parties have control or significant influence.

The consolidated financial statements include the following balances and transactions with related parties, not otherwise disclosed:

	2018 $	2017 $
Balances		
Due from agents	4,430,085	8,352,980
Outstanding claims due from reinsurers	10,450	290,096
Investments in securities		
Fair value through profit or loss		
– Level 2	633,844	784,426
– Level 3	2,502,846	2,526,389
Investment in associate	5,674,497	4,804,102
Loans and receivables		
– Amortized cost	9,197,410	8,850,000
– Accrued interest	41,723	27,158
Due to/(from) reinsurers	384,315	643,556
Transactions		
Premiums written	30,639,815	44,073,776
Premiums ceded	2,379,123	2,402,882
Commissions (paid to agents)	4,453,609	4,520,502
Commissions (received from reinsurers)	510,493	524,041
Claims recoverable from reinsurers	335,133	793,051
Interest, dividends and other income	509,267	142,899
Personnel costs	1,091,326	1,009,512
General and administrative expenses (rent)	29,073	28,700
Directors fees	113,000	113,000

As of 31 December 2018, the Group had receivable balances due from related party agents totaling $1,227,000 (2017: $935,000) with an ageing over 90 days that are past due but not impaired. See Note 4 for significant related party non-cash transaction.

The Directors of the Group remeasured investments in unlisted securities of related parties. The fair values were determined based on the latest arm's length transactions and other valuation techniques described in Note 5, which resulted in a decrease in fair values for 2018 of $23,443 (2017: decrease $330,191). The cumulative net unrealized loss on investments in unlisted securities of related parties totals $902,071 (2017: $653,614). During 2018, the net realized loss on investments in unlisted securities from related parties total $272,000 (2017: $Nil).

15. Employee Benefits

The pension costs recognized in the consolidated statement of comprehensive income in personnel costs in the current year totaled $85,780 (2017: $85,950). The Group's contributions to the pension plan vest 50% with employees upon completion of five years of employment, and fully vest upon completion of ten years of employment.

As of 31 December 2018, the Group employed 31 (2017: 31) persons.

16. Commitments and Contingent Liabilities

Commitments

Group as lessor

The future aggregate minimum rentals receivable under non-cancellable operating leases total $281,650 with lease agreements expiring in April 2019, September 2019 and September 2020.

Group as lessee

The Group has an operating lease for premises it occupies in Grand Bahama. The lease is operating on a month to month basis.

Contingent liabilities

The Group is a party to several legal actions involving claims that arise in the ordinary course of business activities. Management believes that the resolution of these matters will not have a material impact on the Group's consolidated financial statements and adequate provision has been made in the outstanding claims reserve.

17. Risk Management

The Group engages in transactions that expose it to insurance risk, credit risk, liquidity risk, interest rate risk, price risk and currency risk in the normal course of business. The Board's responsibilities include ensuring that the Group's principal risk management policies and related monitoring systems are adhered to. The Board monitors the integrity of the Group's risk management functions through various committees which report directly to the Board of Directors. The Committees are as follows: Audit & Compliance, Risk & Underwriting, Investment, Conduct Review and Administration & Compensation.

The Group's financial performance is affected by its capability to understand and effectively manage these risks, and its challenge is not only to measure and monitor these risks but also to manage them as profit opportunities.

(a) Insurance risk

Insurance risk is the risk under insurance contracts that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

The frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. The Group has a dedicated in-house claims department, which actively manages and pursues early settlements of claims to reduce the Group's exposure to unpredictable developments.

17. Risk Management (continued)

(a) Insurance risk (continued)

The Group also uses external loss adjusters, as necessary. In respect of serious bodily injury claims and complex claim disputes, the Group will appoint legal counsel to act on its behalf, where necessary, to ensure settlements and avoid claims development. However, the severity of claims can be affected by an increasing level of awards of the courts and inflation.

In the normal course of business, the Group seeks to limit its exposure to losses that may arise from any single occurrence through the use of reinsurance arrangements. Reinsurance is primarily placed using a combination of proportional, facultative and excess of loss treaties. The Group has reinsurance coverage in place to limit the impact of claims in any one year, with such coverage designed to limit the impact of claims related to any single event and/or catastrophe to approximately 10% of RSA's total equity.

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 fulfil their obligations under the contracts. The Group seeks to mitigate this risk by placing its reinsurance coverage with large multi-national insurers and as of 31 December 2018, the Group's reinsurers all have a minimum A.M. Best Financial Strength Rating of A- (Excellent) or equivalent rating with alternate rating agencies. The Group does not anticipate any issues with the collection of amounts due from reinsurers as they become due, and is not aware of any disputes with reinsurers, overdue amounts or any specific credit issues.

Insurance premiums written in The Bahamas and the Cayman Islands represent approximately 67% (2017: 80%) and 16% (2017: 11%), respectively, of all contracts issued by the Group.

Property insurance risks

Property insurance contracts provide compensation for loss or damage to property and business interruption insurance contracts provide compensation for loss of profits following damage to the insured property. Such insurance contracts cover property, motor and marine risks, and are underwritten by reference to the commercial replacement value of the property and contents insured.

For property insurance contracts, climatic changes are giving rise to more frequent extreme weather events (for example, hurricanes, tropical storms and storm surges) and resulting damages. The Group has: the right to re-price each individual risk on renewal; the ability to impose or increase deductibles; and payment limits to cap the amount payable on occurrence of the insured event. The costs of repairing or rebuilding properties, the cost of providing replacement or indemnity for damaged or stolen contents, and time taken to restart business operations are the key factors that influence the level of claims under these policies. The most likely cause of major loss under property insurance contracts arises from a hurricane event or other serious weather-related event. Single events, such as fires and collisions, may also generate significant claims.

As property claims generally have short settlement periods, these claims can be estimated with greater reliability.

Casualty insurance risks

Casualty insurance contracts provide compensation for personal injury from motor claims, public liability, employers' liability, workmen's compensation and personal liability coverage.

The Group manages these risks through conservative underwriting and reinsurance strategies and the adoption of proactive claims management. Underwriting policies and procedures enforce appropriate risk selection criteria, and include the right not to renew individual insurance

17. Risk Management (continued)

(a) Insurance risk (continued)

Casualty insurance risks (continued)

contracts and the right to reject the payment of a fraudulent claim. The frequency and severity of claims can be affected by several factors, including inflation, the level of awards of the courts and length of time to settle the claims.

The majority of claims on casualty insurance 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 longer period of time. Given the uncertainty in establishing reserves for such claims, it is possible that the final cost of a claim will vary significantly from the initial reserve. In calculating the estimated cost of outstanding claims, the Group uses various industry standard loss estimation techniques and the experience of the Group in settling similar claims.

(b) Financial risk

The Group is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. The most important components of this financial risk are credit risk, liquidity risk, interest rate risk, equity price risk and foreign currency risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Group manages these positions within the risk policy framework that has been developed to achieve long-term investment returns in excess of its obligation under insurance contracts. Within the risk policy the Group periodically produces analytical reports at portfolio and country level, that are circulated to the various Board Committees and key management personnel. The Group has not changed the process used to manage its risks from previous years.

The following tables reconcile the consolidated balance sheet to the classes and portfolios used in the Group's risk policy.

	2018 $	2017 $
Financial assets		
Cash on hand and at banks	14,145,911	7,610,978
Term deposits	10,007,944	9,915,508
Investments in securities:		
Fair value through profit or loss	5,889,183	6,104,473
Loans and receivables	13,054,875	13,114,136
Due from reinsurers	971,652	937,076
Due from agents	9,497,414	11,356,335
Accounts receivable and other assets	525,865	6,951,540
Outstanding claims recoverable from reinsurers	43,581,845	211,757,236
Total financial assets	**97,674,689**	**267,747,282**
Non-financial assets	39,079,185	42,498,530
Total assets	**136,753,874**	**310,245,812**

17. Risk Management (continued)

(b) Financial risk (continued)

	2018 $	2017 $
Financial liabilities		
General insurance liabilities	52,139,026	218,183,911
Other liabilities	6,841,739	14,083,839
Total financial liabilities	**58,980,765**	**232,267,750**
Non-financial liabilities	28,447,196	30,787,246
Total liabilities	**87,427,961**	**263,054,996**

(c) Credit risk

Credit risk arises from the potential failure of a counterparty to perform according to the terms of a contract. The Group's exposure to credit risk includes the majority of its assets. To mitigate this risk, the Group places cash with banks in good standing with the applicable banking regulators; monitors the payment history of its agents before continuing to do business with them; places reinsurance coverage as noted in (a) above; and invests in debt securities of financially sound companies, including related parties.

Related party agents' balances are supported by shares of the Group, indirectly owned by these parties that have been pledged in favor of the Group as collateral.

The following assets of the Group are exposed to credit risk:

	2018 $	2017 $
Cash on hand and at banks	14,145,911	7,610,978
Term deposits	10,007,944	9,915,508
Investments in securities		
Fair value through profit or loss		
Level 2 – Equity securities	3,128,656	3,322,933
Level 3 – Equity securities and investment funds	2,760,527	2,781,540
Loans and receivables	13,054,875	13,114,136
Receivable and other assets		
Due from reinsurers	971,652	937,076
Due from agents	9,497,414	11,356,335
Accounts receivable and other assets	525,865	6,951,540
Outstanding claims recoverable from reinsurers	43,581,845	211,757,236
Total	**97,674,689**	**267,747,282**

17. Risk Management (continued)

(c) Credit risk (continued)

As at 31 December 2018	Neither past due nor impaired $	Past due but not impaired $	Impaired $	Total $
Cash on hand and at banks	14,145,911	–	–	14,145,911
Term deposits	10,007,944	–	–	10,007,944
Investments in securities				
Fair value through profit or loss				
Level 2 – Equity securities	3,128,656	–	–	3,128,656
Level 3 – Equity securities and investment funds	2,760,527	–	–	2,760,527
Loans and receivables	13,017,505	37,370	–	13,054,875
Receivable and other assets				
Due from reinsurers	971,652	–	–	971,652
Due from agents	8,189,414	1,308,000	–	9,497,414
Accounts receivable and other assets	525,865	–	–	525,865
Outstanding claims recoverable from reinsurers	43,581,845	–	–	43,581,845
Total	**96,329,319**	**1,345,370**	**–**	**97,674,689**

As at 31 December 2017	Neither past due nor impaired $	Past due but not impaired $	Impaired $	Total $
Cash on hand and at banks	7,610,978	–	–	7,610,978
Term deposits	9,915,508	–	–	9,915,508
Investments in securities				
Fair value through profit or loss				
Level 2 – Equity securities	3,322,933	–	–	3,322,933
Level 3 – Equity securities and investment funds	2,781,540	–	–	2,781,540
Loans and receivables	13,022,292	91,844	–	13,114,136
Receivable and other assets				
Due from reinsurers	937,076	–	–	937,076
Due from agents	10,371,335	985,000	–	11,356,335
Accounts receivable and other assets	776,881	6,174,659	–	6,951,540
Outstanding claims recoverable from reinsurers	211,757,236	–	–	211,757,236
Total	**260,495,779**	**7,251,503**	**–**	**267,747,282**

17. Risk Management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Group may not have the necessary funds to honor all of its financial commitments including claims. All 'other liabilities' are due on demand and claims are payable on the occurrence of the claims, which principally results in short-term cash outflows. The remaining general insurance liabilities could result in cash outflows within one year.

The Group manages its liquidity risk by maintaining an appropriate level of liquid assets (principally cash at banks and term deposits), which mature or could be sold immediately to meet cash requirements for normal operating purposes. Except for certain investments in securities (Note 5), investment property and property, plant and equipment, all assets could result in cash inflows within one year.

Financial Liabilities as at 31 December 2018	Cash Flows			
	< 1 year $	1-5 years $	> 5 years $	Total $
Outstanding claims reserve	5,938,099	45,405,956	794,971	52,139,026
Cash advance from reinsurers	–	–	–	–
Due to reinsurers	4,344,644	–	–	4,344,644
Accounts payable and accrued expenses	2,497,095	–	–	2,497,095
Total	**12,779,838**	**45,405,956**	**794,971**	**58,980,765**

Financial Liabilities as at 31 December 2017	Cash Flows			
	< 1 year $	1-5 years $	> 5 years $	Total $
Outstanding claims reserve	52,073,777	164,821,286	1,288,848	218,183,911
Cash advance from reinsurers	46,608	–	–	46,608
Due to reinsurers	6,559,607	–	–	6,559,607
Accounts payable and accrued expenses	1,452,475	6,025,149	–	7,477,624
Total	**60,132,467**	**170,846,435**	**1,288,848**	**232,267,750**

(e) Interest rate risk

Interest rate risk is the risk that the fair values or cash flows of financial instruments may fluctuate significantly as a result of changes in market interest rates. The Group's exposure to fair value interest rate risk is considered minimal as its interest-bearing financial instruments for the most part have short terms to maturity or interest rates that periodically reset to market rates.

17. Risk Management (continued)

(f) Price risk

Price risk is the risk that the fair values and/or amounts realized on the sales of financial instruments may fluctuate significantly as a result of changes in market prices. The securities held at fair value through profit or loss expose the Group to price risk. The Group invests in private equity securities of companies demonstrating profit potential generally accompanying underlying assets with fair values in excess of the entity's equity. Investments are also made in exchange traded securities of companies that the Directors of the Group, with the advice of an investment manager, consider to have income and/or capital gains potential.

For the year ended 31 December 2018, the All Share Index of the Bahamas International Securities Exchange experienced a return of 2.22%. The carrying amount of the Group's financial assets at fair value through profit or loss for Level 2 securities, including Level 3 mutual funds and loan and receivables, which are pegged to the Bahamas Prime Rate, would increase/(decrease) by $333,284/ ($333,284), if these investments in securities experienced returns of +10% and -10%, respectively; see Note 5 for sensitivity analyses for Level 3 equity securities.

(g) Currency risk

Currency risk is the risk that the fair values and/or amounts realized on settlement of financial instruments, and settlements of foreign currency transactions, will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized monetary assets and liabilities are denominated in currencies other than the Group's functional currency. The Group is not subject to significant currency risk as its foreign currency transactions and monetary assets and liabilities are denominated in currencies with foreign exchange rates currently fixed against the Group's functional currency.

(h) Sensitivity Analyses

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

Sensitivity factor	Description of sensitivity factor applied
Interest rates on term deposits	The impact of change in market rates by 1% and 3%
Underwriting expenses	The impact of change in underwriting expenses by 5% and 10%
Loss ratio	The impact of change in loss ratio by 5% and 10%

As at 31 December 2018	Interest Rates			
	+1%	-1%	+3%	-3%
Impact on profit and equity	$100,079	($100,079)	$300,238	($300,238)
	Underwriting Expenses			
	+5%	-5%	+10%	-10%
Impact on profit and equity	($655,328)	$655,328	($1,310,656)	$1,310,656
	Loss Ratio			
	+5%	-5%	+10%	-10%
Impact on profit and equity	($1,040,120)	$1,040,120	($2,080,239)	$2,080,239

17. Risk Management (continued)

(h) Sensitivity Analyses (continued)

As at 31 December 2017	Interest Rates			
	+1%	-1%	+3%	-3%
Impact on profit and equity	$99,155	($99,155)	$297,465	($297,465)
	Underwriting Expenses			
	+5%	-5%	+10%	-10%
Impact on profit and equity	($605,890)	$605,890	($1,211,780)	$1,211,780
	Loss Ratio			
	+5%	-5%	+10%	-10%
Impact on profit and equity	($1,050,725)	$1,050,725	($2,101,450)	$2,101,450

18. Capital Management

The Group's objectives when managing capital, which consists of total equity on the consolidated balance sheet, are:

- To comply with the insurance capital requirements required by the regulators of the insurance markets in which the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide adequate returns to shareholders by pricing insurance contracts commensurate with the level of risk.

In each country in which the Group operates, the insurance regulator specifies the minimum amount and type of capital that must be held and solvency ratio that must be maintained, based on the applicable laws and regulations governing the country's insurance industry. The minimum capital requirements applicable to the Group range from $150,000 to $5,000,000. The Group has complied with all of the externally imposed capital requirements to which it is subject.

As at 31 December 2018, the Group maintained its A.M. Best Financial Strength Rating of A (Excellent) with a stable outlook.

19. Fair Values of Financial Instruments

Financial instruments utilized by the Group are limited to the recorded financial assets and liabilities included in the consolidated balance sheet. Carrying amounts of all financial instruments reflect fair values or are considered to approximate fair value given their short-term nature and/or interest rates that periodically reset to market interest rates. For long term financial assets with fixed interest rates, despite a change in market rates since the issuance of the financial liabilities there has been no observable change in fair values; accordingly, the carrying values approximate fair values.

19. Fair Values of Financial Instruments (continued)

For financial assets, other than those recognized at fair value, the fair value hierarchy is principally Level 2.

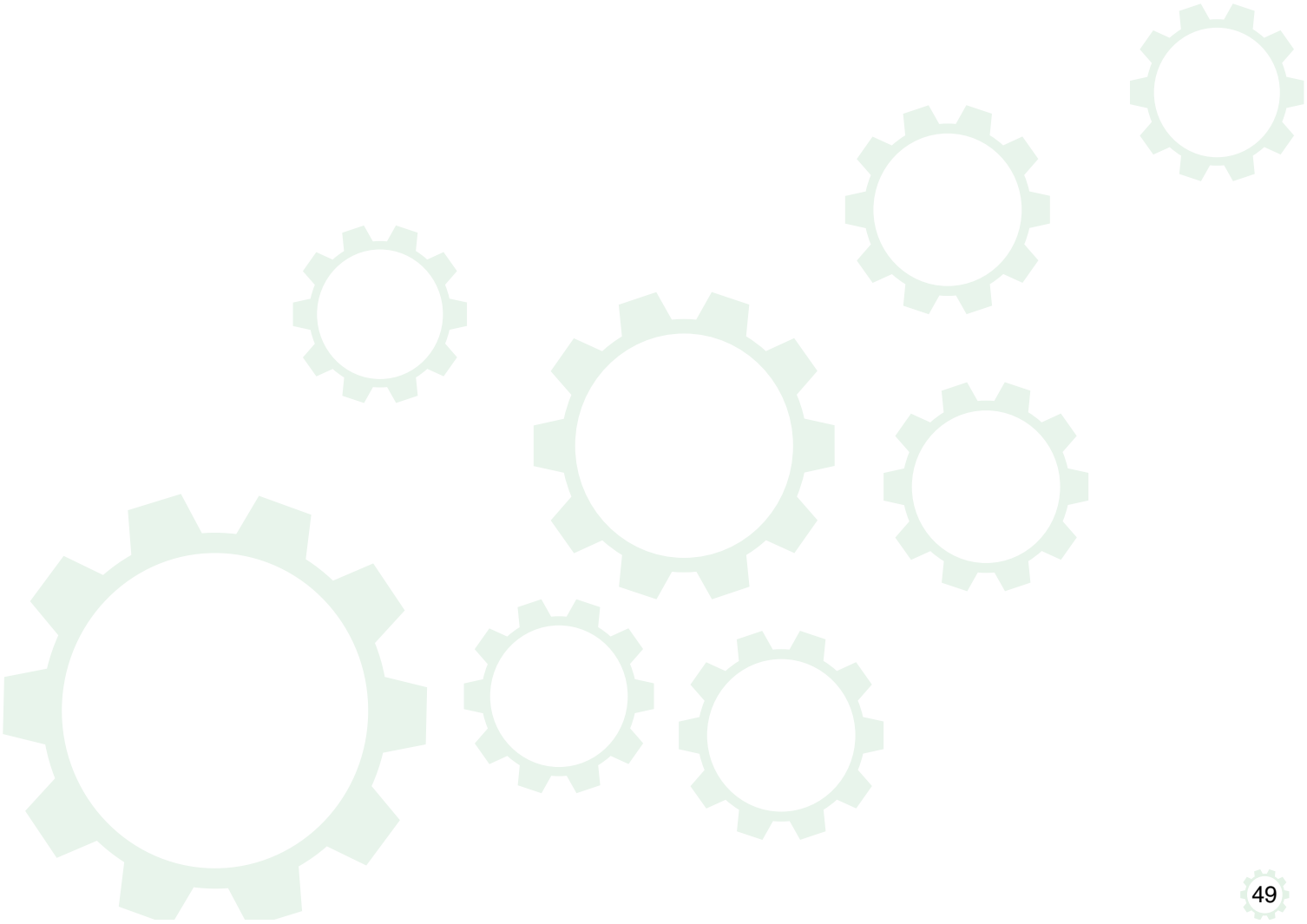
20. Outstanding Claims Reserve – Actuarial Valuation

During 2018, the Group engaged an Appointed Actuary to perform a valuation of RSA's policy liabilities as at 31 December 2018. The policy liabilities consist of a provision for unpaid claims and adjustment expenses on the expired portion of policies (claim liabilities), and a provision for future obligations on the unexpired portion of policies (premium liabilities). The valuation is in accordance with generally accepted actuarial practice, including the selection of appropriate methods and assumptions. Actuarial methods used in determining the claim liabilities include the Paid Development method, the Incurred Development method, the Paid Bornhuetter-Ferguson method, the Incurred Bornhuetter-Ferguson method and the Expected Loss Ratio method. (See Note 9 (a) and 9 (b) for details related to claims liabilities and premium liabilities).

21. Subsequent Events

Subsequent to the year end, the Directors approved a dividend of $156,250 ($0.313 per share) on Series B preference shares.

NOTES



NOTES

CAVALIER FOOTBALL CLUB UNDER 7 TEAM

KEVIN JOHNSON BASKETBALL CAMP

MEN OF TOMORROW MENTORSHIP PROGRAMME

OUR YOUTH

RSHL'S PHILANTHROPIC EFFORTS ARE MAINLY GEARED TOWARDS THOSE CHARITABLE ORGANIZATIONS THAT ARE INVOLVED IN YOUTH ACTIVITIES AND CARING FOR THE LESS FORTUNATE. IT IS OUR BELIEF THAT SUCH CONTRIBUTIONS HELP TO BRING ABOUT COMMUNITY RESPONSIVENESS TO POSITIVE SOCIAL CHANGE.

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