ROYALSTAR ASSURANCE LTD.

Consolidated Financial Statements
31 December 2020

Independent auditors' report

To the Shareholder of RoyalStar Assurance Ltd.

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of RoyalStar Assurance Ltd. (the Company) and its subsidiaries (together 'the Group') as at 31 December 2020, 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 2020;
- 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 significant accounting policies and other explanatory information.

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

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.

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 scepticism 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 shareholder 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.

Chartered Accountants
Nassau, Bahamas

13 April 2021

RoyalStar Assurance Ltd.
(Incorporated under the laws of the Commonwealth of The Bahamas)

Consolidated Balance Sheet
As at 31 December 2020
(Expressed in Bahamian dollars)

	2020 $	2019 $
ASSETS		
Cash on hand and at banks (Note 3)	25,162,433	12,003,191
Term deposits (Note 3)	9,420,642	10,854,301
Due from reinsurers	2,080,476	8,425,633
Due from agents (Note 4)	12,208,921	10,751,631
Accounts receivable, prepayments and other assets	652,944	564,168
Unearned premiums reserve – reinsurance (Note 8)	21,668,486	19,965,949
Deferred commissions expense (Note 8)	3,846,277	3,139,556
Outstanding claims recoverable from reinsurers (Note 8)	36,420,666	162,586,099
Investments in securities (Note 5):		
Fair value through profit or loss	8,071,752	6,456,564
Loans and receivables	10,357,226	14,144,270
Investment in associate (Note 6)	5,466,815	5,462,627
Property and equipment (Note 7)	13,310,487	13,557,325
Total assets	**148,667,125**	**267,911,314**
LIABILITIES		
General insurance liabilities		
Unearned premiums reserve (Note 8)	31,992,319	29,744,502
Deferred commissions income (Note 8)	3,118,529	2,319,069
Outstanding claims reserve (Note 8)	43,846,611	171,405,990
	78,957,459	203,469,561
Other liabilities		
Cash advance from reinsurers (Note 8)	9,900,275	13,136,905
Due to reinsurers	5,115,673	3,885,802
Accounts payable and accrued expenses	3,685,663	1,018,787
Total liabilities	**97,659,070**	**221,511,055**

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

RoyalStar Assurance Ltd.
(Incorporated under the laws of the Commonwealth of The Bahamas)

Consolidated Balance Sheet
As at 31 December 2020
(Expressed in Bahamian dollars)
(Continued)

	2020 $	2019 $
EQUITY		
Share capital:		
Ordinary shares		
Authorized, issued and fully paid:		
10,000,000 shares of $0.30 each	3,000,000	3,000,000
Preference shares		
Authorized, issued and fully paid:		
1,000,000 shares of $10.00 each (Note 9)	10,000,000	10,000,000
Contributed surplus	7,000,000	7,000,000
Retained earnings	31,008,055	26,400,259
Total equity	**51,008,055**	**46,400,259**
Total liabilities and equity	**148,667,125**	**267,911,314**

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

Director

Director

8 April 2021
Date

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

RoyalStar Assurance Ltd.

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2020
(Expressed in Bahamian dollars)

	2020 $	2019 $
REVENUE		
Premiums written (Note 10)	78,561,895	76,849,173
Premiums ceded to reinsurers	(56,126,178)	(55,181,841)
Net premiums written	22,435,717	21,667,332
Change in net unearned premiums (Note 8)	(545,280)	57,343
Net premiums earned	21,890,437	21,724,675
DIRECT EXPENSES		
Net claims incurred (Note 8)	2,566,645	8,387,245
Net commissions incurred (Note 11)	1,535,218	1,846,124
Catastrophe and excess of loss reinsurance	7,587,066	6,303,334
Total direct expenses	11,688,929	16,536,703
Underwriting gain	**10,201,508**	**5,187,972**
OTHER INCOME		
Interest, dividends and other income	862,209	912,465
Rental income	277,785	300,680
Loss on disposal of property and equipment	2,329	(21,566)
Net change in unrealized (depreciation)/appreciation of investments in securities (Note 5)	(760,536)	156,881
Total other income	**381,787**	**1,348,460**
OPERATING EXPENSES		
Personnel costs	2,804,801	2,428,287
General and administrative	1,705,532	2,286,735
Depreciation and amortization (Note 7)	619,074	713,593
Bad debt expense (Note 4)	82,000	74,741
Directors' costs	126,500	111,750
Total operating expenses	**5,337,907**	**5,615,106**
Share of net results of associate (Note 6)	(12,592)	(12,621)
Net income and total comprehensive income	**5,232,796**	**908,705**

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

RoyalStar Assurance Ltd.

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2020
(Expressed in Bahamian dollars)

	Ordinary Shares $	Preference Shares $	Contributed Surplus $	Retained Earnings $	Total $
Balance as at 1 January 2019	3,000,000	10,000,000	7,000,000	28,966,554	48,966,554
Total comprehensive income	-	-	-	908,705	908,705
Transactions with owners					
Dividends – preference shares	-	-	-	(625,000)	(625,000)
Dividends – ordinary shares	-	-	-	(2,850,000)	(2,850,000)
Total transactions with owners	-	-	-	(3,475,000)	(3,475,000)
Balance as at 31 December 2019	**3,000,000**	**10,000,000**	**7,000,000**	**26,400,259**	**46,400,259**
Balance as at 1 January 2020	3,000,000	10,000,000	7,000,000	26,400,259	46,400,259
Total comprehensive income	-	-	-	5,232,796	5,232,796
Transactions with owners					
Dividends – preference shares	-	-	-	(625,000)	(625,000)
Dividends – ordinary shares	-	-	-	-	-
Total transactions with owners	-	-	-	(625,000)	(625,000)
Balance as at 31 December 2020	**3,000,000**	**10,000,000**	**7,000,000**	**31,008,055**	**51,008,055**

Dividends per preference share: $0.625 (2019: $0.625)

Dividends per ordinary share: $Nil (2019: $0.285)

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

RoyalStar Assurance Ltd.

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2020
(Expressed in Bahamian dollars)

	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	5,232,796	908,705
Adjustments for:		
Interest, dividends and other income	(862,209)	(912,465)
Net change in unrealized depreciation/(appreciation) of investments in securities (Note 5)	760,536	(156,881)
Share of net results of associate (Note 6)	12,592	12,621
Gain on disposals of property and equipment (Note 7)	(2,329)	21,566
Depreciation and amortization (Note 7)	619,074	713,593
Bad debt expense (Note 4)	82,000	74,741
(Increase)/Decrease in operating assets		
Term deposits with original maturities of more than three months and restricted term deposits (Note 3)	1,399,105	(833,185)
Due from reinsurers	6,345,157	(7,453,981)
Due from agents (Note 4)	(1,539,290)	(1,328,958)
Accounts receivable, prepayments and other assets	(88,776)	(65,496)
Unearned premiums reserve – reinsurance (Note 8)	(1,702,537)	(3,429,525)
Deferred commissions expense (Note 8)	(706,721)	(261,014)
Outstanding claims recoverable from reinsurers (Note 8)	126,165,433	(119,004,254)
Increase/(Decrease) in operating liabilities		
Unearned premiums reserve (Note 8)	2,247,817	3,372,182
Deferred commissions income (Note 8)	799,460	244,193
Outstanding claims reserve (Note 8)	(127,559,379)	119,266,964
Cash advance from reinsurers (Note 8)	(3,236,630)	13,136,905
Due to reinsurers	1,229,871	(458,842)
Accounts payable and accrued expenses	2,666,876	(1,473,615)
Net cash from operating activities	**11,862,846**	**2,373,254**

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

RoyalStar Assurance Ltd.

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2020
(Expressed in Bahamian dollars)
(Continued)

	2020 $	2019 $
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	651,080	809,556
Purchase of investments in securities	(601,200)	(5,210,500)
Proceeds from sales/maturities of investments in securities	2,258,203	3,800,342
Capital injection in associate (Note 6)	(16,780)	(12,621)
Proceeds from disposal of property and equipment (Note 7)	8,700	-
Purchase of property and equipment (Note 7)	(378,607)	(302,762)
Net cash from/(used in) investing activities	**1,921,396**	**(915,985)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends on preference shares	(625,000)	(625,000)
Payment of dividends on ordinary shares	-	(2,850,000)
Net cash used in financing activities	**(625,000)**	**(3,475,000)**
Net increase/(decrease) in cash and cash equivalents	**13,159,242**	**(2,017,731)**
Cash and cash equivalents as at beginning of year	12,003,191	14,020,922
Cash and cash equivalents as at end of year (Note 3)	**25,162,433**	**12,003,191**

NON-CASH TRANSACTION:

See Note 5 for significant related party non-cash transaction.

RoyalStar Assurance Ltd.

Notes to the Consolidated Financial Statements
31 December 2020

1. General Information

RoyalStar Assurance Ltd. (the Company) is incorporated under the Companies Act, 1992 of the Commonwealth of The Bahamas (The Bahamas) and is licensed to operate as a property and casualty insurance company in The Bahamas under the Insurance Act, 2005. The Company is also licensed to operate in the same capacity under the relevant statutes and regulations in the Cayman Islands, the Turks and Caicos Islands, the British Virgin Islands, the United States Virgin Islands and Anguilla. Additionally, the Company through a wholly-owned subsidiary, RoyalStar Investments Ltd. (RIL), invests in commercial real estate.

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

The Company is a wholly-owned subsidiary of RoyalStar Holdings Ltd. (RSHL), whose primary shareholder is SunStar Ensure Limited, which owns 53.05% (2019: 53.05%) of RSHL'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, Bahamas.

2. 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) and 2(k).

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

New standards, amendments and interpretations adopted by the Group

There were no standards, amendments and interpretations to published standards that became effective for the Group's financial year beginning on 1 January 2020 which were relevant or significant to the Group's operations and accordingly did not impact the Group's accounting policies or consolidated financial statements.

The IASB issued amendments to IFRS 4 *Insurance contracts* (IFRS 4) that provided two approaches for insurers applying the requirements of IFRS 9, including an optional temporary exemption from applying IFRS 9 until 2023 for those companies whose activities are predominantly connected with insurance. In line with the deferral of the effective date of IFRS 17 *Insurance Contracts* (IFRS 17) to 1 January 2023, the IASB has tentatively agreed to extend the IFRS 9 *Financial Instruments* (IFRS 9) exemption for insurers to the same date. The Group has taken advantage of this temporary exemption and, subject to confirmation of the IASB's tentative decision, will apply IFRS 9 for the period beginning 1 January 2023.

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 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.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

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 2023 as described above.

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 2023. 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.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

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

A company's activities are predominantly connected with insurance if, and only if: (a) the amount of its insurance liabilities is significant compared with its total amount of liabilities and (b) the percentage of its liabilities connected with insurance relative to its total amount of liabilities is: (i) greater than 90 per cent; or (ii) less than or equal to 90 per cent but greater than 80 per cent, and the company does not engage in a significant activity unconnected with insurance. Liabilities connected with insurance include investment contracts measured at fair value through profit or loss, and liabilities that arise because the insurer issues, or fulfils obligations arising from, these contracts (such as deferred tax liabilities arising on its insurance contracts).

The Group has assessed its insurance liabilities and concluded that its activities are predominantly connected with insurance contracts. In this regard, management has assessed the following:

- The Group has not previously applied any version of IFRS 9.
- The total carrying amount of liabilities arising from contracts within the scope of IFRS 4 for the year ended 31 December 2015 (the date which precedes the issuance of the amendment to IFRS 4), represents 98% of total liabilities, which is considered significant.
- The total carrying amount of liabilities connected with insurance, which includes liabilities under IFRS 4 and investment contract liabilities measured at fair value under IAS 39, for the year ended 31 December 2015 is equivalent to 98% of total liabilities.

As a result, the Group qualifies for the temporary exemption from IFRS 9 and has applied IAS 39 rather than IFRS 9 to all of its financial assets. There has been no change in the Group's activities that warrant a reassessment of the above information.

The Amendment of IFRS 4 requires entities to disclose the fair value at the end of the reporting period and the change in fair value during the period for groups of financial assets with contractual cash flows that are solely payments of principal and interest ("SPPI") and other financial assets separately.

2. Significant Accounting Policies (Continued)

(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. 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.

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.

2. Significant Accounting Policies (Continued)

(b) Consolidation (Continued)

Associates (Continued)

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 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 contractual maturities of three months or less from the date of acquisition.

(e) Financial assets

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

2. Significant Accounting Policies (Continued)

(e) Financial assets (Continued)

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.

2. Significant Accounting Policies (Continued)

(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 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 and equipment

Property 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.

2. Significant Accounting Policies (Continued)

(g) Property and equipment (Continued)

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.

(h) 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.

2. Significant Accounting Policies (Continued)

(h) General insurance funds (Continued)

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.

The provision for unpaid claims, and the reinsurers' share thereof, is periodically reviewed and evaluated in the light of emerging claims experience and changing circumstances. Changes in estimate of the ultimate liability are included in net claims incurred in the consolidated statement of comprehensive income. The Group engages an Appointed Actuary to perform the valuation of its policy liabilities (refer to Note 18 for details).

(i) Accounts payable

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

(j) 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.

2. Significant Accounting Policies (Continued)

(k) 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.

(l) Taxation

Premium tax is incurred at the rate of 3.00%, 2.50% and 5.00% of premiums written in The Bahamas, the Turks and Caicos Islands and the United States Virgin Islands, respectively. The value added tax rate is 12% and is 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.

(m) Leases

Group as lessee

The Group has a lease for premises it occupies in Grand Bahama, The Bahamas, which is expiring on 1 December 2021. This lease is for a fixed period of 5 years and has a renewal option which is exercisable by the Group. The lease term is negotiated on an individual basis and contains a wide range of different terms and conditions. The lease agreement does not impose any covenants. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements in the period of initial application and the subsequent measurement thereof was immaterial. There were no new leases during the year.

2. Significant Accounting Policies (Continued)

(m) Leases (Continued)

Group as lessee (Continued)

Leases are recognized as a right-of-use asset and a corresponding liability at the date which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. Where that rate is not readily determined, which is the case for the Group's leases, the Group's incremental borrowing rate is used, being the rate the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses a build-up approach starting with the risk-free discount rate in the economic environment where the lease is located, adjusted for credit risk of the leases held by the Group which does not have recent third-party financing.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the interest expense in the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2. Significant Accounting Policies (Continued)

(m) Leases (Continued)

Group as lessee (Continued)

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Group as lessor

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 and equipment in the consolidated balance sheet and is not significant.

(n) 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 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.

(o) Corresponding figures

Where necessary, corresponding figures are adjusted to confirm with changes in presentation in the current year.

3. Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise:

	2020 $	2019 $
Cash on hand and at banks	25,162,433	12,003,191
Term deposits	9,420,642	10,854,301
Accrued interest	(14,581)	(49,135)
Restricted term deposits	(6,393,811)	(5,825,307)
Term deposits with contractual maturities greater than three months	(3,012,250)	(4,979,859)
	25,162,433	**12,003,191**

The restricted term deposits represent funds placed by the Group in a trust and other deposit accounts that cannot be distributed without the permission of the insurance regulators in the Cayman Islands, the Turks and Caicos Islands, the British Virgin Islands, the United States Virgin Islands and Anguilla. Interest rates on term deposits range from 0.00% to 0.86% (2019: 0.00% to 2.04%) per annum.

4. Due from Agents

	2020 $	2019 $
Premium receivable from agents	12,390,921	10,851,631
Allowance for doubtful accounts	(182,000)	(100,000)
	12,208,921	**10,751,631**

Movements in the allowance for doubtful accounts comprise:

	2020 $	2019 $
Balance as at beginning of year	100,000	25,259
Bad debt expense	82,000	74,741
Write-offs	-	-
Balance as at end of year	**182,000**	**100,000**

4. Due from Agents (Continued)

As at 31 December 2020, the Group had balances that are past due totaling $Nil (2019: $Nil) that are impaired, and $2,193,100 (2019: $1,390,000) 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.

5. Investments in Securities (Continued)

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

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.

As at 31 December 2020, the cost of financial assets at fair value through profit or loss totaled $6,382,449 (2019: $4,092,540), of which $2,160,775 (2019: $2,160,775) represented Level 3 securities. During 2019, the Group acquired an additional 1,150 shares in Eleuthera Properties Limited, a level 3 equity security, at a cost of $460,000, from a related party in a non-cash transaction, which resulted in a corresponding reduction in the notes receivable due from the related party.

	2020 $	2019 $
Level 2		
Debt securities	2,251,163	-
Equity securities	3,105,359	3,414,208
	5,356,522	3,414,208
Level 3		
Equity securities	2,464,800	2,776,228
Investment funds	250,430	266,128
	2,715,230	3,042,356
Total financial assets at fair value through profit or loss	**8,071,752**	**6,456,564**

5. Investments in Securities (Continued)

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

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

	Level 2 $	Level 3 $	Total $
Balance as at 1 January 2020	3,414,208	3,042,356	6,456,564
Purchases	101,200	-	101,200
Sales	-	-	-
Reclassification from loans and receivables	2,274,524	-	2,274,524
Net change in unrealized appreciation/(depreciation)	(433,410)	(327,126)	(760,536)
Balance as at 31 December 2020	**5,356,522**	**2,715,230**	**8,071,752**
Balance as at 1 January 2019	3,128,656	2,760,527	5,889,183
Purchases	100,500	460,000	560,500
Sales	-	(150,000)	(150,000)
Net change in unrealized appreciation/(depreciation)	185,052	(28,171)	156,881
Balance as at 31 December 2019	**3,414,208**	**3,042,356**	**6,456,564**

The Level 3 equity securities represent investments in a related party property development company, with real estate development in Eleuthera, The Bahamas; the Group does not have a controlling interest in the investee company. The underlying net asset values of the investee company are most sensitive to changes in property prices and development costs. A decrease in property prices and development costs of 25% would result in a decrease in the fair value of Level 3 equity securities of $616,200 (2019: $694,057).

5. Investments in Securities (Continued)

Loans and receivables

	Interest Rate	Maturity	2020 $	2019 $
The Government of The Bahamas Bridge Authority bonds	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
	5.22%	15/12/2037	-	1,000,000
Nassau Airport Development Bond	7.50%	31/12/2035	250,000	250,000
Gateway Financial Ltd. corporate bonds	6.50%	05/05/2021	966,577	1,030,000
Gateway Financial Ltd. corporate bonds	6.50%	30/06/2020	-	958,000
Gateway Financial Ltd. corporate bonds	6.50%	30/06/2020	-	358,803
Cable Bahamas Ltd. non-voting cumulative redeemable preference shares	5.75%	15/05/2021	-	250,000
Cable Bahamas Ltd. US$ non-voting cumulative redeemable preference shares	6.25%	15/05/2024	-	250,000
Fidelity Bank (Bahamas) Limited Series F redeemable floating rate note	Prime + 1.25%	30/05/2022	50,000	50,000

5. Investments in Securities (Continued)

Loans and receivables (Continued)

	Interest Rate	Maturity	2020 $	2019 $
Public Hospitals Authority Series A redeemable term notes	Prime + 1.25%	30/09/2033	342,105	368,421
Star General Investments (G.B.) Ltd. notes receivable	Prime + 0.50%	31/12/2025	2,340,000	2,340,000
Public Hospitals Authority mortgage	3.00%	31/12/2024	248,112	324,344
Sunshine Holdings Limited corporate bonds	6.00%	30/11/2020	-	500,000
Sunshine Finance Ltd. corporate bonds	6.00%	01/12/2026	500,000	-
The College of The Bahamas redeemable term notes	7.00%	30/06/2026	92,571	108,000
RF Holdings Limited Series A cumulative redeemable preference shares	6.00%	31/12/2029	100,000	100,000
Gateway Ascendancy Ltd. preference shares	6.50%	05/05/2021	-	10,000
RoyalStar Holdings notes receivable	6.00%	31/12/2026	5,000,000	5,000,000
			9,963,865	13,972,068
Accrued interest			393,361	172,202
Total loans and receivables			**10,357,226**	**14,144,270**

Investments in Bahamas Government registered stocks in the amount of $1,000,000 are placed in a trust and cannot be distributed from the trust without the permission of the insurance regulator in The Bahamas. On 31 December 2020, the Group reclassified its Bahamas Government registered stock and Cable Bahamas Ltd. B$ preference shares, totaling $2,022,122 and $252,402, respectively, from the loans and receivables category to financial assets at fair value through profit or loss, as management determined that these financial assets are now being actively traded in the local stock market. The difference between the previous amortized cost and fair value on reclassification totaled $23,361 and was recognized in the consolidated statement of comprehensive income.

6. Investment in Associate

Movements in investment in associate are as follows:

	2020 $	2019 $
As at 1 January	5,462,627	5,462,627
Capital injection in associate	16,780	12,621
Share of net results of associate	(12,592)	(12,621)
As at 31 December	**5,466,815**	**5,462,627**

Investment in associate is comprised of a 19% (2019:19%) ownership interest in Luxury Homes Bahamas Limited (Luxury Homes), a real estate holding company incorporated in the Bahamas.

A Director of the Group is a member of the Board of Directors of Luxury Homes and management has concluded that the Group has significant influence over this entity.

Summarized unaudited financial information for Luxury Homes, as at and for the year ended 31 December 2020 and 31 December 2019 is as follows:

	2020 $	2019 $
Assets	28,780,600	28,750,670
Liabilities	7,890	-
Net loss	66,274	66,426

7. Property and Equipment

	Land and Building $	Land and Building Improvements $	Furniture, Equipment and Software $	Motor Vehicles $	Leasehold Improvements $	Total $
Cost:						
As at 1 January 2020	13,173,243	1,799,786	3,131,198	196,537	89,944	18,390,708
Additions	98,033	-	264,864	15,710	-	378,607
Disposals	-	-	(52,576)	(7,300)	(89,944)	(149,820)
As at 31 December 2020	13,271,276	1,799,786	3,343,486	204,947	-	18,619,495
Accumulated Depreciation/ Amortization:						
As at 1 January 2020	1,640,015	621,674	2,305,060	187,186	79,448	4,833,383
Disposals	-	-	(50,793)	(7,208)	(85,448)	(143,449)
Charge for the year	258,613	88,697	258,869	6,895	6,000	619,074
As at 31 December 2020	1,898,628	710,371	2,513,136	186,873	-	5,309,008
Net book value as at 31 December 2020	**11,372,648**	**1,089,415**	**830,350**	**18,074**	**-**	**13,310,487**

7. Property and Equipment (Continued)

	Land and Building $	Land and Building Improvements $	Furniture, Equipment and Software $	Motor Vehicles $	Leasehold Improvements $	Total $
Cost:						
As at 1 January 2019	13,058,907	1,799,786	3,031,651	196,537	89,944	18,176,825
Additions	114,336	-	188,426	-	-	302,762
Disposals	-	-	(88,879)	-	-	(88,879)
As at 31 December 2019	13,173,243	1,799,786	3,131,198	196,537	89,944	18,390,708
Accumulated Depreciation/ Amortization:						
As at 1 January 2019	1,384,261	532,972	2,022,587	176,829	70,454	4,187,103
Disposals	-	-	(67,313)	-	-	(67,313)
Charge for the year	255,754	88,702	349,786	10,357	8,994	713,593
As at 31 December 2019	1,640,015	621,674	2,305,060	187,186	79,448	4,833,383
Net book value as at 31 December 2019	**11,533,228**	**1,178,112**	**826,138**	**9,351**	**10,496**	**13,557,325**

7. Property and Equipment (Continued)

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 not significant and is being leased to third parties.

8. Insurance Liabilities, Reinsurance Assets and Net Claims Incurred

General insurance funds comprise:

	2020 $	2019 $
General insurance liabilities (Gross)		
Outstanding claims reserve	43,846,611	171,405,990
Unearned premiums reserve	31,992,319	29,744,502
Deferred commissions income	3,118,529	2,319,069
	78,957,459	203,469,561
Reinsurance assets		
Outstanding claims recoverable from reinsurers	36,420,666	162,586,099
Unearned premiums reserve – reinsurance	21,668,486	19,965,949
Deferred commissions expense	3,846,277	3,139,556
	61,935,429	185,691,604
General insurance liabilities (Net)		
Outstanding claims reserve	7,425,945	8,819,891
Unearned premiums reserve	10,323,833	9,778,553
Deferred commissions income	(727,748)	(820,487)
General insurance funds	**17,022,030**	**17,777,957**

Net claims incurred comprise:

	2020 $	2019 $
Gross claims incurred	(13,128,140)	309,336,005
Amounts recoverable from reinsurers	(15,694,785)	300,948,760
	2,566,645	**8,387,245**

As at 31 December 2020, cash advances received from reinsurers to settle the claims related to Hurricane Dorian totaled $9,900,275 (2019: $13,136,905).

8. 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**	**2019**	**2020**	**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	7,256,701	317,707,546	7,247,128	693,807,255
One year later	12,759,762	7,940,321	7,926,691	7,387,364	63,523,329	278,874,890	53,730,565	6,298,087	296,296,655		
Two years later	13,986,697	7,954,128	7,598,175	7,138,136	70,908,987	258,223,820	53,682,732	4,566,200			
Three years later	13,902,551	9,227,174	7,466,653	7,237,420	55,106,050	251,375,340	55,347,032				
Four years later	14,075,730	10,268,685	7,213,898	7,335,361	54,365,556	251,835,057					
Five years later	14,021,693	12,491,593	7,235,122	7,513,421	54,256,803						
Six years later	14,081,035	12,010,423	7,455,558	7,561,847							
Seven years later	14,133,895	12,005,969	7,519,889								
Eight years later	14,080,895	11,985,697									
Nine years later	14,170,356										
Current estimate of cumulative claims	14,170,356	11,985,697	7,519,889	7,561,847	54,256,803	251,835,057	55,347,032	4,566,200	296,296,655	7,247,128	710,786,664
Cumulative payments to date	(13,993,915)	(11,835,697)	(7,269,509)	(7,360,654)	(54,251,803)	(250,814,508)	(53,129,499)	(3,463,550)	(261,282,325)	(3,799,044)	(667,200,504)
Liability included in gross provision of claims	**176,441**	**150,000**	**250,380**	**201,193**	**5,000**	**1,020,549**	**2,217,533**	**1,102,650**	**35,014,330**	**3,448,084**	**43,586,160**
Liability in respect of prior years											260,451
Total liability included in gross provision of claims											**43,846,611**

RoyalStar Assurance Ltd.

Notes to the Consolidated Financial Statements
31 December 2020
(Continued)

8. Insurance Liabilities, Reinsurance Assets and Net Claims Incurred (Continued)

Insurance claims – Net

Accident year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**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	6,976,057	9,443,677	4,804,977	60,272,694
One year later	5,498,678	4,240,332	5,267,255	4,580,129	4,837,901	9,289,889	5,527,490	5,955,122	8,698,799		
Two years later	6,031,754	4,260,372	5,150,045	4,429,944	4,701,524	9,084,808	5,646,440	4,350,050			
Three years later	5,895,198	4,572,960	5,259,056	4,518,066	4,886,270	9,524,973	5,568,945				
Four years later	6,113,908	4,852,532	5,032,296	4,608,630	4,785,003	9,920,549					
Five years later	6,072,305	4,868,480	5,054,898	4,773,941	4,675,155						
Six years later	6,131,647	4,820,608	5,253,191	4,822,524							
Seven years later	6,184,507	4,816,154	5,309,789								
Eight years later	6,131,507	4,795,882									
Nine years later	6,220,968										
Current estimate of cumulative claims	6,220,968	4,795,882	5,309,789	4,822,524	4,675,155	9,920,549	5,568,945	4,350,050	8,698,799	4,804,977	59,167,638
Cumulative payments to date	(6,044,527)	(4,645,882)	(5,082,347)	(4,635,051)	(4,670,155)	(9,308,842)	(4,580,874)	(3,299,532)	(7,601,897)	(2,133,037)	(52,002,144)
Liability recognized in balance sheet	**176,441**	**150,000**	**227,442**	**187,473**	**5,000**	**611,707**	**988,071**	**1,050,518**	**1,096,902**	**2,671,940**	**7,165,494**
Liability in respect of prior years											260,451
Total liability included in consolidated balance sheet											**7,425,945**

8. Insurance Liabilities, Reinsurance Assets and Net Claims Incurred (Continued)

Movements in insurance liabilities and reinsurance assets

(a) Outstanding claims reserve

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	$	$	$	$	$	$
Notified claims	168,505,990	162,586,099	5,919,891	49,089,026	43,581,845	5,507,181
Incurred but not reported	2,900,000	-	2,900,000	3,050,000	-	3,050,000
Total at beginning of year	171,405,990	162,586,099	8,819,891	52,139,026	43,581,845	8,557,181
Cash paid for claims settled in year	114,431,239	110,470,648	3,960,591	(190,069,041)	(181,944,506)	(8,124,535)
(Decrease)/Increase in liabilities – Arising from current year claims	(13,645,773)	(14,865,347)	1,219,574	315,987,545	308,113,868	7,873,677
– Arising from prior year claims	(228,344,845)	(221,770,734)	(6,574,111)	(6,651,540)	(7,165,108)	513,568
Total at end of year	43,846,611	36,420,666	7,425,945	171,405,990	162,586,099	8,819,891
Notified claims	41,121,611	36,420,666	4,700,945	168,505,990	162,586,099	5,919,891
Incurred but not reported	2,725,000	-	2,725,000	2,900,000	-	2,900,000
Total at end of year	**43,846,611**	**36,420,666**	**7,425,945**	**171,405,990**	**162,586,099**	**8,819,891**

(b) Unearned premiums reserve

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	$	$	$	$	$	$
At beginning of year	29,744,502	19,965,949	9,778,553	26,372,320	16,536,424	9,835,896
Increase in the period	35,066,711	23,351,462	11,715,249	34,586,181	23,555,919	11,030,262
Release in the period	(32,818,894)	(21,648,925)	(11,169,969)	(31,213,999)	(20,126,394)	(11,087,605)
At end of year	**31,992,319**	**21,668,486**	**10,323,833**	**29,744,502**	**19,965,949**	**9,778,553**

(c) Deferred commissions income/expense

	2020			2019		
	Deferred commissions income	Deferred commissions expense	Net	Deferred commissions income	Deferred commissions expense	Net
	$	$	$	$	$	$
At beginning of year	2,319,069	3,139,556	(820,487)	2,074,876	2,878,542	(803,666)
Increase in the period	3,353,167	4,170,719	(817,552)	2,616,845	3,550,662	(933,817)
Release in the period	(2,553,707)	(3,463,998)	910,291	(2,372,652)	(3,289,648)	916,996
At end of year	**3,118,529**	**3,846,278**	**(727,748)**	**2,319,069**	**3,139,556**	**(820,487)**

9. Preference Shares

The preference shares issued and fully paid are variable rate cumulative redeemable preference shares with a par value of $10 per share, redeemable solely at the option of the Group with the declaration of dividends at the discretion of the Directors of the Group. 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 at 31 December 2020 and 2019 total 1,000,000 shares comprised of 500,000 Series A preference shares and 500,000 Series B preference shares.

10. Premiums Written

	2020 $	2019 $
Policy amounts written	84,021,866	82,222,226
Premium tax recovered from policyholders	(1,437,484)	(1,325,449)
Value added tax recovered from policyholders	(4,022,487)	(4,047,604)
	78,561,895	**76,849,173**

11. Net Commissions Incurred

	2020 $	2019 $
Amounts paid to agents	9,025,571	7,699,484
Amounts received from reinsurers	(7,583,092)	(5,836,539)
	1,442,479	1,862,945
Movement in deferred commissions expense	(706,721)	(261,014)
Movement in deferred commissions income	799,460	244,193
	1,535,218	**1,846,124**

12. 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:

	2020 $	2019 $
Balances		
Due (to)/from reinsurers – net	(38,868)	3,486,373
Due from agents	6,683,194	6,981,456
Outstanding claims due from reinsurers	2,798,476	8,380,117
Investments in securities		
Fair value through profit or loss		
– Level 2	808,074	726,036
– Level 3	2,464,800	2,776,227
Loans and receivables		
– Amortized cost	8,806,577	10,196,803
– Accrued interest	376,603	130,565
Investment in associate	5,466,815	5,462,627
Transactions		
Premiums written	36,296,086	38,349,406
Premiums ceded	2,672,406	2,484,702
Claims recoverable from reinsurers	10,648,976	31,638,565
Commissions (paid to agents)	5,094,716	4,597,511
Commissions (received from reinsurers)	529,943	493,914
Interest, dividends and other income	8,875	413,455
Personnel costs	1,219,598	740,518
General and administrative expenses (rent)	24,050	25,312
Directors' costs	126,500	111,750
Share of net results of associate	12,592	12,621

As at 31 December 2020, the Group had receivable balances due from related party agents totaling $1,765,000 (2019: $1,328,000) with an ageing over 90 days that are past due but not impaired. See Note 5 for significant related party non-cash transaction.

12. Related Party Balances and Transactions (Continued)

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 in 2020 of $311,428 (2019: decrease of $28,171). The cumulative net unrealized gain on investments in unlisted securities of related parties totals $554,025 (2019: $865,452). During 2020, the net realized loss on investments in unlisted securities from related parties totals $Nil (2019: $ Nil).

13. Employee Benefits

The pension costs recognized in the consolidated statement of comprehensive income in personnel costs in the current year totaled $82,389 (2019: $81,990). 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 at 31 December 2020, the Group employed 27 (2019: 27) persons.

14. Commitments and Contingent Liabilities

Commitments

Group as lessor

The future aggregate minimum rentals receivable under non-cancellable operating leases total $504,267 with lease agreements expiring on 2 September 2022 and 30 September 2024.

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.

15. 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, 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. 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 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 at 31 December 2020, the majority of the Group's reinsurers 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.

15. Risk Management (Continued)

(a) Insurance risk (continued)

Insurance premiums written in The Bahamas, the Cayman Islands and Turks and Caicos Islands represent approximately 65% (2019: 66%), 18% (2019: 18%) and 13% (2019:13%), 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, it is believed that 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 cost 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 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 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.

15. Risk Management (Continued)

(a) Insurance risk (continued)

Casualty insurance risks (continued)

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, actuarial valuations 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, price risk and 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 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.

15. Risk Management (Continued)

(b) Financial risk (Continued)

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

	2020 $	2019 $
Financial assets		
Cash on hand and at banks	25,162,433	12,003,191
Term deposits	9,420,642	10,854,301
Investments in securities:		
Fair value through profit or loss	8,071,752	6,456,564
Loans and receivables	10,357,226	14,144,270
Due from reinsurers	2,080,476	8,425,633
Due from agents	12,208,921	10,751,631
Accounts receivable and other assets	389,489	262,726
Outstanding claims recoverable from reinsurers	36,420,666	162,586,099
Total financial assets	**104,111,605**	**225,484,415**
Non-financial assets	44,555,520	42,426,899
Total assets	**148,667,125**	**267,911,314**
Financial liabilities		
General insurance liabilities	43,846,611	171,405,990
Other liabilities	18,701,611	18,041,494
Total financial liabilities	**62,548,222**	**189,447,484**
Non-financial liabilities	35,110,848	32,063,571
Total liabilities	**97,659,070**	**221,511,055**

15. Risk Management (Continued)

(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:

	2020 $	2019 $
Cash on hand and at banks	25,162,433	12,003,191
Term deposits	9,420,642	10,854,301
Investments in securities		
Loans and receivables	10,357,226	14,144,270
Receivable and other assets		
Due from reinsurers	2,080,476	8,425,633
Due from agents	12,208,921	10,751,631
Accounts receivable and other assets	389,489	262,726
Outstanding claims recoverable from reinsurers	36,420,666	162,586,099
Total	**96,039,853**	**219,027,851**

15. Risk Management (Continued)

(c) Credit risk (Continued)

As at 31 December 2020	Neither past due nor impaired $	Past due but not impaired $	Impaired $	Total $
Cash on hand and at banks	25,162,433	-	-	25,162,433
Term deposits	9,420,642	-	-	9,420,642
Investments in securities:				
Loans and receivables	10,357,226	-	-	10,357,226
Receivable and other assets:				
Due from reinsurers	2,080,476	-	-	2,080,476
Due from agents	10,015,821	2,193,100	-	12,208,921
Accounts receivable and other assets	389,489	-	-	389,489
Outstanding claims recoverable from reinsurers	36,420,666	-	-	36,420,666
Total	**93,846,753**	**2,193,100**	**-**	**96,039,853**

As at 31 December 2019	Neither past due nor impaired $	Past due but not impaired $	Impaired $	Total $
Cash on hand and at banks	12,003,191	-	-	12,003,191
Term deposits	10,854,301	-	-	10,854,301
Investments in securities:				
Loans and receivables	14,144,270	-	-	14,144,270
Receivable and other assets:				
Due from reinsurers	8,425,633	-	-	8,425,633
Due from agents	9,361,631	1,390,000	-	10,751,631
Accounts receivable and other assets	262,726	-	-	262,726
Outstanding claims recoverable from reinsurers	162,586,099	-	-	162,586,099
Total	**217,637,851**	**1,390,000**	**-**	**219,027,851**

15. 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) and outstanding claims recoverable from reinsures, all assets could result in cash inflows within one year.

	Cash Flows			
Financial Liabilities as at 31 December 2020	**< 1 year $**	**1-5 years $**	**> 5 years $**	**Total $**
Outstanding claims reserve	3,448,084	39,360,062	1,038,465	43,846,611
Cash advance from reinsurers	9,900,275	-	-	9,900,275
Due to reinsurers	5,115,673	-	-	5,115,673
Accounts payable and accrued expenses	3,685,663	-	-	3,685,663
Total	**22,149,695**	**39,360,062**	**1,038,465**	**62,548,222**

	Cash Flows			
Financial Liabilities as at 31 December 2019	**< 1 year $**	**1-5 years $**	**> 5 years $**	**Total $**
Outstanding claims reserve	160,458,249	9,956,986	990,755	171,405,990
Cash advance from reinsurers	13,136,905	-	-	13,136,905
Due to reinsurers	3,885,802	-	-	3,885,802
Accounts payable and accrued expenses	1,018,787	-	-	1,018,787
Total	**178,499,743**	**9,956,986**	**990,755**	**189,447,484**

15. Risk Management (Continued)

(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.

(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 2020, the All Share Index of the Bahamas International Securities Exchange experienced a return of -6.33% (2019: 5.79%). 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 $616,239/($616,239), 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.

15. Risk Management (Continued)

(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 2020	Interest Rates			
	+1%	-1%	+3%	-3%
Impact on profit and equity	$94,206	($94,206)	$282,619	($282,619)

	Underwriting Expenses			
	+5%	-5%	+10%	-10%
Impact on profit and equity	$830,632	($830,632)	$1,661,264	($1,661,264)

	Loss Ratio			
	+5%	-5%	+10%	-10%
Impact on profit and equity	($1,094,522)	$1,094,522	($2,189,044)	$2,189,044

As at 31 December 2019	Interest Rates			
	+1%	-1%	+3%	-3%
Impact on profit and equity	$108,543	($108,543)	$325,629	($325,629)

	Underwriting Expenses			
	+5%	-5%	+10%	-10%
Impact on profit and equity	$700,042	($700,042)	$1,400,083	($1,400,083)

	Loss Ratio			
	+5%	-5%	+10%	-10%
Impact on profit and equity	($1,086,234)	$1,086,234	($2,172,468)	$2,172,468

16. 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 $75,000 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 2020, the Group maintained its A.M. Best Financial Strength Rating of A (Excellent) with a stable outlook.

17. 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, which are now actively traded in the local stock market; the assets have been reclassified to financial assets at fair value through profit or loss (Note 5).

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

18. Outstanding Claims Reserve – Actuarial Valuation

The Group engages an Appointed Actuary annually to perform a valuation of RSA's policy liabilities. 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 8(a) and 8(b) for details related to claims liabilities and premium liabilities).

19. COVID-19 Impact

In March 2020, the World Health Organization declared the novel coronavirus, known as COVID-19 outbreak, as a pandemic. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The Group, throughout the pandemic, has been able to manage it business operations without any major disruption to both its internal and external clients.

Even with the introduction of vaccines, there remain significant uncertainties in assessing the duration of the COVID-19 pandemic and its future economic impact. As at the balance sheet date, the Group has not experienced any significant impact to its financial performance or operations; however, the Group continues to closely monitor the situation given the prolonged nature of the pandemic and is ready to take any mitigating actions that may be required.

20. Subsequent Events

Subsequent to the year end, the Directors approved a dividend of $156,250 ($0.31 per share) on Series B preference shares.