ROYALSTAR HOLDINGS LTD.

Consolidated Financial Statements
31 December 2019

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 2019, 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 2019;
- 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.

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 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 Shareholders 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

27 May 2020

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

Consolidated Balance Sheet
As at 31 December 2019
(Expressed in Bahamian dollars)

	2019 $	2018 $
ASSETS		
Cash on hand and at banks (Note 3)	12,208,029	14,145,911
Term deposits (Note 3)	10,854,301	10,007,944
Due from reinsurers	8,425,633	971,652
Due from agents (Note 4)	10,751,631	9,497,414
Accounts receivable, prepayments and other assets	2,230,811	525,865
Unearned premiums reserve – reinsurance (Note 9)	19,965,949	16,536,424
Deferred commissions expense (Note 9)	3,139,556	2,878,542
Outstanding claims recoverable from reinsurers (Note 9)	162,586,099	43,581,845
Investments in securities (Note 5):		
Fair value through profit or loss	6,456,564	5,889,183
Loans and receivables	9,076,051	13,054,875
Investment in associates (Note 6)	12,919,562	5,674,497
Property and equipment (Note 8)	13,557,325	13,989,722
Total assets	**272,171,511**	**136,753,874**
LIABILITIES		
General insurance liabilities		
Unearned premiums reserve (Note 9)	29,744,502	26,372,320
Deferred commissions income (Note 9)	2,319,069	2,074,876
Outstanding claims reserve (Note 9)	171,405,990	52,139,026
	203,469,561	80,586,222
Other liabilities		
Cash advance from reinsurers (Note 9)	13,136,905	-
Due to reinsurers	3,885,802	4,344,644
Accounts payable and accrued expenses	2,685,430	2,497,095
Total liabilities	**223,177,698**	**87,427,961**

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

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

Consolidated Balance Sheet
As at 31 December 2019
(Expressed in Bahamian dollars)
(Continued)

	2019 $	2018 $
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
Retained earnings	4,022,672	4,354,772
	38,993,813	**39,325,913**
Non-controlling interests (Note 10)	10,000,000	10,000,000
Total equity	**48,993,813**	**49,325,913**
Total liabilities and equity	**272,171,511**	**136,753,874**

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

Director

Director

25 May 2020

Date

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

RoyalStar Holdings Ltd.

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2019
(Expressed in Bahamian dollars)

	2019 $	2018 $
REVENUE		
Premiums written (Note 11)	76,849,173	67,151,124
Premiums ceded to reinsurers	(55,181,841)	(45,703,151)
Net premiums written	21,667,332	21,447,973
Change in net unearned premiums (Note 9)	57,343	(645,579)
Net premiums earned	21,724,675	20,802,394
DIRECT EXPENSES		
Net claims incurred (Note 9)	8,387,245	4,309,613
Net commissions incurred (Note 12)	1,846,124	1,829,913
Catastrophe and excess of loss reinsurance	6,303,334	5,571,179
Total direct expenses	16,536,703	11,710,705
Underwriting gain	**5,187,972**	**9,091,689**
OTHER INCOME		
Interest, dividends and other income	844,246	1,814,808
Rental income	300,680	286,516
Loss on disposal of property and equipment	(21,566)	-
Net realized loss on investments in securities	-	(284,718)
Net change in unrealized appreciation of investments in securities (Note 5)	156,881	29,803
Total other income	**1,280,241**	**1,846,409**
OPERATING EXPENSES		
Personnel costs	2,428,287	2,890,211
General and administrative	2,326,886	2,172,634
Depreciation and amortization (Note 8)	713,593	712,267
Bad debt expense (Note 4)	74,741	-
Directors' costs	111,750	113,000
Total operating expenses	**5,655,257**	**5,888,112**
Share of net results of associates (Note 6)	2,329,944	180,111
Net income and total comprehensive income	**3,142,900**	**5,230,097**

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

RoyalStar Holdings Ltd.

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2019
(Expressed in Bahamian dollars)

	Ordinary Shares $	Contributed Surplus $	Retained Earnings $	Total Shareholders' Equity $	Non-Controlling Interests $	Total Equity $
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**
Balance as at 1 January 2019	**2,850,000**	**32,121,141**	**4,354,772**	**39,325,913**	**10,000,000**	**49,325,913**
Total comprehensive income	-	-	3,142,900	3,142,900	-	3,142,900
Transactions with owners						
Dividends – non-controlling interest	-	-	(625,000)	(625,000**)**	-	(625,000)
Dividends – ordinary shares	-	-	(2,850,000)	(2,850,000)	-	(2,850,000)
Total transactions with Owners	-	-	(3,475,000**)**	(3,475,000)	-	(3,475,000)
Balance as at 31 December 2019	**2,850,000**	**32,121,141**	**4,022,672**	**38,993,813**	**10,000,000**	**48,993,813**

Dividends per non-controlling interest: $0.625 (2018: $0.625)

Dividends per ordinary share: $0.285 (2018: $0.247)

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

RoyalStar Holdings Ltd.

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2019
(Expressed in Bahamian dollars)

	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	3,142,900	5,230,097
Adjustments for:		
Interest and dividends income	(844,246)	(1,001,063)
Net realized loss on investments in securities	-	284,718
Net change in unrealized appreciation of investments in securities (Note 5)	(156,881)	(29,803)
Share of net results of associates (Note 6)	(2,329,944)	(180,111)
Loss on disposals of property and equipment (Note 8)	21,566	-
Depreciation and amortization (Note 8)	713,593	712,267
Bad debt expense (Note 4)	74,741	-
(Increase)/Decrease in operating assets		
Term deposits with original maturities of more than three and restricted term deposits (Note 3)	(833,185)	(91,404)
Due from reinsurers	(7,453,981)	(34,576)
Due from agents (Note 4)	(1,328,958)	1,858,921
Accounts receivable, prepayments and other assets	(1,704,946)	6,425,675
Unearned premiums reserve – reinsurance (Note 9)	(3,429,525)	3,078,898
Deferred commissions expense (Note 9)	(261,014)	(85,979)
Outstanding claims recoverable from reinsurers (Note 9)	(119,004,254)	168,175,391
Increase/(Decrease) in operating liabilities		
Unearned premiums reserve (Note 9)	3,372,182	(2,433,319)
Deferred commissions income (Note 9)	244,193	93,269
Outstanding claims reserve (Note 9)	119,266,964	(166,044,885)
Cash advance from reinsurers (Note 9)	13,136,905	(46,608)
Due to reinsurers	(458,842)	(2,214,963)
Accounts payable and accrued expenses	188,335	(4,980,529)
Net cash from operating activities	**2,355,603**	**8,715,996**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	809,556	1,077,297
Dividends received from associates	270,000	-
Purchase of investments in securities	(210,500)	(4,723,230)
Proceeds from sales/maturities of investments in securities	3,800,342	4,665,600
Proceeds from sale of investment property (Note 7)	-	900,000
Investment in associates (Note 6)	(5,022,500)	-
Capital injection in associates (Note 6)	(162,621)	(690,284)
Proceeds from disposals of property and equipment (Note 8)	-	85,280
Purchase of property and equipment (Note 8)	(302,762)	(400,726)
Net cash (used in)/from investing activities	**(818,485)**	**913,937**

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

RoyalStar Holdings Ltd.

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2019
(Continued)
(Expressed in Bahamian dollars)

	2019 $	2018 $
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends on non-controlling interest	(625,000)	(625,000)
Payment of dividends on ordinary shares	(2,850,000)	(2,470,000)
Net cash used in financing activities	**(3,475,000)**	**(3,095,000)**
Net (decrease)/increase in cash and cash equivalents	**(1,937,882)**	**6,534,933**
Cash and cash equivalents as of beginning of year	14,145,911	7,610,978
Cash and cash equivalents as of end of year (Note 3)	**12,208,029**	**14,145,911**

NON-CASH TRANSACTION:

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

RoyalStar Holdings Ltd.

Notes to the Consolidated Financial Statements
31 December 2019

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 and its subsidiary are collectively referred to as the Group. The Company's sole activity is holding of investments in the following companies:

- RoyalStar Assurance Ltd. (RSA), a wholly-owned subsidiary and 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, the British Virgin Islands and Anguilla. RSA through a wholly-owned subsidiary, RoyalStar Investments Ltd. (RIL), invests in commercial real estate. RSA 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 Virgin Islands (Notes 3 and 5). RSA consolidates the trusts for financial reporting purposes.

- Luxury Homes Bahamas Limited (LHL), a real estate holding company incorporated in The Bahamas. The Group has a 19% ownership interest in the company however, a director of the Group is a member of the board of directors and management has concluded that subsequent to this appointment, the Group has significant influence over this entity.

- SFL RSA Limited (SFL RSA), a company incorporated in the Turks & Caicos Islands, which has a 50% ownership interest in Ascendancy TCI Limited, and Gateway Financial Holdings Ltd. (GFHL), a company incorporated in The Bahamas, which has a 50% ownership interest in Gateway Ascendancy Ltd. (GAL), both of which specialize in the purchase and restructuring of non-performing loans. The Group has a 45% ownership interest in SFL RSA and GFHL.

- Fidelity Insurance (Cayman) Limited (FICL), an insurance agent and broker domiciled in the Cayman Islands and is regulated by the Cayman Island Monetary Authority (CIMA). The Group has a 32.26% ownership interest in the company.

The Group's primary shareholder is SunStar Ensure Limited, which owns 53.05% (2018: 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 16, '*Leases'*, standards, amendments and interpretations to published standards that became effective for the Group's financial year beginning on 1 January 2019 were not relevant or not significant to the Group's operations and accordingly did not have a material impact on the consolidated financial statements.

The Group adopted IFRS 16 on 1 January 2019. FRS 16 replaces the classification of leases as either operating or finance leases for lessees that was required under IAS 17, *Leases* (IAS 17). Instead, lessees are required to recognize both a right-of-use asset and a lease liability on balance sheet for all leases. The effect of the transition adjustment at the date of initial application of IFRS 16 was not material to the consolidated financial statements as such no adjustments were made to the opening retained earnings in the current year.

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.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

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.

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.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

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

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.

(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

2. Summary of Significant Accounting Policies (Continued)

(b) Consolidation (Continued)

Subsidiaries (Continued)

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.

2. Summary of Significant Accounting Policies (Continued)

(b) Consolidation (Continued)

Associates (Continued)

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.

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each consolidated statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognized in other comprehensive income.

SFL RSA and FICL's functional currency is in United States dollars which is pegged to Bahamian dollars as 1:1.

(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 from the date of acquisition.

2. Summary of Significant Accounting Policies (Continued)

(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, notes receivable 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.

2. Summary of Significant Accounting Policies (Continued)

(e) Financial assets (Continued)

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 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.

2. Summary of Significant Accounting Policies (Continued)

(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.

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.

2. Summary of Significant Accounting Policies (Continued)

(g) Property and equipment (Continued)

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) 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.

2. Summary of Significant Accounting Policies (Continued)

(i) General insurance funds (Continued)

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. Effective 1 January 2018, the Group engaged an Appointed Actuary to perform the valuation of its policy liabilities (refer to Note 19 for details).

(j) 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.

(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.

2. Summary of Significant Accounting Policies (Continued)

(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

Group as lessee

The Group has a lease for premises it occupies in Grand Bahama, Bahamas. 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 was immaterial.

2. Summary of Significant Accounting Policies (Continued)

(n) Leases (Continued)

Group as lessee (Continued)

Until 31 December 2018, leases of property and equipment were classified as operating leases, see Note 2(a) for details. From 1 January 2019, 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. Summary of Significant Accounting Policies (Continued)

(n) 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.

Previous accounting policy until 31 December 2018

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.

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, 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 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

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

	2019 $	2018 $
Cash on hand and at banks	12,208,029	14,145,911
Term deposits	10,854,301	10,007,944
Accrued interest	(49,135)	(35,963)
Restricted term deposits	(5,825,307)	(5,675,941)
Term deposits with original contractual maturities greater than three months	(4,979,859)	(4,296,040)
	12,208,029	**14,145,911**

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, the British Virgin Islands and Anguilla. Interest rates on term deposits range from 0.01% to 2.04% (2018: 0.00% to 2.04%) per annum.

4. Due from Agents

	2019 $	2018 $
Premium receivable from agents	10,851,631	9,522,673
Allowance for doubtful accounts	(100,000)	(25,259)
	10,751,631	**9,497,414**

Movements in the allowance for doubtful accounts comprise:

	2019 $	2018 $
Balance as of beginning of year	25,259	25,259
Bad debt expense	74,741	-
Write-offs	-	-
Balance as of end of year	**100,000**	**25,259**

4. Due from Agents (Continued)

As of 31 December 2019, the Group had balances that are past due totaling $Nil (2018: $Nil) that are impaired, and $1,390,000 (2018: $1,308,000) 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 of 31 December 2019, the cost of financial assets at fair value through profit or loss totaled $4,092,540 (2018: $3,637,511) of which $2,160,775 (2018: $1,850,775) represented Level 3 securities. During the year, 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.

	2019 $	2018 $
Level 2		
Equity securities	3,414,208	3,128,657
Level 3		
Equity securities	2,776,228	2,502,846
Investment funds	266,128	257,680
	3,042,356	2,760,526
Total financial assets at fair value through profit or loss	**6,456,564**	**5,889,183**

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 of 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 of 31 December 2019	**3,414,208**	**3,042,356**	**6,456,564**

	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**

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 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 $694,057 (2018: $588,212).

5. Investments in Securities (Continued)

Loans and receivables

	Interest Rate	Maturity	2019 $	2018 $
The Government of The Bahamas Bridge Authority bonds	Prime + 1.25%	24/03/2019	-	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
	5.22%	15/12/2037	1,000,000	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	1,030,000	2,500,000
Gateway Financial Ltd. Corporate bonds	6.50%	30/06/2020	958,000	2,500,000
Gateway Financial Ltd. Corporate bonds	6.50%	30/06/2020	358,803	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	368,421	394,736
Star General Investments – (G.B.) Ltd., notes receivable	Prime + .5%	31/12/2025	2,340,000	2,800,000
Public Hospitals Authority Mortgage	3.00%	31/12/2024	324,344	368,735
Sunshine Holdings Limited corporate bonds	6.00%	30/11/2020	500,000	500,000

5. Investments in Securities (Continued)

Loans and receivables (continued)

	Interest Rate	Maturity	2019 $	2018 $
The College of The Bahamas redeemable term notes	7.00%	30/06/2026	108,000	123,429
RF Holdings Limited Series A cumulative redeemable preference shares	6.00%	31/12/2029	100,000	-
Gateway Ascendancy Ltd. preference shares	6.50%	05/05/2021	10,000	-
			8,972,068	12.972,410
Accrued interest			103,983	82,465
Total loans and receivables			**9,076,051**	**13,054,875**

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 Associates

On 1 October 2019, the Group purchased 32.26% of Fidelity Insurance (Cayman) Limited or FICL, an insurance agent and broker domiciled in the Cayman Islands and regulated by the Cayman Island Monetary Authority (CIMA), for $5,000,000.

Movements in investment in associates are as follows:

			2019 $		
	LHL (19%*)	SFL RSA (45%)	GFHL (45%)	FICL (32.26%)	**Total**
As at 1 January	5,462,627	211,870	-	-	5,674,497
Cost of the investment			22,500	5,000,000	5,022,500
Capital injection in associates	12,621	-	150,000	-	162,621
Share of net results of associates	(12,621)	537,597	1,682,788	122,180	2,329,944
Dividends received	-	(270,000)	-	-	(270,000)
As at 31 December	**5,462,627**	**479,467**	**1,855,288**	**5,122,180**	**12,919,562**

			2018 $		
	LHL (19%*)	SFL RSA (45%)	GFHL (45%)	FICL (32.26%)	**Total**
As at 1 January	4,804,102		-	-	4,804,102
Cost of the investment	-	22,500	-	-	22,500
Capital injection in associates	667,784	-	-	-	667,784
Share of net results of associates	(9,259)	189,370	-	-	180,111
Dividends received	-	-	-	-	-
As at 31 December	**5,462,627**	**211,870**	**-**	**-**	**5,674,497**

**A Director of the Group is a member of the Board of Directors of LHL and management has concluded that subsequent to this appointment, the Group has significant influence over this entity.*

6. Investment in Associates (Continued)

Summarized unaudited financial information of the associates, as at and for the year ended 31 December 2019 and 31 December 2018 follows:

	2019 $			
	LHL	SFL RSA	GFHL	FICL**
Assets	28,750,669	1,078,883	9,374,840	4,487,033
Liabilities	-	13,400	5,241,977	3,643,549
Net income (loss)	(66,426)	1,194,660	3,739,529	378,375

***As at 31 December2019 and for the period from 1 October 2019 to 31 December 2019*

	2018 $			
	LHL	SFL RSA	GFHL	FICL
Assets	28,750,669	477,531	-	-
Liabilities	-	6,708	-	-
Net income (loss)	(48,731)	7,600	-	-

7. Investment Property

	2019 $	2018 $
Non-current assets - at fair value		
As of 1 January	-	900,000
Fair value adjustment to investment property	-	-
Proceeds from sale of investment property	-	(900,000)
As of 31 December	**-**	**-**

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 consolidated statement of comprehensive income. The transaction was completed on 27 March 2018.

8. Property and Equipment

	Land and Building $	Land and Building Improvements $	Furniture, Equipment and Software $	Motor Vehicles $	Leasehold Improvements $	Total $
Cost:						
As of 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 of 31 December 2019	13,173,243	1,799,786	3,131,198	196,537	89,944	18,390,708
Accumulated Depreciation/ Amortization:						
As of 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 of 31 December 2019	1,640,015	621,674	2,305,060	187,186	79,448	4,833,383
Net book value as of 31 December 2019	**11,533,228**	**1,178,112**	**826,138**	**9,351**	**10,496**	**13,557,325**

8. Property and Equipment (Continued)

	Land and Building $	Land and Building Improvements $	Furniture, Equipment and Software $	Motor Vehicles $	Leasehold Improvements $	Total $
Cost:						
As of 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 of 31 December 2018	13,058,907	1,799,786	3,031,651	196,537	89,944	18,176,825
Accumulated Depreciation/ Amortization:						
As of 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 of 31 December 2018	1,384,261	532,972	2,022,587	176,829	70,454	4,187,103
Net book value as of 31 December 2018	**11,674,646**	**1,266,814**	**1,009,064**	**19,708**	**19,490**	**13,989,722**

8. 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 being leased to third parties.

9. Insurance Liabilities, Reinsurance Assets and Net Claims Incurred

General insurance funds comprises:

	2019 $	2018 $
General insurance liabilities (Gross)		
Outstanding claims reserve	171,405,990	52,139,026
Unearned premiums reserve	29,744,502	26,372,320
Deferred commissions income	2,319,069	2,074,876
	203,469,561	80,586,222
Reinsurance assets		
Outstanding claims recoverable from reinsurers	162,586,099	43,581,845
Unearned premiums reserve – reinsurance	19,965,949	16,536,424
Deferred commissions expense	3,139,556	2,878,542
	185,691,604	62,996,811
General insurance liabilities (Net)		
Outstanding claims reserve	8,819,891	8,557,181
Unearned premiums reserve	9,778,553	9,835,896
Deferred commissions income	(820,487)	(803,666)
General insurance funds	**17,777,957**	**17,589,411**

Net claims incurred comprise:

	2019 $	2018 $
Gross claims incurred	309,336,005	(34,492,713)
Amounts recoverable from reinsurers	(300,948,760)	38,802,326
	8,387,245	**4,309,613**

As at 31 December 2019, cash advances received from reinsurers to settle the claims related to Hurricane Dorian totaled $13,136,905 (2018: $Nil).

RoyalStar Holdings Ltd.

Notes to the Consolidated Financial Statements
31 December 2019
(Continued)

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**	**2019**	**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	686,560,127
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		
Two years later	13,986,697	7,954,128	7,598,175	7,138,136	70,908,987	258,223,820	53,682,732			
Three years later	13,902,551	9,227,174	7,466,653	7,237,420	55,106,050	251,375,340				
Four years later	14,075,730	10,268,685	7,213,898	7,335,361	54,365,556					
Five years later	14,021,693	12,491,593	7,235,122	7,513,421						
Six years later	14,081,035	12,010,423	7,455,558							
Seven years later	14,133,895	12,005,969								
Eight year later	14,080,895									
Current estimate of cumulative claims	14,080,895	12,005,969	7,455,558	7,513,421	54,365,556	251,375,340	53,682,732	6,298,087	317,707,546	724,485,104
Cumulative payments to date	(13,982,725)	(11,823,697)	(7,232,697)	(7,360,255)	(54,118,556)	(250,256,003)	(48,279,869)	(3,263,467)	(157,249,297)	(553,566,566)
Liability included in gross provision of claims	**98,170**	**182,272**	**222,861**	**153,166**	**247,000**	**1,119,337**	**5,402,863**	**3,034,620**	**160,458,249**	**170,918,538**
Liability in respect of prior years										487,452
Total liability included in gross provision of claims										**171,405,990**

RoyalStar Holdings Ltd.

Notes to the Consolidated Financial Statements
31 December 2019
(Continued)

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

Insurance claims – Net

Accident year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**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	55,467,717
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		
Two years later	6,031,754	4,260,372	5,150,045	4,429,944	4,701,524	9,084,808	5,646,440			
Three years later	5,895,198	4,572,960	5,259,056	4,518,066	4,886,270	9,524,973				
Four years later	6,113,908	4,852,532	5,032,296	4,608,630	4,785,003					
Five years later	6,072,305	4,868,480	5,054,898	4,773,941						
Six years later	6,131,647	4,820,608	5,253,191							
Seven years later	6,184,507	4,816,154								
Eight years later	6,131,507									
Current estimate of cumulative claims	6,131,507	4,816,154	5,253,191	4,773,941	4,785,003	9,524,973	5,646,440	5,955,122	9,443,677	56,330,008
Cumulative payments to date	(6,033,337)	(4,633,882)	(5,049,216)	(4,634,691)	(4,538,003)	(8,759,904)	(4,427,538)	(3,152,885)	(6,768,113)	(47,997,569)
Liability recognized in balance sheet	**98,170**	**182,272**	**203,975**	**139,250**	**247,000**	**765,069**	**1,218,902**	**2,802,237**	**2,675,564**	**8,332,439**
Liability in respect of prior years										487,452
Total liability included in consolidated balance sheet										**8,819,891**

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

Movements in insurance liabilities and reinsurance assets

(a) Outstanding claims reserve

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	$	$	$	$	$	$
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 beginning of year	52,139,026	43,581,845	8,557,181	218,183,911	211,757,236	6,426,675
Cash paid for claims settled in year	(190,069,041)	(181,944,506)	(8,124,535)	(131,552,173)	(126,842,181)	(4,709,992)
Increase in liabilities – Arising from current-year claims	315,987,545	308,113,868	7,873,677	7,256,700	280,644	6,976,056
– Arising from prior-year claims	(6,651,540)	(7,165,108)	513,568	(41,749,412)	(41,613,854)	(135,558)
Total at end of year	171,405,990	162,586,099	8,819,891	52,139,026	43,581,845	8,557,181
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 end of year	**171,405,990**	**162,586,099**	**8,819,891**	**52,139,026**	**43,581,845**	**8,557,181**

(b) Unearned premiums reserve

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	$	$	$	$	$	$
At beginning of year	26,372,320	16,536,424	9,835,896	28,805,639	19,615,322	9,190,317
Increase in the period	34,586,181	23,555,919	11,030,262	29,969,008	18,678,393	11,290,615
Release in the period	(31,213,999)	(20,126,394)	(11,087,605)	(32,402,327)	(21,757,291)	(10,645,036)
At end of year	**29,744,502**	**19,965,949**	**9,778,553**	**26,372,320**	**16,536,424**	**9,835,896**

(c) Deferred commissions income/expense

	2019			2018		
	Deferred commissions income	Deferred commissions expense	Net	Deferred commissions income	Deferred commissions expense	Net
	$	$	$	$	$	$
At beginning of year	2,074,876	2,878,542	(803,666)	1,981,607	2,792,563	(810,956)
Increase in the period	2,616,845	3,550,662	(933,817)	2,448,424	3,368,400	(919,976)
Release in the period	(2,372.652)	(3,289,648)	916,996	(2,355,155)	(3,282,421)	927,266
At end of year	**2,319,069**	**3,139,556**	**(820,487)**	**2,074,876**	**2,878,542**	**(803,666)**

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 2019 and 2018 total 1,000,000 shares comprised of 500,000 Series A preference shares and 500,000 Series B preference shares.

11. Premiums Written

	2019 $	2018 $
Policy amounts written	82,222,226	71,606,702
Premium tax recovered from policyholders	(1,325,449)	(1,341,518)
Value added tax recovered from policyholders	(4,047,604)	(3,114,060)
	76,849,173	**67,151,124**

12. Net Commissions Incurred

	2019 $	2018 $
Amounts paid to agents	7,699,484	7,535,380
Amounts received from reinsurers	(5,836,539)	(5,712,757)
	1,862,945	1,822,623
Movement in deferred commissions expense	(261,014)	(85,979)
Movement in deferred commissions income	244,193	93,269
	1,846,124	**1,829,913**

13. 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:

	2019 $	2018 $
Balances		
Due to/(from) reinsurers	(3,486,373)	384,315
Due from agents	6,981,456	4,430,085
Outstanding claims due from reinsurers	8,380,117	10,450
Investments in securities		
Fair value through profit or loss		
– Level 2	726,036	633,844
– Level 3	2,776,227	2,502,846
Loans and receivables		
– Amortized cost	9,196,803	9,197,410
– Accrued interest	62,346	41,723
Investment in associate	13,273,687	5,674,497
Transactions		
Premiums written	38,349,406	30,639,815
Premiums ceded	2,484,702	2,379,123
Claims recoverable from reinsurers	31,638,565	335,133
Commissions (paid to agents)	4,597,511	4,453,609
Commissions (received from reinsurers)	493,914	510,493
Interest, dividends and other income	400,834	509,267
Personnel costs	740,518	1,091,326
General and administrative expenses (rent)	25,312	29,073
Directors fees	111,750	113,000
Share of net results of associates	2,329,944	9,259

As of 31 December 2019, the Group had receivable balances due from related party agents totaling $1,328,000 (2018: $1,227,000) with an ageing over 90 days that are past due but not impaired. See Note 5 for significant related party non-cash transaction.

13. Related Party Balances and Transactions (Continued)

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 2019 of $28,171 (2018: decrease $23,443). The cumulative net unrealized gain on investments in unlisted securities of related parties totals $865,452 (2018: $902,071). During 2019, the net realized loss on investments in unlisted securities from related parties total $Nil (2018: $272,000).

14. Employee Benefits

The pension costs recognized in the consolidated statement of comprehensive income in personnel costs in the current year totaled $81,990 (2018: $85,780). 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 2019, the Group employed 27 (2018: 31) persons.

15. Commitments and Contingent Liabilities

Commitments

Group as lessor

The future aggregate minimum rentals receivable under non-cancellable operating leases total $712,657 with lease agreements expiring on 2 September 2022 and 30 September 2024.

Group as lessee

The Group has an operating lease for premises it occupies in Grand Bahama. The lease is expiring on 1 December 2021.

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.

16. 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 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 2019, 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.

16. Risk Management (Continued)

(a) Insurance risk (Continued)

Insurance premiums written in The Bahamas and the Cayman Islands represent approximately 66% (2018: 67%) and 18% (2018: 16%), 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 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 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.

16. 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, 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.

16. 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.

	2019 $	2018 $
Financial assets		
Cash on hand and at banks	12,208,029	14,145,911
Term deposits	10,854,301	10,007,944
Investments in securities:		
Fair value through profit or loss	6,456,564	5,889,183
Loans and receivables	9,076,051	13,054,875
Due from reinsurers	8,425,633	971,652
Due from agents	10,751,631	9,497,414
Accounts receivable and other assets	2,230,811	525,865
Outstanding claims recoverable from reinsurers	162,586,099	43,581,845
Total financial assets	**222,589,119**	**97,674,689**
Non-financial assets	49,582,392	39,079,185
Total assets	**272,171,511**	**136,753,874**
Financial liabilities		
General insurance liabilities	171,405,990	52,139,026
Other liabilities	19,708,137	6,841,739
Total financial liabilities	**191,114,127**	**58,980,765**
Non-financial liabilities	32,063,571	28,447,196
Total liabilities	**223,177,698**	**87,427,961**

16. 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:

	2019 $	2018 $
Cash on hand and at banks	12,208,029	14,145,911
Term deposits	10,854,301	10,007,944
Investments in securities		
Loans and receivables	9,076,051	13,054,875
Receivable and other assets		
Due from reinsurers	8,425,633	971,652
Due from agents	10,751,631	9,497,414
Accounts receivable and other assets	2,230,811	525,865
Outstanding claims recoverable from reinsurers	162,586,099	43,581,845
Total	**216,132,555**	**91,785,506**

16. Risk Management (Continued)

(c) Credit risk (Continued)

As at 31 December 2019	Neither past due nor impaired $	Past due but not impaired $	Impaired $	Total $
Cash on hand and at banks	12,208,029			12,208,029
Term deposits	10,854,301	-	-	10,854,301
Investments in securities				
Loans and receivables	9,076,051	-	-	9,076,051
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	2,230,811	-	-	2,230,811
Outstanding claims recoverable from reinsurers	162,586,099	-	-	162,586,099
Total	**214,742,555**	**1,390,000**	**-**	**216,132,555**

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				
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	**90,440,136**	**1,345,370**	**-**	**91,785,506**

16. 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.

	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	2,685,430	-	-	2,685,430
Total	**180,166,386**	**9,956,986**	**990,755**	**191,114,127**

	Cash Flows			
Financial Liabilities as at 31 December 2018	**< 1 year $**	**1-5 years $**	**> 5 years $**	**Total $**
Outstanding claims reserve	5,938,099	45,405,956	794,971	52,139,026
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**

16. 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 2019, the All Share Index of the Bahamas International Securities Exchange experienced a return of 5.79% (2018: 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 $651,326/($651,326), 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.

16. 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 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

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. 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 2019, the Group maintained its A.M. Best Financial Strength Rating of A (Excellent) with a stable outlook.

18. 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.

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

19. Outstanding Claims Reserve – Actuarial Valuation

During 2019 and 2018, the Group engaged an Appointed Actuary to perform a valuation of RSA's policy liabilities as at 31 December 2019 and 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).

20. Subsequent Events

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

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.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the Group expects this matter to negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.