
# ANNUAL REPORT 2017

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## CORPORATE PROFILE

Insurance Corporation of Barbados Limited ("ICBL" or "the Company"), the largest general insurance provider in Barbados, writes business in all areas of general insurance as well as individual life insurance, individual health insurance, annuities and registered retirement savings plans ("RRSP") along with providing group life and health insurance and group pensions.

## OUR MISSION

Leading product innovation and employee development as we exceed the expectations of customers and all other stakeholders.

## OUR VISION

To be the strongest, most innovative and caring financial services provider in the markets we serve.

Financial Strength Rating
A M BEST
A- Excellent

## A.M. BEST RATING

On 27 October 2017, A.M. Best maintained ICBL's A- (Excellent) rating, citing ICBL's strong risk-adjusted capitalisation, low underwriting leverage and solid performance. This recognizes ICBL's excellent financial strength and strong operating performance, while reinforcing the confidence of our customers and our broker partners that we will always be there when they need us most. The other companies within the BF&M Group: BF&M General Insurance Company Limited and BF&M Life Insurance Company Limited in Bermuda, along with Island Heritage Insurance Company Ltd. in Cayman, each maintained A (Excellent) ratings. These, along with ICBL's rating, re-affirm our position in the market relative to our competitors, as there is no other domestic insurance group in Barbados with such strong financial strength ratings.


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# REPORTS & HIGHLIGHTS

# CHAIRMAN'S REPORT

On behalf of the Board of Directors of Insurance Corporation of Barbados Limited, I present the Company's financial results for the year ended 31 December 2017. Net loss for the year was ($0.9) million. This compared with net income of $7.4 million for 2016.

2017 proved to be a challenging year for ICBL's policyholders and this is reflected in these year-end results. External drivers, including the dynamics of the Barbados economy and pressure on rates from competition, impacted us negatively. I'm pleased to report, though, that the Company focused steadily on what we do have control over—namely responsible underwriting, conservative reinsurance protection and strong customer service.

The Company is well capitalized with shareholder's equity at 31 December 2017 of $137.4 million, a fact that was underlined when insurance rating agency A.M. Best reconfirmed ICBL's financial strength rating of A – (Excellent). A.M. Best's rating system is designed to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Financial strength ratings are derived from an evaluation of a company's balance sheet strength, operating performance and business profile. There is no insurer writing domestic insurance business in Barbados with a stronger rating than ours, and this is important to shareholders and policyholders alike.

In January 2018, we were pleased to welcome Geoffrey Scott as ICBL's new CEO. Geoff has over 25 years of experience and is highly regarded in the market. His deep understanding of financial and business risks has already proven invaluable. Despite the challenged economy in Barbados, the Board is confident about the Company's outlook in 2018, under Geoff's leadership.

Sir Trevor Carmichael Q.C., will be stepping down from the Board at the upcoming Annual General Meeting of the Company. On behalf of my fellow Directors, I would like to thank Sir Trevor for his wise counsel and contributions to the Company during his tenure on the Board, and wish him well. At this time, I would also like to recognize my fellow Directors for their tremendous commitment to this Company.

The Board and I acknowledge and thank all ICBL employees for their professionalism, commitment and hard work in 2017.

Lastly, I would also like to thank you, our policyholders and shareholders, for your continued support and trust.

R. John Wight, F.C.P.A., F.C.A., C.P.C.U
Chairman

# BOARD OF DIRECTORS

| | |
|---|---|
| **R. John Wight,** F.C.P.A., F.C.A., C.P.C.U. | **CHAIRMAN OF THE BOARD AND CHAIR OF THE FINANCE & CORPORATE GOVERNANCE COMMITTEE** |
| **Juanita Thorington-Powlett,** BSc., M.B.A., F.C.I.S. | **VICE CHAIRMAN OF THE BOARD AND CHAIR OF THE HUMAN RESOURCES COMMITTEE** |
| **Goulbourne Alleyne,** F.C.I.I., M.B.A., ARe, A.C.I.S., C.A.M.S., F.L.M.I., F.F.S.I. | **EXECUTIVE DIRECTOR, DEPUTY CEO AND HEAD OF GENERAL DIVISION** |
| **Jennifer Hunte,** BSc., F.C.P.A., F.C.G.A., F.C.I.S, Acc. Dir. | **DIRECTOR AND CHAIR OF THE AUDIT, COMPLIANCE AND CORPORATE RISK MANAGEMENT COMMITTEE** |
| **Sir Paul Altman,** G.C.M., BCH, J.P., B.B.A. MIA, Hon. LL.D (UWI) | **DIRECTOR** |
| **Sir Trevor Carmichael,** Q.C. | **DIRECTOR** |
| **Gordon Henderson,** B.A. Econ (Summa Cum Laude), LL.B (Hons.) | **DIRECTOR** |
| **Toni Jones,** LL.B. (Hons.) | **DIRECTOR** |
| **Charles "Lee" Watchorn,** F.C.I.A., F.S.A. | **DIRECTOR** |

# CORPORATE INFORMATION

### CORPORATE SECRETARY
- **Valentina J.G.R. Blackman,** LL.B. (Hons.), LL.M (UWI), F.C.I.S., Int. Adv. Cert (Comp)

### IN-HOUSE LEGAL ADVISORS
- **Valentina J.G.R. Blackman,** LL.B. (Hons.), LL.M (UWI), F.C.I.S., Int. Adv. Cert (Comp)
- **Tya R. Odle,** LL.B. (First Class Hons.), Int. Adv. Cert (Comp)
- **Andwele C.L. Sandiford,** LL.B. (Hons.)
- **Lorimer C.A. Denny,** LL.B. (Hons.)
- **Robin Prescod,** LL.B. (Hons.)
- **Nesha Raja,** LL.B. (Hons.)

### EXTERNAL LEGAL ADVISORS
- **C.W.P. Chenery,** Q.C.
- **Clarke Gittens Farmer**
- **Trinity Law Chambers**
- **John Forde** LL.M (Lond.)

### INTERNAL AUDIT
- **Stacy Ashby,** CPA, CIA, CFSA

### ACTUARIES
- **Eckler Ltd.**
- **Towers Watson Canada Inc., trading as Willis Towers Watson**

### BANKERS
- **Republic Bank (Barbados) Limited**
- **CIBC FirstCaribbean International Bank**

### REGISTRAR & TRANSFER AGENT
- **Barbados Central Securities Depository Inc.**

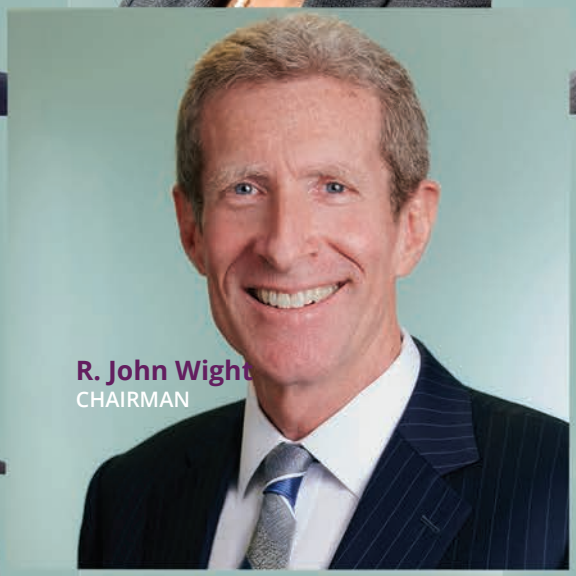
### REGISTERED OFFICE
- **Insurance Corporation of Barbados Limited, Roebuck Street, Bridgetown, St. Michael, Barbados, BB11000**

### WEBSITE
- **www.icbl.com**

**Juanita Thorington-Powlett**
VICE CHAIRMAN

**Jennifer Hunte**
DIRECTOR

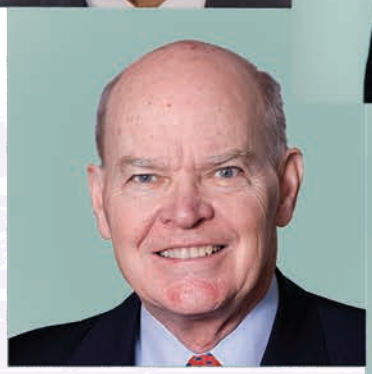
**Toni Jones**
DIRECTOR



**R. John Wight**
CHAIRMAN

**Sir Paul Altman**
DIRECTOR

**Sir Trevor Carmichael**
DIRECTOR



**Charles "Lee" Watchorn**
DIRECTOR

**Goulbourne Alleyne**
EXECUTIVE DIRECTOR

**Gordon Henderson**
DIRECTOR

# SENIOR LEADERSHIP TEAM

| | |
|---|---|
| **Geoffrey Scott,**<br>B.Sc., M.B.A. | **CEO** |
| **Goulbourne Alleyne,**<br>F.C.I.I., M.B.A., ARe, A.C.I.S.,<br>C.A.M.S., F.L.M.I., F.F.S.I. | **DEPUTY CEO AND HEAD OF GENERAL DIVISION** |
| **Henry Inniss,**<br>B.Sc.(Hons), M.B.A., L.L.I.F., F.L.M.I. | **SENIOR VICE PRESIDENT AND HEAD OF LIFE DIVISION** |
| **Valentina Blackman,**<br>LL.B (Hons.), LL.M (UWI), F.C.I.S.,<br>Int. Adv. Cert (Comp) | **SENIOR VICE PRESIDENT - LEGAL AND CORPORATE SECRETARY** |
| **Glenda Gilkes,**<br>E.M.B.A. | **SENIOR VICE PRESIDENT - HUMAN RESOURCES & CUSTOMER EXPERIENCE** |
| **Rawle Knight,**<br>BSc.(Hons), MSc., Cert. C.I.I. | **VICE PRESIDENT - CLAIMS AND ENTERPRISE RISK MANAGEMENT** |
| **Carl Millar,**<br>BSc.(Hons), MSc., Cert.<br>Training & Development | **ASSISTANT VICE PRESIDENT - TECHNOLOGY AND BUSINESS SOLUTIONS** |
| **Yvette Branch,**<br>A.C.I.I., C.I. | **ASSISTANT VICE PRESIDENT - BUSINESS RETENTION AND POLICY ADMINISTRATION** |
| **Selwin Kellman,**<br>BSc.(Hons), M.B.A. | **ASSISTANT VICE PRESIDENT - INVESTMENTS** |
| **Pamela Lowe,**<br>FALU, FLMI/M, ALHC, ACS, HIA | **ASSISTANT VICE PRESIDENT - OPERATIONS, LIFE DIVISION** |
| **Kristle Jeffers,**<br>FCCA, CIA, CISA | **ASSISTANT VICE PRESIDENT - COMPLIANCE** |

**Rawle Knight**
VP

**Glenda Gilkes**
SVP

**Valentina Blackman**
SVP

**Yvette Branch**
AVP


**Pamela Lowe**
AVP

**Carl Millar**
AVP

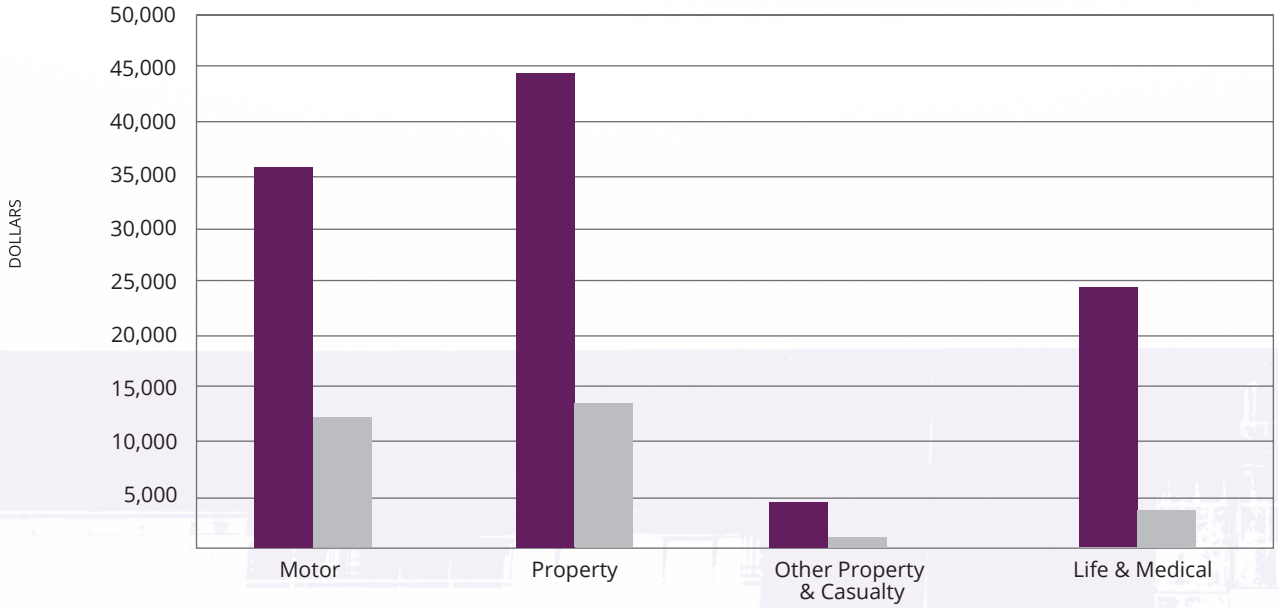
**Kristle Jeffers**
AVP

**Selwin Kellman**
AVP

SVP - Senior Vice President
AVP - Assistant Vice President

# FINANCIAL AND STATISTICAL SUMMARY

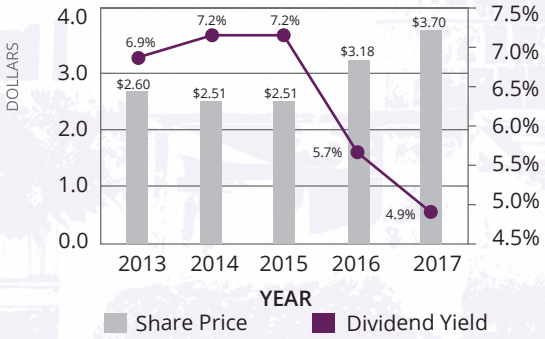
## GROSS PREMIUMS WRITTEN vs UNDERWRITING INCOME (in 000s of dollars)



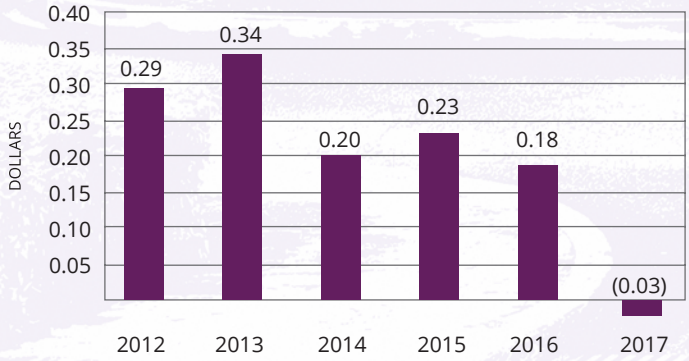

| | Motor | Property | Other Property & Casualty | Life & Medical |
|---|---|---|---|---|
| Gross Premium Written | 35,884 | 44,048 | 4,989 | 24,637 |
| Underwritting Income | 11,487 | 13,746 | 632 | 4,350 |

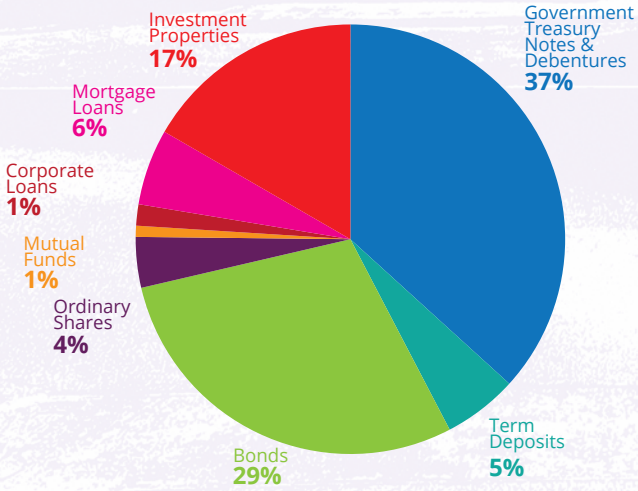
## TOTAL EQUITY (in millions)


## SHARE PRICE, DIVIDEND YIELD




## EARNINGS PER SHARE



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# INDUSTRY OVERVIEW

During 2017, the Barbados economy continued to face significant macroeconomic challenges associated with declining international reserves, weak public finances and the need for the implementation of measures that creates a platform for sustainable growth over the medium-term.

For the third consecutive year, there was a modest improvement in economic activity. However, after an encouraging start, preliminary data suggest that the growth rate is estimated to have moderated to 1%, reflecting the combined effects of a slowdown in the tourism sector in the second half of the year, the delayed implementation of foreign-funded investment projects and the impact of tighter fiscal policy. In addition, the pass-through effects of higher international oil prices and increased indirect taxes, contributed to heightened inflationary pressures.

The fiscal deficit fell by $197 million during the first nine months of the year, as Government accelerated efforts to strengthen the public finances. This deficit, the lowest in seven years, was attributable to improved revenues arising from the tax measures introduced during the past two years, and the stabilisation of non-interest expenditure. Despite these gains, the improvement was smaller than anticipated, partly the result of the granting of exemptions from the incidence of the new taxes on specific goods and services. However, the lower deficit, together with an adjustment of monetary policy, allowed for a substantial reduction in new credit to Government by the Central Bank.

Modest growth in tourism earnings and the contraction of non-oil imports enabled the external current account deficit to stabilise but the stock of international reserves declined further to $410 million. This provides approximately 6.6 weeks of import cover, well below the desired benchmark of twelve weeks. This outcome partly reflected the on-going weakness in private sector capital flows and net public sector outflows, and the delay in the receipt of planned divestment proceeds that were intended to boost reserves.[1]

## DOMESTIC INSURANCE MARKET

In response to the damage caused by Hurricanes Irma and Maria, local companies focused more on technical pricing as opposed to the pursuit of market share by continued erosion of price. It is anticipated, that there will be some stabilisation. However, a likely increase in the cost of Catastrophe Reinsurance is expected in response to the impact of those two major hurricanes.

The domestic market saw the inclusion of two new insurance companies in 2017. On 31 July, 2017, approval was granted by the Supreme Court of Barbados, pertaining to the legal transfer of the Barbados based life insurance portfolio, formerly held by a previous market player, to another entity. This new entrant, an indigenous life insurance company is currently positioned to offer affordable and secure financial products and services. The other new entrant is a property and casualty insurance company with regional experience. Both companies fall under the purview of the Financial Services Commission (FSC).

## REGIONAL INSURANCE MARKET

Caribbean general insurance companies were severely impacted by two major storms during 2017. Insurable losses from Irma alone exceeded US $2 billion in losses which surpassed the total combined English speaking Caribbean property and casualty premium income.

As a result of the high loss experience, original rates are expected to increase dramatically in loss affected islands. It is anticipated that the rest of the region will be affected, hence any improvement regarding reinsurance terms may be difficult to achieve.

It is expected that some reinsurers will require price increases even on programs not impacted by losses, seeking quick payback. Reinsurers have indicated that there will be more focus on monitoring original rates with the requirement that quarterly bordereaux be submitted.

Across the region, companies have started to focus their attention on instituting technical pricing and operational efficiencies to achieve profitability across all lines of business.

## INTERNATIONAL MARKET

US property-casualty (P&C) insurers saw underwriting losses more than double, to $5.1 billion, for the first half of 2017 compared with the year before—an even more

## INDUSTRY OVERVIEW (continued)

dramatic downturn when you consider the industry was in the black on underwriting by $3.1 billion during the same period two years ago. Soaring loss costs, led by higher catastrophe and auto claims, drove net income down 29% in the first half, and this was before huge third-quarter disaster claims from Hurricanes Harvey, Irma, and Maria. These storms reverberated globally, particularly within the reinsurance sector, as did claims from other massive natural disasters outside the United States, most notably September's earthquake in Mexico.

On the other hand, a soft market beyond auto and property-catastrophe lines continues to prevail, with global insurance renewal rates falling for the seventeenth consecutive period in the second quarter of 2017. This appears mainly due to an overabundance of capital, particularly in the US market, with industry surplus as of 30 June at an all-time high of $704 billion. Even record storm losses would be unlikely to put more than a temporary dent in those reserves, most likely making recent hurricanes earnings events rather than serious capital concerns for most primary insurers. Reinsurers and those issuing insurance-linked securities may be harder-hit over the long term, as mounting catastrophe claims are settled.

### CONCLUSION

The catastrophic events of 2017 have caused companies to look at their pricing across all lines of business. In the past, strategies were focused on increasing market share through lower rates, however, this has now shifted to the application of technical pricing to improve underwriting results.

Companies continue to implement new systems to improve both their operational efficiency and effectiveness.

During 2018, ICBL will implement several technological enhancements companywide, expected to improve the company's competitive advantage critical to maintaining dominance in the market.

[1] *Central Bank of Barbados, Review of Barbados' Economic Performance 2017, Central Bank of Barbados.*



# MANAGEMENT DISCUSSION & ANALYSIS

*The Management Discussion & Analysis Report (MD&A) set out below, is the responsibility of Management and reflects events known to Management up to 27 April 2018. Pursuant to Recommendation 31 of the Corporate Governance Recommendations for the Listed Companies on the Barbados Stock Exchange Inc., the Company's Audit, Compliance & Corporate Risk Management Committee ("the Audit Committee") fulfilled its obligation to review this document on 27 April 2018. The Audit Committee recommended that the Company's Board of Directors approve in principle the contents of this document and the Board did so on 27 April 2018.*

## STRATEGIC DIRECTION

Our vision, mission and values form the foundation and are the guiding principles of our corporate strategies, goals and objectives. These guiding principles drive alignment in all areas of the Company to ensure everyone is working together to achieve our goals and objectives.

Our Mission: Leading product innovation and employee development as we exceed the expectations of customers and all other stakeholders.

Our Vision: To be the strongest, most innovative and caring financial services provider in the markets we serve.

Our Values: **Truth:** honesty is our culture; we practise it day by day

**Trust:** we depend on it for our survival

**Transparency:** we remain open about our practices, our products and our people

## INTRODUCTION

We are pleased to present to you, Management's view on the performance of the Company during the financial year 1 January to 31 December 2017.

## FINANCIAL PERFORMANCE OVERVIEW

### Net Loss and EPS

Net Loss attributable to the shareholders of the Company for 2017 was ($1.2) million compared to a profit of $7.0 million in 2016, resulting in EPS of ($0.03), a $0.21 reduction year over year.

### Statutory Reserves

ICBL strengthened its statutory reserves by 2%, ending the year at $53.0 million compared to $52.0 million for the same period in 2016.

### Liquidity and Capital Reserves

Cash and cash equivalents totaled $45.1 million at 31 December 2017 compared to $36.0 million at the end of the previous year, representing an increase of 26%. As the Company continues to face challenges in the economy, management has chosen to position the Company in the best way to ensure that claims and reinsurance commitments are honored as they become due. However we continue to actively pursue investment opportunities.

### Investments

The investment portfolio comprises investment in fixed income securities, equities, mortgages and corporate loans as well as investment properties.

Investments with an overall carrying value of $157.2 million are down 11.5% from $177.7 million reported a year earlier. ICBL continued to experience challenges with sourcing appropriate investment opportunities as spreads narrowed.

Investment properties have remained stable with $34.1 million at 31 December 2017 compared to $34.3 million reported at the end of 2016.

## INSURANCE OPERATIONS

### GENERAL INSURANCE DIVISION

### Underwriting

The soft market cycle in 2017, caused further erosion of original rates across all lines of business, with underwriting margins being further compromised. Whilst we recognise the importance of retaining existing business, such retention would have been associated with the issue of profitability.

# MANAGEMENT DISCUSSION & ANALYSIS (continued)

During the last quarter of 2017, the industry recognised the need to return to technical underwriting due to pending increases in the cost of catastrophe reinsurance. Additionally, a new Tax on Assets was imposed on insurers, along with a 2% fee for all foreign exchange transactions.

**Net claims and adjustment expenses**

Claims expenses are an estimate of current and future costs arising from vehicular accidents and exposures to other liability risks, as well as the future costs to administer these claims. Claims and adjustment expenses in 2017 across all general lines of business, net of reinsurance recoveries, increased by $0.9 million from 2016 and this was driven by (1) the unfavourable development of prior year loss experience on the Motor and Marine lines and (2) the damage caused by Tropical Storms Irma and Maria.

**Reinsurance**

Reinsurance is a critical part of our operations. Reinsurance is purchased to protect the company from catastrophic events such as Hurricanes and Earthquakes. It allows insurance companies to recover from reinsurers, losses that exceed a specific limit under their various reinsurance arrangements

The catastrophic events of 2017 severely affected the reinsurance markets globally. The losses associated with Harvey, Irma and Maria resulted in significant price increases for catastrophe reinsurance coverage territories whether directly or indirectly impacted by these weather systems. Although Barbados was not directly impacted by either of these storms, the cost of reinsurance was significatly impacted for 2018.

Locally and regionally such increases in the cost of reinsurance coverage will result in price increases for property insurance for policyholders.

The company was able to complete the renewal of their various reinsurance arrrangements for 2018 without any challenges. New markets showed keen interest in participating in the programme whilst existing reinsurers confirmed their continued participation.

## LIFE DIVISION

The Life Division offers a full range of products comprising Individual Life, Individual Health, Group Life, Group Health, Creditor Life, Group Pensions, Registered Retirement Savings Plans and Annuities. Both individual and group lines of business achieved satisfactory growth in 2017.

**Improved Customer Convenience**

The easyCLAIMS service was further enhanced in 2017 and the facility to allow clients access to view their claims status online through the portal was added. Work has commenced on the project to make the easyCLAIMS facility available to our Individual Health clients.

**Pension**

The Group Pension plans contracted slightly overall, reflecting the increase in benefits paid from the plans during the year. The Registered Retirement Savings Plans achieved moderate growth during 2017.

## ENTERPRISE RISK MANAGEMENT

Under ICBL's corporate governance structure, the Board of Directors is responsible for overall risk management. The senior management team has a mandate to identify and manage enterprise-level risk and are responsible for risk identification, assessment and mitigation at the operating level. Risks exposures that could have significant impact on the organization and its operations are identified and managed through various processes.

To support its core business processes, ICBL uses a number of information systems for processing transactions and maintaining policyholder information. If these systems were to fail or were compromised, significant disruption to business processes and customer service could result. To mitigate technology risk, ICBL maintains: a business continuity plan, system controls and backup systems to address processing failures and provides extensive training to develop internal system expertise.

# MANAGEMENT DISCUSSION & ANALYSIS (continued)

Details of financial and insurance risks are discussed in Note 4, "Management of financial and insurance risk" in the accompanying consolidated financial statements and notes.

## HUMAN RESOURCES

As part of our strategic initiatives for 2017, the Human Resources Department continued its focus on staff development through training programmes geared towards technical competencies and core skills principally Customer Service. Our goal is to ensure that all employees are fully engaged in enhancing the customer experience by providing a quick turnaround, ease of doing business and ready response to their insurance needs.

In an effort to prepare our talent for the future, the management team was exposed to Succession Planning training. This is an ongoing strategy which places emphasis on staff development in all areas of the business.

Managers completed a refresher training programme in Performance Management conducted by the Barbados Employers' Confederation (BEC). A detailed performance appraisal augurs well for an employee. It provides insight on the competencies possessed; aids various departments in the completion of robust training plans; helps to identify future leaders and highlights the requisite skills for each employee to contribute to a superior workforce.

With the proclamation of the Employment Sexual Harassment (Prevention) Act 2017, the Company sought to ensure that every employee was sensitized to the provisions of the Act and its requirements for all employees. We are pleased to report that all employees participated in training in preparation for the introduction of this new Act. This training was facilitated by the BEC. We also continued our focus on work-life balance and to this end, several Lunch and Learn sessions on health and wellness were also conducted.

**Employee Recognition**

Our employee recognition programme continued to highlight and reward employees for outstanding performance throughout the year. Ms. Elizabeth Greenidge, who joined the Company on 16 September 1985, was selected as the 2017 Employee of the Year. 'Liz' as she is affectionately called was nominated for her dedication and commitment to her job and to the Company as a whole. She is the consummate professional and was undeniably the popular choice among her peers. Two worthy employees received first and second runners up; Ms. Latoya Best of the Underwriting Department for her excellent customer service skills and Mr. Chad Sobers, a relatively new employee who has provided our clients with excellent roadside assistance "when they needed us most".

At our annual Christmas Party and Awards Ceremony, a number of employees received long service awards as well as Merit Awards for their stellar performance during 2017.

We look forward to celebrating our 40th year with our valued clients and employees in 2018.

## CONCLUDING REMARKS

We wish to thank our staff for their dedication during 2017. We also thank our policyholders and clients for their loyalty.

# CORPORATE SOCIAL RESPONSIBILITY

ICBL's Corporate and Social Responsibility (CSR) is built on our commitment to the socio-economic development of the nation's youth, families and our surrounding communities. Engagements supported throughout 2017 included activities with a primary focus on youth, culture and sport. ICBL also supported health care and wellness initiatives with a direct positive impact on its communities and by extension Barbados.


## YOUTH DEVELOPMENT

During the financial year, we made a number of donations and sponsorships to various educational institutions. These programs were geared towards knowledge, growth and development as well as musical and technological advancement. Benefitting from these donations and sponsorships were, Erdiston Primary School, Alexandra Secondary School, St. Giles Primary, PAREDOS, Deacons Primary, Graydon Sealy Secondary and The Samuel Jackman Prescod Institute of Technology just to name a few.

ICBL was further privileged to partner with the Ministry of Education, Science, Technology and Innovation when they hosted the School's Music Festival; a showcase and competition devoted to musical talent, developing confidence, self-esteem, discipline and concentration, in students who attend Primary and Secondary Schools across the island.

*QEH Intensive Care Unit*

## HEALTH AWARENESS

As a keen advocate for health awareness, health care development, healthy living and proactive health practices, ICBL again sponsored the annual Broadway to Barbados Show. The funds raised from this activity provided resources to assist with the upgrade and upkeep of The Queen Elizabeth Hospital (Q.E.H) particularly the Medical Intensive Care Unit and the Accident and Emergency Department. Additionally, significant contributions were made towards activities carried out by the, Diabetes Association, Cancer Support Services and Barbados Association of Palliative Care.

*ICBL Family Fun Walk & Run 2017*

The 8th Annual ICBL Family Fun Walk and Run event, took place on Friday, 28 April 2017 and attracted over 3,500 individuals. This allowed ICBL the opportunity to provide financial donations of BBD 10,000.00 each to the beneficiaries; Special Olympics Barbados, PAREDOS and The Q.E.H Asthma Bay.

## COMMUNITY OUTREACH

In keeping with our community outreach and youth assistance program, ICBL partnered with the National Council on Substance Abuse on the Project Safeguarding Our Future Today (Project SOFT). This project was designed in response to the increasing levels of crime and violence amongst our nation's youth. ICBL was proud to support a venture which promotes positive choices and provided a financial donation of Barbados $5,000.00 to the Camp known as "Know the Facts...Make the Choice", which was structured to empower participants with the information, tools and skills needed to prevent the onset of drug use.


Feeding the homeless

ICBL in collaboration with the Kiwani's Club of Barbados Central celebrated a standout activity in 2017, when they showed their commitments to the Salvation Army's feeding programme. This initiative saw several staff members keen to donate of their time and energy, participating in the distribution of food packages to the homeless one Sunday a month.

## SPORTS & YOUTH DEVELOPMENT

Celebrating its second year of our ongoing relationship as sponsor of the Cricket Franchise of Barbados Inc. -The Barbados Pride -, ICBL worked with the management of the Franchise to create a programme with a focus on overall personal development focused on enhancing players' knowledge and life skills. We recognized cricket's pervasive influence and worked with the Franchise to ensure that our national representatives are equipped to be well-rounded citizens.


Regional Super50 Winners

One of the principal activities was a session on ***"Employer Employee Relationships" Professionalizing My work even at Play.*** This training included discussions on: protocols and employee etiquette, responsibilities as an employee, representing brand Barbados and brand ICBL, cricket as a profession not a hobby and professionalism in sport.

ICBL continues to deepen its commitment to Youth and Sport through its support of the Barbados Secondary Schools' Athletics Championships (BSSAC) whose growth and popularity increases annually. Our contribution has helped to engender community spirit as the nation rallies around our nation's youth towards their athletic pursuit. Additionally we assisted the Athletics Association of Barbados Inc. the national governing body for track and field.

Our commitment to national development through sport also included contributions to the Barbados Hockey Federation Inc. which continues to work assiduously to re-establish its national league competition.

## STAFF ACTIVITIES

On Wednesday, 29 November 2017, the company celebrated Independence with a Back-to-School Dress Day. Employees dressed in full uniform, in an effort to win the coveted prize of Best Dressed and school with the largest group. The day was filled with cheer and laughter and both senior and junior members of staff participated. The highlight of the day was the roll call and group photo taken on the steps of the Head Office. The School with the most participants was the Combermere School with a total of eleven (11) staff members and the best-dressed individual was Ms. Mechelle Pierre representing the Ellerslie Secondary School. A monetary donation was also made to the winning school.

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OUR SUITE OF PRODUCTS PROTECTS YOU AGAINST LOSS DUE TO:

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- FLOOD • BURGLARY
- EARTHQUAKES
- LAND SLIPPAGE
- VOLCANIC ERUPTION

GET DISCOUNTS ON YOUR PREMIUM WITH:

- CONCRETE ROOF
- BURGLAR BARS
- FIRE EXTINGUISHER
- SMOKE ALARM
- HURRICANE STRAPS

icbl

# FINANCIAL STATEMENTS

31 December 2017

## ACTUARIAL LIFE CERTIFICATE

## APPOINTED ACTUARY'S 2017 REPORT TO THE SHAREHOLDERS AND POLICYHOLDERS

## INSURANCE CORPORATION OF BARBADOS LIMITED LIFE AND HEALTH, ANNUITY AND DEPOSIT ADMINISTRATION PORTFOLIO

I have performed the valuation of the policy liabilities of the Insurance Corporation of Barbados Limited ("ICBL") with respect to its individual and group life and health insurance portfolio for the balance sheet at 31st December 2017, and their change in the statement of operations, for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

The valuation of ICBL – Life & Health Insurance, Annuity and Deposit Administration Portfolio was conducted using the Policy Premium Method ("PPM") as an approximation to the Canadian Asset Liability Method ("CALM") and appropriate methods for the group business, assuming best-estimate assumptions together with margins for adverse deviations in accordance with the Canadian Actuarial Standards of Practice (Life). The Deposit Administration reserves are simply based on the funds' balances of each group.

In my opinion, the amount of policy liabilities net of reinsurance recoverables make appropriate provision for all policyholder obligations and the financial statements fairly represent the results of the valuation.

Hélène Pouliot, FCIA, FSA, CERA

Affiliate Member of the Caribbean Actuarial Association
Appointed Actuary, Insurance Corporation of Barbados limited – Life & Health Insurance, Annuity and Deposit Administration Portfolio

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March 28, 2018

Willis Towers Watson

# RESPONSIBILITY FOR FINANCIAL REPORTING

**For the year ended 31 December 2017**

The management of Insurance Corporation of Barbados Limited (the "Company") and its subsidiary, collectively (the "Group") is responsible for the preparation of the consolidated financial statements contained in this report. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Management has established and maintains a system of financial reporting and internal controls to provide reasonable assurance that transactions are properly authorised and recorded. These controls include the careful selection, training, and supervision of qualified employees, the establishment of well-defined responsibilities, and the communication of policies relating to good conduct and business practice. Internal controls are reviewed and evaluated by the Group's internal auditors.

The Audit, Compliance, and Corporate Risk Management Committee, primarily composed of directors who are not officers or employees of the Group, reviews the consolidated financial statements on behalf of the Board of Directors before the statements are submitted to the shareholders.

The shareholders' independent auditor, PricewaterhouseCoopers SRL has audited the consolidated financial statements of the Group in accordance with International Standards on Auditing and has expressed its opinion in its report to the Group's shareholders. The auditor has unrestricted access to and meets periodically with the Audit, Compliance, and Corporate Risk Management Committee to review its findings regarding internal controls over the financial reporting process, auditing matters and reporting issues.

These consolidated financial statements have been authorised for issue by the Board of Directors on 27 April 2018. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

.....

Goulbourne Alleyne, F.C.I.I., M.B.A., ARe, A.C.I.S., C.A.M.S., F.L.M.I., F.F.S.I.
Deputy Chief Executive Officer

## *Independent auditor's report*

To the Shareholders of Insurance Corporation of Barbados Limited

### *Report on the audit of the consolidated financial statements*

### *Our opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Insurance Corporation of Barbados Limited (the "Company") and its subsidiary (together the "Group") as at 31 December 2017, 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***

Insurance Corporation of Barbados Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

### *Basis for opinion*

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

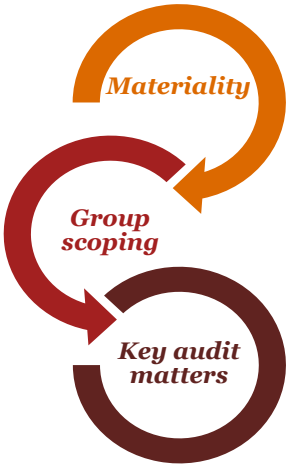
***Independence***

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.

*PricewaterhouseCoopers SRL, The Financial Services Centre, Bishop's Court Hill, P.O. Box 111, St. Michael, BB14004, Barbados, West Indies*
*T: +246-626-6700, F:+246-436-1275, www.pwc.com/bb*

## *Our audit approach*

**Overview**




- *Overall group materiality: $466,360, which represents 5% of average profit before tax for 2017, and the preceding four years.*

- *We conducted full scope audits of the Company and its subsidiary, which were identified as two financially significant components.*
- *The audit engagement team was the auditor for both the Company and the subsidiary.*

- *Valuation of incurred but not reported claims for property and casualty lines*
- *Methodologies and assumptions used for determining insurance contract liabilities for life and health claims*
- *Valuation of investment properties*
- *Impairment of Level 3 investment*
- *Valuation of certain Level 3 investments disclosed at fair value*
- *Restatement of prior period financial statements*

**Audit scope**
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

**Materiality**
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| ***Overall group materiality*** | *$466,360* |
| ***How we determined it*** | *5% of average profit before tax for 2017, and the preceding four years.* |
| ***Rationale for the materiality benchmark applied*** | *We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards. We have applied an average to the benchmark in order to take into account the volatility in earnings.* |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $23,310 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the Key audit matter |
|---|---|
| ***Valuation of incurred but not reported claims for property and casualty lines***<br><br>*See notes 2(N), 4(Bii) and 20 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.*<br><br>Total incurred but not reported reserves as at 31 December 2017 are $5.1 million.<br><br>The methodologies and assumptions utilized to develop incurred but not reported reserves involves a significant degree of judgement. The liabilities are based on the best-estimate ultimate cost of all claims incurred but not reported, together with the related claims handling costs. A range of methods may be used to determine these provisions.<br><br>Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims which are subject to assumptions and complex calculations. | We tested management's valuation of the relevant incurred but not reported claims for property and casualty lines as follows:<br><br>• We tested the completeness, accuracy and reliability of the underlying data utilized by management, and their external actuarial expert to support the actuarial valuation.<br><br>• In order to challenge management's assumptions and methodologies, we were assisted by our actuarial experts who performed independent re-projections on selected classes of business, particularly focusing on the largest and most volatile reserves as these were considered higher risk. For these classes we compared our independent claims reserves estimated to those booked by management, and sought to understand any significant differences. |

Management uses an external actuarial expert to assist with the valuation of claims incurred but not reported.

- For the remaining classes we performed a diagnostic check to identify and follow up any anomalies. In performing this work we compared the Group's actuarial methodologies with those used in the insurance industry and with prior periods.

The results of our procedures indicated that the estimates recorded by management are not unreasonable.

### *Methodologies and assumptions used for determining insurance contract liabilities for life and health claims*

*See notes 2(N&O), 4(Bi) and 20 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.*

The reserves for life and health insurance contracts as at 31 December 2017 are $22.0 million.

The valuation of the provisions for the settlement of future claims involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities. The key assumptions include mortality, morbidity, lapse and expenses.

Management uses an external actuarial expert to assist in determining these assumptions and in valuing actuarial liabilities.

We tested management's methodologies and assumptions used for determining insurance contract liabilities for life and health claims as follows:

- We tested the completeness, accuracy and reliability of the underlying data utilized by management and their actuarial expert to support the actuarial valuation.

- We tested a sample of contracts to ascertain that contract features were appropriately reflected by the actuarial model.

- We have utilized our internal actuarial experts to assist in the evaluation of the methodologies and assumptions utilized by management's actuarial expert in the context of industry and entity-specific facts and circumstances.

- We updated our understanding for any changes impacting the key assumptions and for selected classes of business, evaluated the key assumptions including mortality, morbidity, lapse and expenses, all of which are based on entity experience, and consistent with the required actuarial standards of practice.

The results of our procedures indicated that the methods and assumptions used by management are not unreasonable.

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### *Valuation of investment properties*

*See notes 2(K), 9(A, B & C) and 13 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.*

Total investment properties as at 31 December 2017 are $34.1 million.

Given the ongoing depressed real estate market and macro-economic uncertainty within Barbados, property valuation continues to result in an area of higher risk. Significant judgement is required by management in estimating fair value as market observable inputs are not readily available.

Management uses a qualified external valuation expert to assist with the valuation of the properties.

Key assumptions used within the valuation models include rental growth rates, expenses and discount rates.

With the assistance of our external valuation expert, we assessed the valuation of the investment properties as at 31 December 2017 as follows:

- Examined the valuation reports prepared by management's expert and evaluated the methodology and key assumptions including rental growth rates, expenses and discount rates used by management within the valuation models. These assumptions were compared against prior year assessments and other appropriate benchmarks.
- Tested the integrity of the underlying data used in the models and checked for mathematical accuracy.
- Assessed the competence and objectivity of management's expert.
- Compared the valuations determined by our external valuation expert to the values determined by management's expert.

No material differences were identified as a result of the procedures we performed.

### *Impairment of Level 3 investment*

*See notes 2(J), 8(A&B) and 9(D) to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.*

Impairment recorded on a specific Level 3 investment not measured at fair value at 31 December 2017 is $2.1 million.

The methodologies and assumptions utilized to develop the estimate of impairment for a Level 3 investment within the Group's investment portfolio involves significant judgment due to the nature of the investment, the lack of observable market inputs available for consideration and the macro-economic uncertainty within Barbados.

We tested management's methodologies and assumptions used for determining the impairment of the Level 3 investment in the investment portfolio as follows:

- We tested the completeness, accuracy and reliability of the underlying data utilized by management to determine the impairment of the Level 3 investment.
- We were assisted by our internal valuation experts to evaluate the methodologies, assumptions and models utilized by management. Specifically, we performed an independent impairment assessment and compared the results to management's recorded impairment.

The results of our procedures indicated management's impairment was not unreasonable, in the context of the inherent uncertainties disclosed in the notes to the financial statements.

pwc

### *Valuation of certain Level 3 investments disclosed at fair value*

*See notes 2(D), 8(A) and 9(A&D) to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.*

Total fair value of Level 3 investments disclosed at fair value as at 31 December 2017 is $115.4 million.

The methodologies and assumptions utilized to develop the estimate of fair value for Level 3 investments within the Group's investment portfolio involves significant judgment due to the lack of observable market inputs available for consideration, the limited trading activity and the macro-economic uncertainty within Barbados.

We tested management's methodologies and assumptions used for determining the fair value of Level 3 investments in the investment portfolio as follows:

- We tested the completeness, accuracy and reliability of the underlying data utilized by management to determine the fair value of the Level 3 investments.
- We were assisted by our internal valuation experts to evaluate the methodologies, assumptions and models utilized by management. Specifically, we performed an independent assessment and compared the results to management's recorded value.

The results of our procedures indicated management's fair value was not unreasonable, in the context of the inherent uncertainties disclosed in the notes to the financial statements.

### *Restatement of prior period financial statements*

*See note 29 to the consolidated financial statements for disclosures of related restatement.*

The financial statements for 2017 include a restatement of prior period financial statements of $1.9million (tax effect $473 thousand) to correct the effects of a prior period error in deferred reinsurance premiums in relation to the computation of excess of loss premium ceded.

We tested management's computation for the correction of the error as follows:

- We tested the completeness, accuracy and reliability of the underlying data utilized by management to determine the error.
- We agreed the terms of the underlying reinsurance contract to the amounts used in the computation.
- We substantiated the payments made under the terms of the agreement.
- We recomputed the deferred amount ceded for each of the years ended 31 December 2016 and December 31, 2015 and the related deferred reinsurance premium as at December 31, 2016 and 2015, respectively.

The results of our procedures indicated management's computation of the prior period restatement was reasonable.

**How we tailored our group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the engagement team. This consisted of full scope audits on the Company and its subsidiary as each were identified as financially significant components. The audit engagement team was the auditor for both the Company and the subsidiary.

## *Other information*

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## *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.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## *Other matter*

This report is made solely to the Company's shareholders, as a body, in accordance with Section 147 of the Companies Act of Barbados. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law and subject to any enactment or rule of law to the contrary, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Ann Wallace-Elcock.

PricewaterhouseCoopers SRL

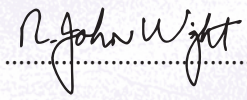
Bridgetown, Barbados
27 April 2018

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**As at 31 December 2017**
**(in thousands of Barbados dollars)**

| | Notes | 2017 | Restated 2016 | Restated 1 January 2016 |
|---|---|---|---|---|
| **ASSETS** | | $ | $ | $ |
| Cash and cash equivalents | 6 | 45,147 | 36,002 | 21,262 |
| Fixed deposits | 7 | 11,489 | 26,429 | 26,163 |
| Regulatory deposits | 7 | 2,000 | 2,000 | 2,000 |
| Investments | 8 | 157,234 | 177,731 | 195,010 |
| Insurance receivables and other assets | 10 | 44,859 | 36,378 | 39,517 |
| Deferred policy acquisition costs | 11 | 2,259 | 2,999 | 2,773 |
| Reinsurance assets | 12 | 47,774 | 40,622 | 42,569 |
| Investment properties | 13 | 34,135 | 34,290 | 34,547 |
| Property, plant and equipment | 14 | 20,715 | 20,398 | 21,528 |
| Tax recoverable | 15 | 3,864 | 4,163 | 2,886 |
| Intangible assets | 16 | 3,983 | 3,306 | 2,627 |
| Deferred tax asset | 15 | 271 | - | - |
| Retirement benefit | 18 | 3,268 | 4,202 | 4,556 |
| Restricted cash | 7 | 38,115 | 38,211 | 36,114 |
| **Total assets** | | **415,113** | **426,731** | **431,552** |
| **LIABILITIES** | | | | |
| Other liabilities | 17 | 18,882 | 19,282 | 18,943 |
| Due to affiliates | 26 | 1,219 | 5,156 | 3,940 |
| Investment contract liabilities | 19 | 107,738 | 113,777 | 112,664 |
| Insurance contract liabilities | 20 | 141,664 | 133,136 | 138,566 |
| Deferred tax liability | 15 | - | 1,532 | 1,757 |
| **Total liabilities** | | **269,503** | **272,883** | **275,870** |
| **EQUITY** | | | | |
| Share capital | 21 | 39,816 | 39,664 | 39,611 |
| Contributed surplus | 21 | 427 | 304 | 194 |
| Statutory reserve | 21 | 53,039 | 52,031 | 50,710 |
| Accumulated other comprehensive income | 22 | 4,702 | 5,251 | 7,371 |
| Retained earnings | | 39,415 | 48,612 | 49,906 |
| **Total shareholders' equity** | | **137,399** | **145,862** | **147,792** |
| Non-controlling interest in subsidiary | | 8,211 | 7,986 | 7,890 |
| **Total equity** | | **145,610** | **153,848** | **155,682** |
| **Total liabilities and equity** | | **415,113** | **426,731** | **431,552** |

**Approved by the Board of Directors on 27 April 2018**



*R. John Wight, F.C.P.A., F.C.A., C.P.C.U*
*Chairman*

*Goulbourne Alleyne, F.C.I.I., M.B.A., ARe, A.C.I.S., C.A.M.S., F.L.M.I.,F.F.S.I.*
*Deputy Chief Executive Officer*

*The accompanying notes form an integral part of these financial statements*

# CONSOLIDATED STATEMENT OF INCOME

**For the year ended 31 December 2017**
**(in thousands of Barbados dollars except for per share amounts)**

| | Notes | 2017 | Restated 2016 |
|---|---|---|---|
| **INCOME** | | $ | $ |
| Gross premiums written | | 109,558 | 114,837 |
| Reinsurance ceded | | (46,410) | (47,529) |
| Net premiums written | | 63,148 | 67,308 |
| Net change in unearned premiums | 20 | 1,540 | 1,415 |
| **Net premiums earned** | | **64,688** | **68,723** |
| Investment income | 8 | 4,787 | 7,496 |
| Commission and other income | 23 | 16,770 | 18,139 |
| Fair value adjustment on investment properties | 13 | (690) | (1,032) |
| Rental income | | 2,209 | 2,192 |
| **Total income** | | **87,764** | **95,518** |
| **EXPENSES** | | | |
| Insurance contracts benefits and expenses | | | |
| Life and health policy benefits | 24 | 15,342 | 16,506 |
| Short term claim and adjustments expenses | 24 | 23,719 | 22,837 |
| Commission and acquisition expense | | 10,605 | 9,819 |
| Operating expenses | 25 | 37,547 | 35,952 |
| Amortisation and depreciation expense | | 1,847 | 1,857 |
| **Total benefits and expenses** | | **89,060** | **86,971** |
| **(Loss) income before income taxes** | | **(1,296)** | **8,547** |
| Income taxes | 15 | 355 | (1,130) |
| **Net (loss) income for the year** | | **(941)** | **7,417** |
| **Net (loss) income attributable to:** | | | |
| Shareholders | | (1,166) | 7,044 |
| Non-controlling interest in subsidiary | | 225 | 373 |
| **Net (loss) income for the year** | | **(941)** | **7,417** |
| Earnings per share | | | |
| - Basic and fully diluted | 21 | (0.03) | 0.18 |

*The accompanying notes form an integral part of these financial statements*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 31 December 2017**
**(in thousands of Barbados dollars)**

| | Notes | 2017 | Restated 2016 |
|---|---|---|---|
| | | $ | $ |
| **Net (loss) income for the year after income taxes** | | (941) | 7,417 |
| **Other comprehensive loss:** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Re-measurement of retirement benefit obligations | 22 | (1,471) | (667) |
| Change in freehold property valuation | 22 | - | (1,988) |
| | | **(1,471)** | **(2,655)** |
| **Items that may be subsequently reclassified to profit or loss** | | | |
| Investments classified as available-for-sale | | | |
| Fair value gains | | 922 | 535 |
| **Total other comprehensive loss for the year after income taxes** | | **(549)** | **(2,120)** |
| **Comprehensive income** | | **(1,490)** | **5,297** |
| **Comprehensive income attributable to:** | | | |
| Shareholders | | (1,715) | 4,924 |
| Non-controlling interests in subsidiary | | 225 | 373 |
| **Total comprehensive income for the year** | | **(1,490)** | **5,297** |

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 15.

*The accompanying notes form an integral part of these financial statements*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2017**
**(in thousands of Barbados dollars)**

| | Notes | 2017 | Restated 2016 |
|---|---|---|---|
| **Share capital** | | **$** | **$** |
| Balance - beginning of year | | 39,664 | 39,611 |
| Share issuance | 21 | 152 | 53 |
| **Balance - end of year** | | **39,816** | **39,664** |
| | | | |
| **Contributed surplus** | | | |
| Balance - beginning of year | | 304 | 194 |
| Share compensation expenses | 25 | 123 | 110 |
| **Balance - end of year** | | **427** | **304** |
| | | | |
| **Statutory reserve** | | | |
| Balance - beginning of year as previously stated | | 52,031 | 51,002 |
| Prior period correction | 29 | - | (292) |
| Balance – beginning of year, restated | | 52,031 | 50,710 |
| Transfer to catastrophe reserve | 21 | 1,008 | 1,321 |
| **Balance - end of year** | | **53,039** | **52,031** |
| | | | |
| **Accumulated other comprehensive income** | | | |
| Balance - beginning of year | | 5,251 | 7,371 |
| Other comprehensive loss for the year | 22 | (549) | (2,120) |
| **Balance - end of year** | | **4,702** | **5,251** |
| | | | |
| **Retained earnings** | | | |
| Balance - beginning of year as previously stated | | 48,612 | 50,948 |
| Prior period correction | 29 | - | (1,042) |
| Balance – beginning of year, restated | | 48,612 | 49,906 |
| Net (loss) income for the year attributable to shareholders | | (1,166) | 7,044 |
| Dividends | | (7,023) | (7,017) |
| Transfer to catastrophe reserve | | (1,008) | (1,321) |
| **Balance - end of year** | | **39,415** | **48,612** |
| | | | |
| **Total equity attributable to shareholders of the company** | | **137,399** | **145,862** |
| | | | |
| **Attributable to non-controlling interests** | | | |
| Balance - beginning of year | | 7,986 | 7,890 |
| Non-controlling interest distributions | | - | (277) |
| Net income for the year | | 225 | 373 |
| **Balance - end of year** | | **8,211** | **7,986** |
| | | | |
| **Total equity** | | **145,610** | **153,848** |

*The accompanying notes form an integral part of these financial statements*

# CONSOLIDATED STATEMENT OF CASH FLOWS

**For the year ended 31 December 2017**
**(in thousands of Barbados dollars)**

| | 2017 | Restated 2016 |
|---|---|---|
| **Cash flows from operating activities** | **$** | **$** |
| **(Loss) income before tax** | (1,296) | 8,547 |
| **Adjustments for:** | | |
| Investment income | (4,787) | (7,496) |
| Fair value adjustment on investment properties | 690 | 1,032 |
| Amortisation of property, plant and equipment | 1,612 | 1,664 |
| Amortisation of intangible assets | 235 | 191 |
| Impairment of investments | 3,083 | 87 |
| Impairment on intangibles | 95 | - |
| Loss on sale of property, plant and equipment | (132) | 19 |
| Compensation expense – shares and options | 256 | 118 |
| **Change in assets and liabilities:** | | |
| Insurance receivables and other assets | 5,871 | 2,520 |
| Deferred policy acquisition costs | 740 | (226) |
| Reinsurance assets | (7,152) | 1,947 |
| Tax recoverable | - | (11) |
| Retirement benefit obligations | (1,027) | (535) |
| Restricted cash | 96 | (2,097) |
| Other liabilities | (674) | 339 |
| Due to affiliates | (3,937) | 1,216 |
| Investment contract liabilities | (6,039) | 1,113 |
| Insurance contract liabilities | 8,528 | (5,430) |
| **Cash (used in) generated from operations** | (3,838) | 2,998 |
| Income taxes paid | (658) | (2,398) |
| Interest received | 4,705 | 8,114 |
| **Net cash generated from operating activities** | **209** | **8,714** |
| **Cash flows from investing activities** | | |
| Purchase of investments | (1,740) | (5,719) |
| Purchase of fixed deposits | - | (3,176) |
| Maturity of fixed deposits | 14,940 | 2,910 |
| Proceeds from sales/maturities of investments | 5,805 | 23,446 |
| Additions to investment properties | (170) | (775) |
| Acquisition of property, plant and equipment | (2,414) | (2,615) |
| Proceeds from sales of property, plant and equipment | 252 | 74 |
| Acquisition of intangible assets | (1,007) | (882) |
| Disposal of intangible assets | - | 12 |
| **Net cash generated from investing activities** | **15,666** | **13,275** |
| **Cash flows from financing activities** | | |
| Cash dividends paid to shareholders | (6,749) | (7,017) |
| Cash distributions paid to non-controlling interest | - | (277) |
| Proceeds on issues of common shares | 19 | 45 |
| **Net cash used in financing activities** | **(6,730)** | **(7,249)** |
| Increase in cash and cash equivalents | 9,145 | 14,740 |
| Cash and cash equivalents - beginning of year | 36,002 | 21,262 |
| **Cash and cash equivalents - end of year (note 6)** | **45,147** | **36,002** |

*The accompanying notes form an integral part of these financial statements*

# INDEX TO NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**For the year ended 31 December 2017**
**(in thousands of Barbados dollars except for per share amounts)**

## 1. NATURE OF THE GROUP AND ITS BUSINESS

Insurance Corporation of Barbados Limited (The Company) was incorporated on 17 January 1994 under the Companies Act, Cap. 308 of the Laws of Barbados.

The Company commenced operations on 5 December 2000, when it assumed the assets and liabilities of Insurance Corporation of Barbados (ICB) pursuant to the Insurance Corporation of Barbados (Transfer and Vesting of Assets) Act, 2000. Previously, ICB operated under the Insurance Corporation of Barbados Act, Cap. 311 of the Laws of Barbados. This Act was repealed on 5 December 2000.

The principal activity of the Company is to undertake and carry on all classes of insurance business. The Company and its subsidiary (the "Group") also manages pension plans and the rental of office space in the Weymouth Corporate Centre. The Company's registered office is located at Roebuck Street, St. Michael, Barbados.

Effective 4 January 2006, BF&M Limited ("BF&M", "Ultimate Parent Company") a company incorporated in Bermuda, through its wholly owned subsidiary, Hamilton Financial Limited, domiciled in St. Lucia, acquired a 51.7% interest in the issued and outstanding shares of the Company. Their shareholding stands at 51.3% of the issued and outstanding shares at 31 December 2017. The remaining 48.7% of the shares are widely held. The Company trades on the Barbados Stock Exchange.

The Company has a 72.35% interest in a joint venture with the National Insurance Board ("NIB") in respect of the Weymouth Corporate Centre and controls the operation of the entity. This investment is fully consolidated in these financial statements and the interest related to the NIB is accounted for as non-controlling interest.

On 27 April 2018, the Board of Directors approved the consolidated financial statements and authorised them for issue. The Board of Directors has the power to amend the financial statements after issue.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### A. Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued and adopted by the International Accounting Standards Board ("IASB").

### B. Basis of Preparation

**i) Basis of measurement**

The consolidated financial statements have been compiled on the going concern basis and prepared on the historical cost basis, as modified by the revaluation of: available-for-sale financial assets, investment properties, certain property, plant and equipment and defined pension plan assets at fair value. The consolidated statement of financial position is presented in order of liquidity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### B. Basis of Preparation (continued)

#### ii) Critical Estimates, Judgments and Assumptions

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions.

It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumptions made could require a material adjustment to the carrying amount of the asset or liability affected. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

Key sources of estimation uncertainty and areas where significant judgments have been made are listed below and discussed throughout the notes to these financial statements including:

- The actuarial assumptions used in the valuation of insurance and investment contract liabilities using Policy Premium Method ("PPM") which approximates the Canadian Asset Liability Method ("CALM") require significant judgment and estimation. Key assumptions and considerations in choosing assumptions are discussed in Note 2.N and sensitivities are discussed in Note 4B and 20.
- The estimate of the ultimate liability arising from claims under short-term insurance contracts. Refer to Note 4B and 20.
- In the determination of the fair value of financial instruments, the Group's management exercises judgment in the determination of fair value inputs, particularly those items categorised within level 3 of the fair value hierarchy. Refer to Note 8 and 9.
- The actuarial assumptions used in determining the liability and expense of the Group's retirement benefit obligations. Management reviews previous experience of its plan members and market conditions for the year. Refer to Note 20.
- Management uses independent qualified appraisal services to assist in determining the fair value of investment properties or properties providing collateral for mortgages. This fair value assessment requires judgments and estimates on future cash flows and general market conditions. Refer to Note 9.
- Significant management judgments and estimates are required when interpreting the relevant tax laws, regulations and legislation in the determination of the Group's tax provision and the carrying amounts of its tax assets and liabilities. Refer to Note 15.

### C. Consolidation

#### i) Subsidiary

Subsidiaries are all entities over which the Company has control. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date control is transferred to the Company and deconsolidated on the date control ceases.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### C. Consolidation (continued)

**i) Subsidiary (continued)**

The Company's 72.35% owned joint venture is consolidated as the Group controls the operations of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Inter-company transactions, balances and unrealised gains (losses) on transactions between companies are eliminated on consolidation. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Company's accounting policies.

**ii) Transactions with non-controlling interest**

The Company applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Company.

### D. Determination of fair value

Fair value is determined based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the assumptions that market participants would use when pricing an asset or liability.

When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair value is typically based on alternative valuation techniques such as discounted cash flows and other techniques. When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation techniques and inputs. For bonds and fixed income securities, fair value is determined by discounting expected future cash flows using current market rates. Judgment is also applied in adjusting external observable data for items including liquidity and credit factors. A description of the fair value methodologies and assumptions by type of asset is included in Note 9.

### E. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer ("CEO").

### F. Foreign Currency Translation

**i) Functional and presentation currency**

Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). All amounts in the consolidated financial statements, excluding per share data or where otherwise stated, are in thousands of Barbados dollars, which is the Company's functional and presentation currency.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### F. Foreign Currency Translation (continued)

**ii) Transactions and balances**

Monetary assets and liabilities, outstanding at the year end and denominated in currencies other than the functional currency of the Company or its subsidiary are translated into the functional currency using the rate of exchange prevailing at the consolidated statement of financial position date. Income and expenses are translated at rates of exchange in effect on the transaction dates. Foreign exchange gains and losses are expensed in the consolidated statement of income.

Translation differences on non-monetary financial assets classified as available-for-sale are included in other comprehensive income.

### G. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid financial assets with original maturities of three months or less and bank overdrafts. The carrying value of cash and cash equivalents approximates their fair value.

Restricted cash and cash equivalents consists of cash being held on account of various pension plans and cash held on account for dividends issued but not collected to satisfy regulatory requirements. These amounts are not available for use in the Group's daily operations and therefore are excluded in the statement of cash flows.

### H. Fixed and Regulatory Deposits

Regulatory deposits are held with Regulators as a legal requirement in order to provide services. Fixed/term deposits are investments with original maturity dates longer than 90 days and are held with financial institutions. The carrying value of regulatory and fixed deposits approximates their fair value.

### I. Financial Instruments

**Financial Assets**

**Classification, recognition and subsequent measurements of financial assets**

The Group classifies its financial assets into the following categories: (i) held-to-maturity; (ii) loans and receivables; and (iii) available-for-sale financial assets. Management determines the classification at initial recognition and is dependent on the nature of the assets and the purpose for which the assets were acquired.

**(i) Held-to-maturity financial assets**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments that the Group has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity are measured at amortised cost using the effective interest rate method, less any impairment losses. Amortisation of premiums and accretion of discounts are included in investment income in the consolidated statement of income.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### I. Financial Instruments (continued)

**Financial Assets (continued)**

**Classification, recognition and subsequent measurements of financial assets (continued)**

**(i) Held-to-maturity financial assets (continued)**

Any sale or reclassification of a more than insignificant amount of held-to-maturity financial assets not close to their maturity would result in the reclassification of all held-to-maturity financial assets as available-for-sale and prevent the Group from classifying financial assets as held-to-maturity for the current and the following two financial years.

**(ii) Loans and receivables**

Loans and receivables are all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment loss. For purposes of this classification, loans and receivables are comprised of bonds and fixed income securities, mortgages and other loans. Realised gains or loss from sale of loans and receivables are recorded in investment income in the consolidated statement of income.

**(iii) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the previous categories. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets available for sale are included in the consolidated statement of comprehensive income in the period in which they arise. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the consolidated statement of income.

The Company initially recognises loans and receivables at their date of inception. All other financial assets (including bonds and fixed income securities classified as loans and receivables) are recognised initially on the trade date, the date at which the Group becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected in the consolidated statement of financial position as receivable for investments sold and payable for investments purchased.

**De-recognition**

The Group derecognises a financial asset when the Group has transferred the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred, which is normally the trade date.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### I. Financial Instruments (continued)

**Investment income**

Dividends on equity instruments are recognised in the consolidated statement of income on the ex-dividend date. Interest income is recorded on the accruals basis, using the effective interest rate method, in the consolidated statement of income. Interest income on impaired loans and receivables is recognised by using the interest rate used to discount the future cash flows in the measurement of the impairment loss.

**Financial liabilities**

The Group has financial liabilities which include investment contract liabilities, amounts due to affiliates and other liabilities. Such financial liabilities are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost. Included under other liabilities are accounts payable. Other liabilities are considered short-term payables with no stated interest and the carrying value of these financial liabilities approximates fair value at the reporting date. All other liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provision of the instrument.

### J. Impairment of Assets

**Impairment of financial assets**

The Company reviews the carrying value of its financial assets, at each period end for evidence of impairment and reversal of previously recognised impairment losses. These assets are considered impaired if there is objective evidence of impairment as a result of one or more loss events that have an impact that can be reliably estimated on the estimated future cash flows of the asset and the financial assets carrying value exceeds the estimated future cash flows. Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to the following: (i) failure to make scheduled payments of capital and/or interest, (ii) adverse changes in the payment pattern of the borrower and (iii) significant deterioration in the fair value of the security underlying financial asset.

**i) Loans and receivables**

When loans and receivable assets (other than collateralized mortgage loans) carried at amortised cost are impaired, 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 discounted at the financial asset's original effective interest rate. For collateralized mortgage loans the carrying amount is reduced to its recoverable amount, being the future cash flow of the collateralized value less cost to sell discounted at the original effective interest rate of the instrument. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of income. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in the consolidated statement of income.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### J. Impairment of Assets (continued)

**Impairment of financial assets (continued)**

**ii) Financial assets classified as available-for-sale**

In the case of equity investments classified as available-for-sale, in addition to types of events listed above, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment.

When an available-for-sale asset is impaired, the loss accumulated in other comprehensive income is reclassified to investment income in the consolidated statement of income. The cumulative loss that is reclassified from other comprehensive income to investment income is measured as the difference between the acquisition cost and the current fair value of the investments less any impairment loss previously recognised in the consolidated statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment is reversed through the consolidated statement of income.

The carrying amounts of the Group's non-financial assets comprise investment properties, property and equipment and intangible assets. Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever there is objective evidence of impairment.

**Impairment of non-financial assets**

Objective evidence includes, but is not limited to the following: (i) adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability; (ii) the likelihood of accelerated obsolescence arising from the development of new technologies and products; and (iii) the disintegration of the active market(s) to which the asset is related. If objective evidence of impairment exists, then the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount and is recognised as losses in operating expenses in the consolidated statement of income. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions of the time value of money and the risks specific to the asset. Assets which cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (cash-generating units).

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### K. Investment Properties

Investment properties are defined as properties with an insignificant portion that is owner occupied and are held for long-term rental yields or capital appreciation and comprise freehold land and buildings. Properties that do not meet these criteria are classified as property and equipment. Investment properties are initially recognised at costs including related transaction costs and subsequently measured at fair value. The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

Fair values for investment properties are assessed annually. The fair value is assessed using the most recently available reports from a qualified external appraisal service.

Any gain or loss arising from a change in fair value is included as fair value adjustments in investment property on the consolidated statement of income.

### L. Property, Plant and Equipment

**Land and buildings**

The Group's land and buildings are carried at a re-valued amount, being fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses. Valuations are performed on a triennial basis such that the carrying amount does not differ materially from that which would be determined using fair value at the statement of financial position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Valuations were performed by a professional firm of certified valuers as at August 2016. Direct sales comparisons, when such data is available, and income capitalisation, when appropriate are included in the assessment of fair value.

When an item of land and building is re-valued, the entire class of land and building to which that asset belongs is re-valued. When an asset's carrying amount is increased as a result of a revaluation, the increase is recognised as other comprehensive income and is included in equity under accumulated other comprehensive income. A revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset.

**Equipment**

Equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount 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. Expenditures relating to ongoing maintenance of property and equipment are expensed as incurred in operating expenses in the consolidated statement of income.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### L. Property, Plant and Equipment (continued)

**Equipment (continued)**

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following rates:

| | |
|---|---|
| Motor Vehicles | 5 years |
| Plant and equipment | 5 years – 10 years |
| Buildings | 50 years |

The assets' residual values, useful lives and method of depreciation are reviewed at the end of each reporting period and adjusted if appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered impaired and it is written down immediately to its recoverable amount. In the event of improvement in the estimated recoverable amount, the related impairment may be reversed. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in commissions and other income in the consolidated statement of income.

### M. Intangible Assets

**Software development costs**

Cost associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Group are recognised as intangible assets when:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software development include employee costs and an appropriate portion of directly attributable overheads. Other development expenditures that do not meet these criteria are expensed when incurred. Capitalised software development costs for projects in use are amortised on a straight line basis over their useful lives, which range from 5 to 10 years.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### N. Insurance and Investment Contract Classification

The Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party, the policyholder or ceding company, by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. In addition, the Group considers the proportion of premiums received to the benefit payable if the insured event did occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Life and health insurance contracts include term, whole life and universal life insurance contracts, Group life insurance policies, health insurance contracts and life contingent annuities. The Group holds whole life contracts which are non-participating contracts.

Short-term insurance contracts include property, casualty, motor, marine and other specialty insurance contracts. These contracts are all non-participating contracts.

### O. Insurance Contract Liabilities

#### i) Life and health insurance contracts

These contracts, meaning insurance contract liabilities, (non-participating) include all forms of life, health and accident insurance and life contingent annuities sold to individuals and groups. A provision for life and health insurance liabilities is made which represents the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all in-force life insurance and annuity policies. These benefits are determined using generally accepted actuarial practices according to standards established by the Canadian Actuarial Standards Board (“ASB”). In accordance with these standards, the provisions have been determined using the PPM as an approximation of Canadian Asset Liability Method (“CALM”).

The insurance liabilities under PPM are calculated by projecting asset and liability cash flows under a variety of interest rate scenarios using best estimate assumptions, together with margins for adverse deviations with respect to other contingencies pertinent to the valuation. Long term business provisions make sufficient allowance for the expected experience scenario and for adverse deviations in experience. Liabilities derived through PPM as an approximation to CALM rely on a combination of Group and industry specific experience in order to determine the best estimate assumptions and corresponding margins for adverse deviations. Many of the estimates used in actuarial valuation relate to future events and involve a significant amount of judgment.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### O. Insurance Contract Liabilities (continued)

**i) Life and health insurance contracts (continued)**

As a result, these estimates are subject to revision on a regular basis. Expected reinsurance recoveries, net of any required provision for impairment are estimated using principles consistent with the Group's method for establishing the related liability and are recorded in accordance with the terms of the Group's reinsurance agreements.

**ii) Short-term insurance contracts**

Claims and loss adjustment expenses are charged to insurance contract benefits and expenses in the consolidated statement of income as incurred based on the estimated ultimate liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group. The provision for outstanding claims and claims adjustment expenses on property and casualty reserves is shown on a discounted basis which estimates the present value of funds required to pay claims at future dates assuming appropriate interest rates and payment profiles. These reserves are discounted at a rate of 5.60% (2016 – 5.75%) based on estimated loss pay-out patterns. However, such liability is necessarily based on estimates and the ultimate liability may exceed the Group's estimates.

A provision for short-term insurance liabilities is made for the estimated costs of claims notified but not settled at the statement of financial position date, using the best information available at that time. In addition to development on known claims, a provision is included for losses and loss adjustment expenses incurred but not reported on the basis of past experience. The provision is based on an actuarial analysis of the Group's underwriting year or accident year development experience. The provision is determined using generally accepted actuarial practices in Canada. The method of making such estimates and for establishing the resulting provisions is reviewed and updated annually and any adjustments resulting there from are reflected in earnings in the period in which they are determined.

Expected reinsurance recoveries on claims, net of any required provision for doubtful amounts, are estimated using principles consistent with the Group's method for establishing the related liability, and are in accordance with the terms of the Group's reinsurance agreements.

**iii) Deferred policy acquisition costs ("DAC") related to insurance contracts**

For short-term insurance contracts, commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the term of the policies as premium is earned.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### O. Insurance Contract Liabilities (continued)

**iv) Reinsurance contracts held related to insurance contracts**

The Group uses reinsurance in the normal course of business to manage its risk exposure. Contracts entered into by the Group with reinsurers, under which the Group is compensated by the reinsurers for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Reinsurance assets are measured using the amounts and assumptions associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract.

To further mitigate underwriting risk, the Group purchases reinsurance to share part of the risks originally accepted by the Group in writing premiums. This reinsurance, however, does not relieve the Group of its primary obligation to policyholders. If any reinsurers are unable to meet their obligations under the related agreements, the Group remains liable to its policyholders for the unrecoverable amounts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are amortised consistent with the underlying insurance contracts.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its estimated recoverable amount and recognises that impairment loss in the consolidated statement of income.

**v) Liability adequacy test**

At the end of each reporting period, liability adequacy tests are performed on short-term insurance contracts to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of income initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Any DAC written off as a result of this test cannot subsequently be reinstated.

**vi) Subrogation reimbursements**

The Company has the right to pursue third parties for payments of some or all costs. Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

The Company maintains a provision against the local recoveries for claims based on a percentage of the total local recoveries for claims.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### P. Investment Contracts

Investment contracts are those contracts that do not transfer significant insurance risk but do transfer financial risk from the policyholder.

The Company's investment contracts include pension plans with a guaranteed minimum rate of return and annuities that do not transfer insurance risk. All investment contracts issued are non-participating.

Liabilities for investment contracts are measured at amortised cost. Contracts recorded at amortised cost are initially recorded at fair value and re-measured at amortised cost in each subsequent period using the effective interest rate. Changes in investment contract liabilities are recorded as a change in investment contract benefits expense in the consolidated statement of income. These liabilities are de-recognised when the obligation of the contract is discharged, cancelled or expired.

### Q. Receivables and Payables Related to Insurance and Investment Contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance and investment contract holders. These receivables and payables are included in insurance receivables and other assets, insurance and investment contract liabilities and other liabilities on the consolidated statement of financial position.

If there is objective evidence that the receivable is impaired, the Group reduces the carrying amount of the receivable accordingly and recognises that impairment loss in the consolidated statement of income. The Group gathers the objective evidence that a receivable is impaired using the same process adopted for loans and receivables in Note 2 I above. The impairment loss is calculated using the same method used for these financial assets.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of income, except to the extent that it relates to items recognised in the consolidated statement of comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the country where the Group operates and generate taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### R. Current and Deferred Income Tax (continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effect of carry-forwards of unused tax losses are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. When management's assessment indicates that it is more likely than not that deferred income tax assets will not be realised, a valuation allowance is recorded against the deferred tax assets.

### S. Employee Benefits

The Company operates various post-employment schemes, including both defined benefit and contribution pension plans and post-employment medical plans.

**i) Pension obligations**

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. With respect to the Group's defined contribution plans, the Group pays contributions into the plan and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

A defined benefit plan is a pension plan which the Group is obligated to pay a specified benefit based on a predetermined formula. The liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the financial reporting period less the fair value of plan assets. When the calculation results in a surplus, the asset recognised is limited to the present value of the future economic benefit available in the form of future refunds for the plan or reduction in future contributions to the plan (the asset limit). The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market interest rates of government bonds that have terms to maturity that approximate the terms of the related pension liability. Annual changes in net assets or obligations arising from plan amendments and transitional amounts are amortised over the expected average remaining service life of the employees covered by the plan.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past services cost are recognised immediately in the consolidated statement of income.

**ii) Other post-employment obligations**

In addition to pension benefits, the Group provided post-retirement benefits for health care to qualified employees who retired prior to 1 January 2014. The entitlement to these benefits was usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits were accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### S. Employee Benefits (continued)

**ii) Other post-employment obligations (continued)**

In the prior year, these costs were recognised on an accrual basis during the years when service was provided to the Company.

Annual changes in the post-retirement benefits for health care obligations arising from plan amendments were amortised on a straight-line basis over the expected average remaining service life to full eligibility age of employees covered by the plan. Actuarial gains and losses are charged or credited to equity in other comprehensive income in the period in which they arise. In the current year, only interest on the obligation is recognized in the statement of income.

**iii) Profit share and bonus plan**

The Company recognises a liability and expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company makes payments based on the achievements of targets based on pre-determined key performance indicators.

**iv) Employee share purchase plan**

The Company operates an employee share purchase plan that allows its employees to purchase the Company's common shares at below market rates, subject to certain restrictions. Shares are offered at a discount to the shares' fair values, as determined by the market share price on the date of purchase. Employees may purchase shares up to a maximum percentage of their gross salary. The discount is charged to compensation expense in the period in which the shares are purchased.

**v) Share-based compensation**

The Company has an Equity Incentive Plan under which employees of the Company receive services from employees as consideration for equity instruments of the Company. Stock grants are issued to the employees equal to the fair value of the shares on the grant date. The amount of the benefit of these share grants are amortised over the vesting period as operating expense in the statement of income. If the Company grants share options to employees that vest in the future if they are still employed, then the fair value of the options will be calculated at the date the options are granted. This fair value will be charged to the statement of income equally over the vesting period with adjustments at each accounting date to reflect the best estimate of the number of options that will eventually vest.

The grant by the Company of its equity instruments to employees is treated as a capital contribution by the Company. The fair value of the employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase in additional paid in capital, with a corresponding charge to operating expenses.

The Company also receives a charge from the Ultimate Parent Company representing its share of expense of the Ultimate Parent's cost of share grants. Share grants issued by the Ultimate Parent to the Company in the group are reflected in the Company's Statement of income as an expense.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### T. Revenue Recognition

Revenue comprises the fair value for services. Revenue is recognised as follows:

**i) Premium income**

Premiums on most life and health insurance contracts and life contingent annuity investment contracts are recognised as revenue when due from the policyholder.

For short-term insurance products, premiums written are earned on a pro-rata basis over the terms of the policies to which they are related. Unearned premiums represent the portion of premiums written that relate to the period of risk subsequent to the year-end. Unearned premiums are included as a component of insurance contract liabilities in the consolidated statement of financial position.

**ii) Commission income**

For short-term reinsurance contracts, commission income is recognised over the term of the related reinsurance contracts and in accordance with the expensing of the related reinsurance premiums. Commission income on long-term insurance contracts is recognised when earned and the amount is readily determinable. The recognition of profit commissions is also dependent on the loss experience underlying such reinsurance policies.

**iii) Rental income**

Fees collected from rental of investment properties are recognised as rental income.

### U. Leases

The Group leases investment properties. Leases, in which a significant portion of the risks and rewards of ownership are retained by the Group as the lessor, are classified as operating leases. Lease income from investment property is recognised in rental income on the consolidated statement of income on a straight-line basis over the term of the lease.

All leases have clauses which indicate that the lease may be cancelled by either of the parties with six months' notice. Expenditures relating to ongoing maintenance of investment properties are expensed.

### V. Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognised as a deduction from equity.

### W. Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated statement of financial position in the period in which the dividends are approved by the Company's Board of Directors.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### X. Earnings Per Share

Basic earnings per share is presented in the consolidated statement of income and is calculated by dividing the shareholders' net earnings for the year by the weighted average number of ordinary shares outstanding at the reporting date.

Diluted earnings per share is calculated by dividing the shareholders' net earnings by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. When there is a loss, no potential common shares are included in the computation of fully diluted earnings per share.

## 3. NEW AND REVISED ACCOUNTING STANDARDS

### A. New and Revised Accounting Standards Adopted in 2017

The Company has applied the following standards and amendments for its annual reporting period commencing 1 January 2017:

i) Amendments to IAS 7 – Statement of Cash flows
ii) Annual Improvements 2014–2016 Cycle

The adoption of these amendments did not have any significant impact on the current period or any prior period and is not likely to significantly affect future periods. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### B. New and Revised Accounting Standards to be Adopted in 2018 or Later

The standards and interpretations that are issued, but not yet effective, are disclosed below. The Company intends to adopt these standards when they become effective.

IFRS 9
Financial Instruments ("IFRS 9") – In July 2014, the IASB issued the final version of this standard that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

## 3. NEW AND REVISED ACCOUNTING STANDARDS (continued)

### B. New and Revised Accounting Standards to be Adopted in 2018 or Later (continued)

IFRS 9 (continued)
IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, we will not restate our prior period comparative consolidated financial statements when we adopt the requirements of the new standard.

Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will be recognized in our opening 1 January 2018 retained earnings and other comprehensive income as if we had always followed the new requirements.

The key changes to our accounting policies and the expected impact resulting from the adoption of IFRS 9 are described below.

The Group has not completed assessing the impact that the initial application of IFRS 9 will have in order to quantify this adjustment. The impact to our regulatory capital is not expected to be material.

Classification and measurement

The IFRS 9 classification and measurement model requires that all debt instrument financial assets that do not meet a "solely payment of principal and interest" (SPPI) test, be classified at initial recognition as fair value through profit or loss ("FVTPL"). The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured at FVTPL. Subsequent measurement of instruments classified as FVTPL under IFRS 9 operates in a similar manner to trading under IAS 39.

For debt instrument financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis will be classified as FVTPL. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as fair value through OCI ("FV-OCI") for debt. Debt instruments that are managed on a "hold to collect only" basis will be classified as amortized cost. Subsequent measurement of instruments classified at FV-OCI and amortized cost classifications under IFRS 9 operate in a similar manner to AFS for debt securities and loans and receivables, respectively, under existing IAS 39, except for the impairment provisions which are discussed below.

For those debt instrument financial assets that would otherwise be classified as FV-OCI or amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity instrument financial assets are required to be classified at initial recognition as FVTPL unless an irrevocable designation is made to classify the instrument as FV-OCI for equities. Unlike AFS for equity securities under IAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in the Consolidated Statement of Income.

## 3. NEW AND REVISED ACCOUNTING STANDARDS (continued)

### B. New and Revised Accounting Standards to be Adopted in 2018 or Later (continued)

IFRS 9 (continued)

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- Held-to-maturity financial assets measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Loans and receivables measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Available-for-sale financial assets measured at fair value under IAS 39 will in general be measured at FVOCI under IFRS 9.

The Group has not completed its assessment of the impact of these changes, on the adoption of IFRS 9 at 1 January 2018.

Impairment

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost or FV-OCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

Expected Credit Loss Methodology

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model ('ELC'). This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. The present incurred loss model incorporates a single best estimate, the time value of money and information about past events and current conditions and recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

Financial instruments subject to the ECL methodology are categorized into three stages.

Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12 months of ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12 months of ECL.

## 3. NEW AND REVISED ACCOUNTING STANDARDS (continued)

### B. New and Revised Accounting Standards to be Adopted in 2018 or Later (continued)

IFRS 9 (continued)

Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the current requirements under IAS 39 for impaired financial instruments.

Forward-looking information

The Group will also incorporate forward-looking information in both the assessment of SICR and the measurement of ECL by evaluating a range of probability weighted scenarios. The Group considers forward-looking information as macroeconomic factors (e.g. unemployment, GDP growth and interest rates) other economic forecasts and trend analysis.

IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") – IFRS 15 was issued in May 2014 and establishes principles about the nature, timing and uncertainty of revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Additional guidance was issued in April 2016. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted. IFRS 15 is to be applied retrospectively, or on a modified retrospective basis. Insurance and investment contracts are not in the scope of this standard. The Company is assessing the impact of this standard.

IFRS 4 - Insurance Contracts ("IFRS 4") - In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The amendments introduce two voluntary alternative options for entities issuing contracts within the scope of IFRS 4:

- The deferral option enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018.

- The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

The Company is currently assessing the impact of the amendments and will be using the overlay approach.

## 3. NEW AND REVISED ACCOUNTING STANDARDS (continued)

### B. New and Revised Accounting Standards to be Adopted in 2018 or Later (continued)

IFRS 16 – Leases ("IFRS 16") – In January 2016, the IASB issued this standard which introduces new guidance for identifying leases as well as a new right-of-use accounting model for lessees, replacing the operating and finance lease accounting models that currently exist.

The new accounting model will generally require all lessees to recognise lease assets and liabilities on the balance sheet, initially measured at present value of unavoidable lease payments for all leases with a maximum possible term of more than 12 months. In contrast to the significant changes for lessees, the new standard will retain many key aspects of the current lessor accounting model. The standard also requires more note disclosure for both lessees and lessors. The standard is effective 1 January 2019. The Group is evaluating the impact of the adoption of this standard.

IFRS 2 – Share based payments ("IFRS 2") – The IASB issued amendments to IFRS 2 Share-based Payments in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The amendments are to be applied prospectively with retroactive application permitted. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IAS 40 – Investment Property ("IAS 40") - Amendments to this standard were issued in December 2016 and clarify that an entity shall transfer property to, or from, investment property when there is evidence of a change in use. The amendments are effective starting 1 January 2018. The Group is assessing the impact of these amendments.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration ("IFRIC 22") - IFRIC 22 was issued in December 2016 and is effective for annual periods beginning on or after 1 January 2018. IFRIC 22 addresses which foreign exchange rate to use to measure a foreign currency transaction when advance payments are made or received and non-monetary assets or liabilities are recognized prior to recognition of the underlying transaction. The foreign exchange rate on the day of the advance payment is used to measure the foreign currency transaction. The Group is assessing the impact of this IFRIC.

There are no other new or amended IFRS's or IFRIC interpretations that are not yet effective that would be applicable and expected to have a material impact on the Group.

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK

**Risk management and objectives**

The Company's primary objective in undertaking risk management activity is to manage risk exposures in line with risk appetite, minimizing its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes. In this respect, a framework of limits and qualitative statements, aligned with the Group's risk appetite, is in place for material exposures. Key management recognises the critical importance of having efficient and effective risk management systems in place.

A significant part of the Group's business involves the acceptance and management of risk. The Group is exposed to insurance, market, credit, liquidity and operational risks and operates a formal risk management framework to ensure that all significant risks are identified and managed.

The Group seeks to manage its exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board of Directors. The Group has established a risk management function with terms of reference from the Board of Directors, its committees and the associated executive management committees. This is supplemented with an organizational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and senior managers. The key control techniques for the major categories of risk exposure are summarised in the following sections.

Risks are usually grouped by risk type: financial, including credit, liquidity and market, and insurance, including life and health insurance and short-term insurance risk. Risks falling within these types may affect a number of key metrics including those relating to balance sheet strength, liquidity and profit. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Assets which relate to certain life insurance and investment contracts are managed for the account and risk of the Group's customers.

### A. Financial Risks

#### i) Credit risk

Credit risk is the exposure that a counter-party to a financial instrument is unable to meet an obligation, thereby causing a financial loss to the Group. The Group faces credit risk on its financial assets.

The following policies and procedures are in place to manage this risk:

- Holding a diversified investment portfolio that focuses on quality of investment. The portfolio is monitored and reviewed regularly by management's Investment Committee and by the Board of Director's Finance, and Corporate Governance Committees;
- Investment guidelines are in place that minimize undue concentration of assets in any single group, asset class or credit rating;
- Investment guidelines specify collateral requirements for mortgages and loans and receivables which include the underlying property or other security; and
- Transacting business with well-established reinsurance companies with strong credit ratings.

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**A. Financial Risks (continued)**

**i) Credit risk (continued)**

**Maximum exposure to credit risk – Financial assets**

The following table summarises the Company's maximum exposure to credit risk related to financial assets. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 45,147 | 36,002 |
| Regulatory deposits | 2,000 | 2,000 |
| Fixed deposits | 11,489 | 26,429 |
| Bonds and fixed income securities | 132,704 | 153,411 |
| Mortgages & other loans | 15,013 | 15,608 |
| Insurance receivables and other assets | 44,859 | 36,378 |
| Reinsurance assets | 33,993 | 26,122 |
| Restricted cash | 38,115 | 38,211 |
| | **323,320** | **334,161** |

**Concentration of credit risk**

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The most significant concentration of credit risk with any counter-party relates to the holding of investments and other receivables issued by the Government of Barbados in the amount of $94,277 (2016 - $129,214) and $28,178 (2016 - $14,809) respectively. An annual assessment for impairment is completed and management has concluded that there is currently no impairment in relation to the investments issued by the Government of Barbados.

The following table provides details of the carrying value of bonds and fixed income securities by industry sector and geographic distribution:

| | 2017 | 2016 |
|---|---|---|
| Bonds and fixed income securities issued or guaranteed by: | $ | $ |
| Government | 114,287 | 129,208 |
| Financial | 5,968 | 5,967 |
| Utilities and energy | 2,930 | 5,483 |
| Other | 9,519 | 12,753 |
| **Total bonds and fixed income securities** | **132,704** | **153,411** |
| Barbados | 109,008 | 129,214 |
| Caribbean | 23,696 | 24,197 |
| **Total bonds and fixed income securities** | **132,704** | **153,411** |

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

### Risk management and objectives (continued)

### A. Financial Risks (continued)

#### i) Credit risk (continued)

**Concentration of credit risk (continued)**

The carrying value of mortgages and loans by geographic location is shown in the following table:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Barbados | 15,013 | 15,608 |
| **Total mortgages and loans** | **15,013** | **15,608** |

**Credit quality of financial assets**

The credit quality of financial assets are assessed quarterly by reference to external credit ratings if available or review of historical and current conditions that existed at the statement of financial position date.

| | AA | A | BBB | BB & Lower | Not Rated* | 2017 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 612 | 25,295 | 18,605 | - | 635 | 45,147 |
| Fixed deposits | - | - | 17 | - | 11,472 | 11,489 |
| Regulatory deposits | - | - | - | 2,000 | - | 2,000 |
| Fixed income securities | 2,283 | 4,005 | 15,733 | 99,672 | 11,011 | 132,704 |
| Restricted cash | - | 4,688 | 33,427 | - | - | 38,115 |
| **Total** | **2,895** | **33,988** | **67,782** | **101,672** | **23,118** | **229,455** |

| | AA | A | BBB | BB & Lower | Not Rated* | 2016 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2,388 | 26,624 | 5,798 | - | 1,192 | 36,002 |
| Fixed deposits | 3,761 | 3,279 | 8,264 | - | 11,125 | 26,429 |
| Regulatory deposits | - | - | - | 2,000 | - | 2,000 |
| Fixed income securities | 2,281 | 7,951 | 11,804 | 117,024 | 14,351 | 153,411 |
| Restricted cash | - | 3,211 | 35,000 | - | - | 38,211 |
| **Total** | **8,430** | **41,065** | **60,866** | **119,024** | **26,668** | **256,053** |

**Credit quality of bonds and fixed income securities**

* Not rated bonds and fixed income securities relate to assets held within the Company's investment portfolio which are held by counterparties that are not rated by the rating agencies.

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**A. Financial Risks (continued)**

**i) Credit risk (continued)**

**Mortgages and loans credit risk**

Mortgages comprise first mortgages on real property situated in Barbados. In Barbados, loans provided to companies are secured by a certificate of annual repayment of principal and interest by Republic Bank (Barbados) Limited. Other loans are secured by a collateral assignment of life insurance policy proceeds and irrevocable beneficiary designation.

Mortgages and loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of collection of the full amount of principal and interest due.

The following table provides carrying amounts of the mortgage and other loans by their aging profile:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Not past due | 12,487 | 15,319 |
| Past due but not impaired: | | |
| Past due less than 90 days | 78 | 49 |
| Past due 90 to 180 days | 80 | 10 |
| Past due 180 days or more | 40 | 19 |
| Impaired (net of provision) | 2,328 | 211 |
| **Total mortgages and loans** | **15,013** | **15,608** |

The impairment provision on mortgage and other loans as at 31 December 2017 is $919 (2016 - $43).

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

### Risk management and objectives (continued)

### A. Financial Risks (continued)

#### ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations as they become due. In order to manage liquidity risks, management maintains levels of cash and short-term deposits, which are sufficient to fulfill the Group's short-term obligations. The Group also closely manages operating liquidity through cash flow matching of assets and liabilities on its life insurance, annuities and pensions business.

A significant business objective of the insurance industry is to match the cash flows of the investment portfolio with the expected payment of policy liabilities.

The maturity profile of assets at 31 December 2017 is as follows:

| | Within 1 year | 1 to 3 years | 4 to 5 years | Over 5 years | Total | Effective interest rate ranges |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | |
| Fixed deposits | 11,489 | - | - | - | 11,489 | 0.03% – 3.25% |
| Regulatory deposits | - | 1,000 | - | 1,000 | 2,000 | |
| Mortgages | - | 14 | 13 | 11,708 | 11,735 | 4.50% – 7.00% |
| Other loans | - | 3,278 | - | - | 3,278 | 2.50% - 3.75% |
| Bonds and fixed income securities | 14,213 | 31,871 | 16,885 | 69,735 | 132,704 | 4.375% - 9.75% |
| Insurance receivables and other assets | 44,111 | 311 | 372 | 65 | 44,859 | |
| Reinsurance assets | 47,774 | - | - | - | 47,774 | |
| | 117,587 | 36,474 | 17,270 | 82,508 | 253,839 | |
| **Percent of total** | **46%** | **14%** | **7%** | **33%** | **100%** | |

The maturity profile of assets at 31 December 2016 was as follows:

| | Within 1 year | 1 to 3 years | 4 to 5 years | Over 5 years | Total | Effective interest rate ranges |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | |
| Fixed deposits | 26,429 | - | - | - | 26,429 | 0.03% - 3.25% |
| Regulatory deposits | - | 1,000 | - | 1,000 | 2,000 | - |
| Mortgages | 18 | 42 | 36 | 12,283 | 12,379 | 5.00% - 7.00% |
| Other loans | 3,229 | - | - | - | 3,229 | 2.50% - 3.75% |
| Bonds and fixed income securities | 16,849 | 32,646 | 26,508 | 77,408 | 153,411 | 4.375% - 9.75% |
| Insurance receivables and other assets | 35,350 | 432 | 507 | 89 | 36,378 | - |
| Reinsurance assets | 40,622 | - | - | - | 40,622 | - |
| | 122,497 | 34,120 | 27,051 | 90,780 | 274,448 | |
| **Percent of total** | **45%** | **12%** | **10%** | **33%** | **100%** | |

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

### Risk management and objectives (continued)

### A. Financial Risks (continued)

#### ii) Liquidity risk (continued)

The maturity profiles of the Company's significant insurance and financial liabilities are summarised in the following tables. Maturity profiles for financial liabilities are disclosed according to contractual maturity dates. Maturity profiles for insurance liabilities are based on expectations.

The maturity profile of liabilities at 31 December 2017 is as follows:

| | Within 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Other liabilities | 18,882 | - | - | 18,882 |
| Amounts due to affiliates | 1,219 | - | - | 1,219 |
| Investment contract liabilities | 107,738 | - | - | 107,738 |
| Insurance contract liabilities | 122,029 | 7,206 | 12,429 | 141,664 |
| **Total** | **249,868** | **7,206** | **12,429** | **269,503** |
| **Percent of total** | **92%** | **3%** | **5%** | **100%** |

The Company notes an excess of $132,281 in the maturity profile of total liabilities ($249,868) compared to total assets ($117,587) due "Within 1 year". Of this excess, $107,738 represents investment contract liabilities which can be contractually settled utilising a combination of restricted cash and assets having maturities in excess of 1 year ("1-5 years" and "Over 5 years"). As at 31 December 2017 the Company had $116,617 of total assets in excess of total liabilities maturing in excess of 1 year.

The maturity profile of liabilities at 31 December 2016 was as follows:

| | Within 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Other liabilities | 19,282 | - | - | 19,282 |
| Amounts due to affiliates | 5,156 | - | - | 5,156 |
| Investment contract liabilities | 113,777 | - | - | 113,777 |
| Insurance contract liabilities | 115,702 | 6,819 | 10,615 | 133,136 |
| **Total** | **253,917** | **6,819** | **10,615** | **271,351** |
| **Percent of total** | **93%** | **3%** | **4%** | **100%** |

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**A. Financial Risks (continued)**

**iii) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

**Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not significantly exposed to foreign exchange risk because of the following:

- The majority of the Company's assets, liabilities, and earnings are denominated in Barbados dollars;
- The exchange rate between Barbadian and United States dollars has remained unchanged since 2005.

**Interest rate risk**

Interest rate risk is price volatility produced by changes in the overall level of interest rates. Change in market interest rates can impact the reinvestment of matured investments, as the returns available on the new investment may be significantly different from the returns previously achieved. The Group manages these risks through:

- Asset allocation and diversification of the investment portfolio;
- Utilisation of a formal process for managing the matching of assets and liabilities;
- Investing in assets that are suitable for the products sold;
- Investing in fixed income assets that closely match the life liability product cash flows for products with fixed and highly predictable benefit payments; and
- Quantifying and reviewing regularly the risk associated with the mismatch in portfolio duration and cash flow.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

Investment contracts with fixed and guaranteed terms held to maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates.

In relation to financial assets, management monitors the sensitivity of reported interest rate movements by assessing the expected changes in the different portfolios due to parallel movements of 100 basis points in all yield curves.

The impact of interest rate risk for the Group's actuarial liabilities and the assets supporting those liabilities is included in Note 4 B - Insurance Risk below.

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**A. Financial Risks (continued)**

**iii) Market risk (continued)**

**Price risk**
Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting the market.

The Company's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market.

A 5% increase/decrease in the value of the Company's equity portfolio would increase/decrease the Group's other components of equity by $476 (2016 - $436). The price risk sensitivity impact was calculated by using the ending balances in equity at a 5% increase/decrease.

**B. Insurance risk**

**i) Life and health insurance risk**
Insurance risk in the Group arises through its exposure to mortality and morbidity risks and exposure to worse than anticipated operating experience on factors such as persistency levels and management and administration expenses.

**Management of life and health insurance risks**
The Company has developed an insurance risk policy and guidelines on the practical application of this policy. Individual insurance risks are managed at a business unit level but are also monitored at Company level.

The impact of insurance risk is monitored by the business units as part of the control cycle of business management. Exposure is monitored through the assessment of liabilities and the asset liability management framework process. At the Company level the overall exposure to insurance risk is measured through management reporting.

The Risk Committee monitors the application of the risk policy in each business, and receives management information on life and health insurance risks. The committee considers all areas of insurance risk, but in particular has a remit to monitor mortality, longevity, morbidity, persistency, product design and pricing.

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**B. Insurance Risk (continued)**

**i) Life and health insurance risk (continued)**

**Management of life and health insurance risks (continued)**
The Board of Directors considers the reinsurance coverage across the life and health businesses. It confirms that guidance and procedures are in place for each of the major components of life insurance risk, and that the businesses mitigate against any insurance risk within the parameters for the overall Company risk appetite.

The Board of Directors has also developed guidance for business units on management of a number of areas of insurance risk to ensure best practice is shared throughout the Group and common standards are adopted.

The individual life and health insurance risks are managed as follows:

- Mortality and morbidity risks are mitigated by use of reinsurance. The Company selects reinsurers, based on local factors, but assess the overall programme to manage Company-wide risk exposures and monitor that the aggregation of risk ceded to individual reinsurers is within appetite for credit risk.
- Longevity risk: The Company is responsible for reserving and pricing for annuity business, and monitors the exposure to this risk and the capital implications to manage the impact on the Company's exposure and the capital funding that Company may require as a consequence. The Company has used reinsurance solutions to reduce the risks from longevity where possible and desirable.
- Persistency risk: Where possible the financial impact of lapses is reduced through appropriate product design. The Company also implements specific initiatives to improve retention of policies which may otherwise lapse.
- Product design and pricing risk arises from poorly designed or inadequately priced products and can lead to both financial loss and reputational damage to the Company. Guidelines have been developed to support the Company through the complete cycle of the product development process, financial analysis and pricing.
- Expense risk is primarily managed by the Company through the assessment of profitability and frequent monitoring of expense levels.

Sensitivity testing is widely used to measure the capital required and volatility in earnings due to exposure to life and health insurance risks. This assessment is taken at both business unit level and at Group level where the impact of aggregation of similar risks can be measured. This enables the Group to determine whether action is required to reduce risk, or whether that risk is within the overall Group risk appetite.

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**B. Insurance Risk (continued)**

**i) Life and health insurance risk (continued)**

**Management of life and health insurance risks (continued)**

**Concentration risk**
The following table shows life and health insurance liabilities by geographic area:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| | $ | $ | $ | $ | $ | $ |
| Barbados | 21,984 | (45) | 21,939 | 18,846 | (50) | 18,796 |
| | **21,984** | **(45)** | **21,939** | **18,846** | **(50)** | **18,796** |

**Sensitivity analysis – Life and health**
The Company uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on all of the Company's financial performance measurements to inform the Company's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which each of its business units, and the Group as a whole, are exposed.

The following provides information about the Group's life and health insurance contract liabilities sensitivities to management's best estimate of the approximate impact as a result of changes in assumptions used to determine the Company's liability associated with these contracts.

**Mortality**
Mortality refers to the rates at which death occurs for defined groups of people. For life products where higher mortality would be financially adverse to the Company, a 1% increase in the best estimate assumption would increase the actuarial liabilities by $64 (2016 - $59). For annuity products where lower mortality would be financially adverse to the Company, a 1% decrease in the best estimate assumption would increase the actuarial liabilities by $8 (2016 - $7).

**Morbidity**
Morbidity refers to both the rates of accident or sickness and the rates of recovery therefrom. The Company's long term disability and medical expense insurance is marketed mostly on a group basis. The most significant morbidity risk relates to the individual and group health business. A 1% increase in medical claims net of reinsurance would increase the actuarial liabilities by $129 (2016 - $156).

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**B. Insurance Risk (continued)**

**i) Life and health insurance risk (continued)**

**Investment returns**
Assets are notionally segmented to correspond to the different liability categories of the Group. For each segment, the projected current asset and liability cash flows are used in the PPM under several interest rate scenarios to determine the actuarial liabilities. Asset cash flows are reduced to provide for asset default losses.

Interest rate risk associated with this assumption is measured by determining the effect on the present value of the projected net asset and liability cash flows of the Company of an immediate 1% increase or an immediate 1% decrease in the level of interest rates. These interest rate changes will impact the projected cash flows.

The effect of an immediate 1% increase in interest rates would be to decrease the present value of these net projected cash flows by approximately $2,390 (2016 - $2,149). The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash flows by approximately $3,504 (2016 - $3,156).

The level of actuarial liabilities established under the PPM valuation provides for interest rate movements other than the 1% movements indicated above.

**Expenses**
Actuarial liabilities provide for future policy-related expenses. These include the costs of premium collection, claims adjudication and processing, related consulting services, preparation and mailing of policy statements and related indirect expenses and overheads.

Expense risk is the risk that future expenses are higher than assumed. A unit expense study is performed annually to determine an appropriate estimate of future expenses by liability type.

An inflation assumption is incorporated in the estimate of future expenses consistent with the interest rate scenarios projected under PPM. A 10% increase in the best estimate maintenance unit expense assumption would increase the actuarial liabilities by approximately $589 (2016 - $516).

**Persistency**
Policyholders may allow their policies to terminate prior to the end of the contractual period by choosing not to continue to pay premiums or by exercising one of the non-forfeiture options contained in the contract. Assumptions for termination experience on life insurance are based on industry and the Company's experience.

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**B. Insurance Risk (continued)**

**i) Life and health insurance risk (continued)**

**Management of life and health insurance risks (continued)**

**Persistency (continued)**
Termination rates vary by plan, policy duration and method of premium payment. For universal life policies, it is also necessary to set assumptions about premium cessation occurring prior to termination of the policy. A 10% adverse change in the best estimate policy termination assumption would increase the actuarial liabilities by $487 (2016 - $446).

**ii) General insurance risk**
The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. Insurance risk is implicit in the Group's insurance business and arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks.

**Types of risk**
General insurance risk in the Group arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
- Inadequate reinsurance protection or other risk transfer techniques; and
- Inadequate reserves.

The majority of the general insurance business underwritten by the Group is of a short-term nature such as property, motor and marine insurances. The Company's underwriting strategy and risk appetite are agreed by the Board of Directors and communicated via specific policy statements and guidelines. Like the life insurance risk, general insurance risk is managed primarily at business unit level with oversight at a Company level.

**Management of general insurance risks**
The Company's insurance risk policy sets out the overall framework for the management of insurance risk. As part of the framework, a structure of delegated pricing and underwriting authorities is in place.

Pricing is based on assumptions which consider past experience and trends. Insurance exposures are limited through reinsurance. Overall, the Company seeks to be conservative in its acceptance of insurance risks by establishing strict underwriting criteria and limits. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**B. Insurance Risk (continued)**

**ii) General insurance risk (continued)**

**Management of general insurance risks (continued)**
Significant insurance risks will be reported through the risk management framework. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures.

However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

Management under the direction of the Board of Directors monitors and develops the management of insurance risk in the general insurance business units, and assesses the aggregate risk exposure. It is responsible for the development, implementation and review of the Company's policies for underwriting, claims, reinsurance and reserving that operate within the risk management framework.

The Company has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of the Company. Where appropriate, such mechanisms are employed throughout the business units to promote the adoption of best practice as standard.

**Reinsurance strategy**
Reinsurance is used to reduce potential loss to the Company from individual large risks and catastrophic events. It may also be used to manage capital or to provide access to specialist underwriting expertise.

Significant reinsurance programmes are reviewed annually at the business unit, the Company and BF&M Group level, to verify that the levels of protection being purchased reflect any developments in exposure and the risk appetite of the Company. The reinsurance arrangements include quota share and excess of loss catastrophe treaties. In addition to the overall Company reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.

Reinsurance purchases are in line with the strategy set out in the Company's Reinsurance policy. The basis of these purchases is underpinned by extensive financial and capital modeling and actuarial analysis to optimize the cost and capital efficiency benefits from the reinsurance programme.

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**B. Insurance Risk (continued)**

**ii) General insurance risk (continued)**

**Reinsurance strategy (continued)**
The reinsurance is placed with providers who meet the Company's counterparty security requirements, and large reinsurance placements may also require approval from the Board of Directors.

**Concentration risk**
The Company is domiciled in Barbados and no insurance contracts are issued to countries outside of Barbados. General insurance revenues derived from the Government of Barbados accounted for 22% (2016 - 20%) of total revenues for the year. The remainder is from non-governmental organisations and other policyholders.

Processes are in place to manage catastrophe risk in individual business units and at a Company level. The Company cedes much of its catastrophe risk to third-party reinsurers but retains a pooled element for its own account gaining diversification benefit.

The Company writes a significant component of the business of the Government of Barbados and its affiliated Corporations and Statutory Boards. Risks covered are dispersed across the island of Barbados.

The concentration of insurance risk before and after reinsurance by the type of general insurance business risk accepted is summarised below, with reference to the carrying amount of the insurance reserve liabilities (gross and net of reinsurance) arising from general insurance contracts:

| 31 December 2017 | | Property | Motor | All others | Total |
|---|---|---|---|---|---|
| **Territory** | | **$** | **$** | **$** | **$** |
| | Gross | 3,727 | 66,734 | 17,305 | 87,766 |
| Barbados | Net | 780 | 42,193 | 10,833 | 53,806 |
| | **Gross** | **3,727** | **66,734** | **17,305** | **87,766** |
| **Total** | **Net** | **780** | **42,193** | **10,833** | **53,806** |

| 31 December 2016 | | Property | Motor | All others | Total |
|---|---|---|---|---|---|
| **Territory** | | **$** | **$** | **$** | **$** |
| | Gross | 2,685 | 64,898 | 12,532 | 80,115 |
| Barbados | Net | 556 | 43,623 | 9,864 | 54,043 |
| | **Gross** | **2,685** | **64,898** | **12,532** | **80,115** |
| **Total** | **Net** | **556** | **43,623** | **9,864** | **54,043** |

**General insurance business claims reserving**
Management monitors and conducts quarterly reviews of the Company's general insurance claims provisions, and their adequacy.

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**B. Insurance Risk (continued)**

**ii) General insurance risk (continued)**

**General insurance business claims reserving (continued)**
The Company has a claims department dealing with the mitigation of risks surrounding known exposures. This department investigates and adjust a majority of the claims. The claims are reviewed regularly and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

The adequacy of the Company's general insurance claims provisions is ultimately overseen by the Board of Directors.

The estimation of the claims incurred but not reported reserve ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims.

For casualty contracts, the IBNR liability will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

**Sensitivity Analysis - Property & Casualty**

The valuation of insurance liabilities is sensitive to the underlying assumptions used, the investments allocated to back the liabilities and changes in claims reporting patterns, judicial decisions, legislation and economic conditions. Key assumptions include the selection of expected frequencies, severities and pure premiums, as well as loss development and trend factors. The overall results are potentially sensitive to any of these and reasonable alternative selections could change the results in either direction.

The most significant risk factors the Company faces as of year-end are:

- Reserve variability;
- Reinsurance collection risk; and
- Interest rate risk.

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

**B. Insurance Risk (continued)**

**ii) General insurance risk (continued)**

**Reserve variability**
Reserve variability is measured by the Company based on the Thomas Mack method. The basis for this method is a paper by Thomas Mack, published in the Spring 1994 CAS Forum titled "Measuring the Variability of Chain Ladder Reserve Estimates". Other approaches for measuring reserve variability may be appropriate.

The analysis as of 31 December 2017 supports a discounted net property and casualty reserve of $53,806 (2016 - $54,043).

There have been no material changes in procedures, methodology nor significant assumptions used in deriving the estimates for this financial year.

**Reinsurance collection risk**
Reinsurance receivables on Property and Casualty business total approximately $4,329 as of 31 December 2017 (2016 - $3,872). All major reinsurers are rated A- or better by A.M. Best. Currently there are no material disputes or late balances with any reinsurers. However, disputes may arise in the future and/or some reinsurers' financial condition could deteriorate. If 5% of the receivable balance is not recoverable, (due to future disputes or financial health), then the effect could be a reduction in equity of $216 (2016 - $194). This represents 17% of the Company's pre-tax net loss.

**Interest rate risk**
The Company may earn less than anticipated regarding future investment yields. This would increase the discounted reserves. The current discounted net reserve is $53,806 (2016 - $54,053) (based on a 6.65% yield assumption). If the assumed yield rate drops to 5.65% (2016 – 5.75%) then the discounted reserves would increase by approximately $1,600 (2016 - $1,600). This represents approximately 1.10% (2016 - 1.32%) of equity, and 123.46% (2016 - 20.42%) of pre-tax net loss.

**Liability adequacy test**
At the balance sheet date, a liability adequacy test was performed to determine if insurance contract provisions were adequate. These provisions have been found to be adequate.

**Claims development tables**

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of each table illustrates how the Company's estimate of total claims outstanding for each accident or underwriting year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position. A calendar year basis is considered to be most appropriate for the business written by the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(in thousands of Barbados dollars except for per share amounts)

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

### Risk management and objectives (continued)

### B. Insurance Risk (continued)

#### Claims development tables (continued)

**Gross loss development:**

| Accident year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claims cost:** | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| At the end of accident year | 41,784 | 34,635 | 38,619 | 35,486 | 37,303 | 32,728 | 33,591 | 36,012 | 33,344 | 34,439 | - |
| One year later | 41,663 | 34,478 | 37,080 | 35,855 | 35,119 | 33,801 | 31,428 | 33,815 | 32,695 | - | - |
| Two years later | 35,723 | 33,255 | 34,219 | 35,456 | 34,274 | 31,007 | 29,907 | 33,243 | - | - | - |
| Three years later | 35,236 | 32,830 | 33,034 | 33,655 | 33,191 | 30,483 | 28,901 | - | - | - | - |
| Four years later | 33,692 | 32,987 | 33,855 | 33,901 | 32,789 | 31,052 | - | - | - | - | - |
| Five years later | 33,629 | 32,823 | 34,036 | 34,462 | 32,897 | - | - | - | - | - | - |
| Six years later | 33,780 | 32,677 | 33,847 | 34,937 | - | - | - | - | - | - | - |
| Seven years later | 33,388 | 33,334 | 34,349 | - | - | - | - | - | - | - | - |
| Eight years later | 33,206 | 33,188 | - | - | - | - | - | - | - | - | - |
| Nine years later | 32,976 | - | - | - | - | - | - | - | - | - | - |
| Current estimates of cumulative claims | 32,976 | 33,188 | 34,349 | 34,937 | 32,897 | 31,052 | 28,901 | 33,243 | 32,695 | 34,439 | 328,677 |
| Cumulative payments to date | (31,334) | (29,606) | (31,264) | (30,386) | (29,318) | (25,671) | (23,470) | (25,657) | (23,567) | (17,842) | (268,115) |
| Gross liability recognised in the consolidated statement of financial position | 1,642 | 3,582 | 3,085 | 4,551 | 3,579 | 5,381 | 5,431 | 7,586 | 9,128 | 16,597 | 60,562 |
| Gross reserve in respect of prior years | | | | | | | | | | | 26,728 |
| Gross liability – Unallocated loss adjustment expense | | | | | | | | | | | 476 |
| **Total gross reserve included in the consolidated statement of financial position** | | | | | | | | | | | **87,766** |

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

### Risk management and objectives (continued)

### B. Insurance Risk (continued)

#### Claims development tables (continued)

**Net loss development:**

| Accident year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claims cost:** | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| At the end of accident year | 25,046 | 24,944 | 25,964 | 23,998 | 23,760 | 22,531 | 23,622 | 25,128 | 24,416 | 21,698 | |
| One year later | 25,271 | 23,725 | 23,964 | 23,655 | 23,885 | 22,462 | 22,438 | 23,357 | 23,660 | | |
| Two years later | 20,419 | 22,292 | 23,162 | 24,905 | 23,901 | 21,214 | 20,954 | 22,843 | | | |
| Three years later | 18,898 | 22,054 | 23,065 | 24,527 | 22,790 | 20,890 | 20,135 | | | | |
| Four years later | 18,262 | 22,035 | 23,921 | 24,698 | 22,463 | 21,211 | | | | | |
| Five years later | 17,553 | 21,846 | 24,459 | 25,376 | 22,640 | | | | | | |
| Six years later | 18,048 | 22,045 | 24,277 | 25,900 | | | | | | | |
| Seven years later | 18,098 | 22,574 | 24,825 | | | | | | | | |
| Eight years later | 17,783 | 22,417 | | | | | | | | | |
| Nine years later | 17,556 | | | | | | | | | | |
| Current estimates of cumulative claims | 17,556 | 22,417 | 24,825 | 25,900 | 22,640 | 21,211 | 20,135 | 22,843 | 23,660 | 21,698 | 222,885 |
| Cumulative payments to date | (16,274) | (21,278) | (22,392) | (21,972) | (19,808) | (17,852) | (15,840) | (17,216) | (17,133) | (12,428) | (182,193) |
| Net liability recognised in the consolidated statement of financial position | 1,282 | 1,139 | 2,433 | 3,928 | 2,832 | 3,359 | 4,295 | 5,627 | 6,527 | 9,270 | 40,692 |
| Net reserve in respect of prior years | | | | | | | | | | | 12,638 |
| Net liability – Unallocated loss adjustment expenses | | | | | | | | | | | 476 |
| **Total net reserve included in the consolidated statement of financial position** | | | | | | | | | | | **53,806** |

## 4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

**Risk management and objectives (continued)**

### C. Capital Management and Regulatory Compliance

The Board's policy is to maintain a strong consolidated capital base. The Group manages its capital to ensure its continued ability to provide an adequate return to shareholders, exceed insurance capital regulatory requirements, provide flexibility to take advantage of growth opportunities, maintain a strong credit rating, and to support the risks associated with the business of the Group. The Group's capital base consists of share capital, contributed surplus, statutory reserve, accumulated other comprehensive income, and retained earnings as disclosed in the consolidated statement of financial position.

Management monitors the adequacy of the Company's capital from the perspective of the Barbados Insurance Act and Companies Act. Under the terms of the Insurance Act, 1996-32 Section 9, all Companies conducting long-term and general insurance business are required to maintain a minimum paid-up share capital of not less than $5,000. The Company exceeds this requirement at year-end.

The Company's investment policies emphasize the preservation of capital and the maintenance of a diversified investment portfolio, which together serve to minimize the risk that investment activities pose to the Company's capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

The Barbados Insurance (Catastrophe Reserve Fund) Regulations 2003-88 require the establishment of a catastrophe reserve fund. Annual amounts of up to 25% of net premium income from property insurance business are allocated to the fund. Assets representing the fund in the amount of $15,651 (2016 - $14,643) are placed in trust in accordance with the regulations of the Barbados Insurance Act.

Section 152 of the Barbados Insurance Act requires the appropriation towards a surplus reserve of at least 25% of net income until such time as the surplus reserve of the Company equals or exceeds the liability in respect of unearned premiums. A surplus reserve of $37,388 as at 2017 (2016 - $37,388) is included in the Company's shareholders' equity in accordance with the requirements.

### D. Self-Insurance

The Company self-insures their office buildings reported in property and equipment and in investment properties. The insured asset is reinsured through the Company's reinsurance programme and is subject to the same terms and conditions as other reinsured insurance contracts.

## 5. SEGMENTAL INFORMATION

Management has determined the operating segments based on a combination of factors, including the products and on the basis of the reports reviewed by the CEO of the Company that are used to make strategic decisions and is organised into four operating segments. All the operating segments used by management meet the definition of a reportable segment.

These segments distribute their products directly to clients and through the use of insurance intermediaries. Management identifies its reportable operating segments by product line consistent with the reports. These segments and their respective operations are as follows:

Motor: the Company offers several types of policies under this class of business to owners of private and commercial vehicles. At the top end, motor insurance covers the legal liability of the insured, third parties (including passengers) and damage to the property of others. It also includes damage to the insured vehicle by accident, fire or theft.

Property: this class offers protection to policy holders for commercial and public buildings and private dwelling houses, as well as the contents of such buildings if such cover is sought.

Policies are designed to cover the insured against fire, hurricane, earthquake, flood water damage and other perils as well as malicious damage.

Other classes of business offer protection for marine, hull and cargo, aviation and other miscellaneous accident risk. Included is loss or damage to cargo, fishing vessels, pleasure craft and other marine vessels. Coverage also provides protection against theft and the legal liability of the insured. Miscellaneous accident provides coverage for a wide range of business including travel and public liability. Coverage is for material damage and legal liability.

Life & Medical: the Life business offers protection of the Company's customers both individuals and groups against the risk of premature death, and other events. There are both guaranteed and non-guaranteed benefits in the segment.

Medical Insurance offers protection of the Company's customers both individuals and groups against the risk of catastrophic illness, routine preventative health care, dental care and vision care. All contracts offer fixed and guaranteed limits over the contractual term. Reinsurance is in place to protect the Company from excessive and catastrophic claims.

The Company does not allocate assets, liabilities nor related expenses and other income to its reportable segments.

Operating expenses are notionally segregated by the segments of Property & Casualty, Life & Medical and Other. For the year ended 31 December 2017, operating expenses by these segments were Property & Casualty $31,881 (2016 - $29,552), Life & Medical $4,057 (2016 - $4,862) and other of $1,609 (2016 - $1,538).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(in thousands of Barbados dollars except for per share amounts)

## 5. SEGMENTAL INFORMATION (continued)

The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2017 is as follows:

| 2017 | Motor | Property | Other property and casualty | Life and medical | Unallocated items | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Gross premium written | 35,884 | 44,048 | 4,989 | 24,637 | - | 109,558 |
| Less reinsurance ceded | (2,685) | (40,450) | (1,489) | (1,786) | - | (46,410) |
| **Net premiums written** | 33,199 | 3,598 | 3,500 | 22,851 | - | 63,148 |
| Net change in provision for unearned premiums | 1,135 | 341 | 52 | 12 | - | 1,540 |
| **Net premiums earned** | 34,334 | 3,939 | 3,552 | 22,863 | - | 64,688 |
| **Net claims incurred** | 20,348 | 759 | 2,612 | 15,342 | - | 39,061 |
| Underwriting results before other items | 13,986 | 3,180 | 940 | 7,521 | - | 25,627 |
| Commission and other income | 48 | 14,615 | 194 | 336 | 1,577 | 16,770 |
| Commission and acquisition expense | (2,547) | (4,049) | (502) | (3,507) | - | (10,605) |
| **Underwriting income before management expenses** | 11,487 | 13,746 | 632 | 4,350 | 1,577 | 31,792 |
| **Operating expenses** | - | - | - | - | (37,547) | (37,547) |
| Depreciation and amortisation expense | - | - | - | - | (1,847) | (1,847) |
| **Net income (loss) from operations** | 11,487 | 13,746 | 632 | 4,350 | (37,817) | (7,602) |
| Investment income - net | - | - | - | 743 | 4,044 | 4,787 |
| Rental income | - | - | - | - | 2,209 | 2,209 |
| Unrealised fair value losses on investment properties | - | - | - | - | (690) | (690) |
| Net income (loss) before income taxes | 11,487 | 13,746 | 632 | 5,093 | (32,254) | (1,296) |
| Income taxes | - | - | - | - | 355 | 355 |
| **Net income** | **11,487** | **13,746** | **632** | **5,093** | **(31,899)** | **(941)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(in thousands of Barbados dollars except for per share amounts)

## 5. SEGMENTAL INFORMATION (continued)

The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2016 is as follows:

| Restated 2016 | Motor | Property | Other property and casualty | Life and medical | Unallocated items | Restated Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Gross premiums written | 38,143 | 45,774 | 5,314 | 25,697 | (91) | 114,837 |
| Less reinsurance ceded | (2,937) | (41,236) | (1,720) | (1,636) | - | (47,529) |
| **Net premiums written** | 35,206 | 4,538 | 3,594 | 24,061 | (91) | 67,308 |
| Net change in provision for unearned premiums | 698 | 750 | (9) | (24) | - | 1,415 |
| **Net premiums earned** | 35,904 | 5,288 | 3,585 | 24,037 | (91) | 68,723 |
| **Net claims incurred** | 19,056 | 415 | 3,366 | 16,521 | (15) | 39,343 |
| Underwriting results before other items | 16,848 | 4,873 | 219 | 7,516 | (76) | 29,380 |
| Commission and other income | 29 | 14,466 | 471 | 255 | 2,918 | 18,139 |
| Commission and acquisition expense | (2,522) | (3,309) | (553) | (3,435) | - | (9,819) |
| **Underwriting income before management expenses** | 14,355 | 16,030 | 137 | 4,336 | 2,842 | 37,700 |
| **Operating expenses** | - | - | - | - | (35,952) | (35,952) |
| Depreciation and amortisation expense | - | - | - | - | (1,857) | (1,857) |
| **Net income (loss) from operations** | 14,355 | 16,030 | 137 | 4,336 | (34,967) | (109) |
| Investment income - net | - | - | - | 756 | 6,740 | 7,496 |
| Rental income | - | - | - | - | 2,192 | 2,192 |
| Unrealised fair value losses on investment properties | - | - | - | - | (1,032) | (1,032) |
| Net income (loss) before income taxes | 14,355 | 16,030 | 137 | 5,092 | (27,067) | 8,547 |
| Income taxes | - | - | - | - | (1,130) | (1,130) |
| **Net income** | **14,355** | **16,030** | **137** | **5,092** | **(28,197)** | **7,417** |

## 6. CASH AND CASH EQUIVALENTS

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Cash at bank and in hand | 44,855 | 35,756 |
| Short-term bank deposits | 292 | 246 |
| **Total** | **45,147** | **36,002** |

The effective interest rate on short-term bank deposits was 0.02% (2016 - 0.8%). These deposits have an average maturity of 90 days (2016 - 90 days).

## 7. REGULATORY DEPOSITS, FIXED DEPOSITS AND RESTRICTED CASH

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Fixed deposits | 11,489 | 26,429 |

There are no fixed deposits pledged to meet the requirement of Section 25 (5) of the Barbados Insurance Act 1966-32. Fixed deposits of $11,489 (2016 - $26,429) have a term of 365 days and are held with an independent financial institution in Barbados. The fixed deposits have varied maturity dates and earn interest per annum of 0.02% (2016 – 1.45 %).

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Regulatory deposits | 2,000 | 2,000 |

Regulatory deposits represent an amount held by the Supervisor of Insurance to satisfy licensing criteria under Section 23 (2) (9b) of the Barbados Insurance Act 1966-32. These deposits cannot be removed or reduced without the prior consent of the regulator.

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Restricted cash | 38,115 | 38,211 |

Restricted cash of $38,115 (2016 - $38,211) primarily consists of cash being held on account of various pension plans and cash held on account for dividends issued but not collected to satisfy regulatory requirements. These amounts are not available for use in the Group's daily operations and are therefore excluded in the consolidated statement of cash flows.

## 8. INVESTMENTS

### A. Carrying Amount and Fair Value of Investments

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Held-to-maturity | $ | $ | $ | $ |
| - Fixed income securities | 22,293 | 22,820 | 22,493 | 21,087 |
| Loans and receivables | | | | |
| - Other Loans | 3,278 | 3,220 | 3,229 | 3,220 |
| - Mortgages | 11,735 | 11,516 | 12,379 | 12,260 |
| - Fixed income securities | 110,411 | 115,352 | 130,918 | 137,701 |
| | **147,717** | **152,908** | **169,019** | **174,268** |
| Available-for-sale | | | | |
| - Equities | 9,517 | 9,517 | 8,712 | 8,712 |
| | 9,517 | 9,517 | 8,712 | 8,712 |
| **Totals** | **157,234** | **162,425** | **177,731** | **182,980** |

Included in investments are securities in the amount of $63,708 (2016 - $70,060) at carrying value, fair value $64,088 (2016 - $73,387), which support the liabilities of the Company's investment contract liabilities (Note 19).

### B. Investment Income

| | 2017 | 2016 |
|---|---|---|
| **Interest income** | $ | $ |
| Fixed income securities | 6,903 | 6,649 |
| Mortgages and loans | 770 | 771 |
| Bank deposits | 10 | - |
| | 7,683 | 7,420 |
| **Dividend income** | | |
| Equities - at available-for-sale | 187 | 204 |
| | 187 | 204 |
| **Impairments and deductions** | | |
| Less: Impairment loss on available-for-sale assets | (117) | (128) |
| Less: Impairment loss on fixed income securities | (2,089) | - |
| Less: Impairment loss on mortgages and loans | (877) | - |
| | (3,083) | (128) |
| **Total** | **4,787** | **7,496** |

For the year ended 31 December 2017 an impairment of $2,089 was recognised in relation to a fixed income security as a result of a loss event. The amount of impairment recognized was based on the estimated future cash flows of the asset. Due to limited information available, these cash flows were estimated based on a series of assumptions, which are subject to significant estimation.

## 9. FAIR VALUE MEASUREMENTS

### A. Fair Value Methodologies and Assumptions

The carrying values of cash and cash equivalents, fixed deposits, regulatory deposits, and restricted cash approximate their fair values.

The fair value of equity securities is determined using quoted prices in active markets for identical securities or similar securities.

For disclosure purposes, the fair value for fixed income securities classified as either held to maturity or loans and receivables, and mortgages and loans classified as loans and receivables is determined by discounting the expected future cash flows using a current market interest rate applicable to financial instruments with a similar yield, credit quality and maturity characteristics. For collateralised mortgages, fair value reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Fair values for investment properties held for sale are assessed annually and reviewed quarterly for material changes. The fair value is assessed using the most recently available reports from independent, qualified external appraisal services. These investment properties are appraised annually. The most recent appraisals were as at December 2017. Values are estimated using 1) the income approach to estimate the present value of discounted projected future cash flows using current rental rates, assessed rental values or market rental values at a market discount rate; or 2) determined having regard to recent market transactions for similar properties in similar locations or where such information is not readily available, other valuation techniques such as the income capitalisation model are used. The methodologies and inputs used in these models are in accordance with real estate industry valuation standards. Valuation inputs include estimated rental value, rental growth rates, vacancy rates, discount rates, future operating expenses and terminal growth rates. The fair value of the investment properties was selected by management using best judgment based on a range of values provided by the independent, qualified external appraisal services.

## 9. FAIR VALUE MEASUREMENTS (continued)

### B. Fair Value Hierarchy

The Group categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Group's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to fair value measurement in its entirety.

The three levels of the fair value hierarchy are defined as follows:

**i) Financial instruments in level 1**
The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for investments held by the Group is the current bid price.

**ii) Financial instruments in level 2**
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available 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.

**iii) Financial instruments in level 3**
If one or more of the significant inputs is not based on observable market data, the investments are included in level 3.

### C. Assets and Liabilities Measured at Fair Value

The following table presents the fair value of the Group's assets and liabilities measured at fair value on a reoccurring basis in the consolidated statement of financial position, categorized by level under the fair value hierarchy as at 31 December 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | $ | $ | $ | $ |
| Available-for-sale financial assets | 7,627 | 1,890 | - | 9,517 |
| Investment properties | - | - | 34,135 | 34,135 |
| **Total assets** | **7,627** | **1,890** | **34,135** | **43,652** |

## 9. FAIR VALUE MEASUREMENTS (continued)

### C. Assets and Liabilities Measured at Fair Value (continued)

The following table presents the fair value of the Group's assets and liabilities measured at fair value on a reoccurring basis in the consolidated statement of financial position, categorized by level under the fair value hierarchy as at 31 December 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | $ | $ | $ | $ |
| Available-for-sale financial assets | 7,017 | 1,695 | - | 8,712 |
| Investment properties | - | - | 34,290 | 34,290 |
| **Total assets** | **7,017** | **1,695** | **34,290** | **43,002** |

During the year there were no transfers between Levels 1 and 2.

The movement with respect to Level 3 assets is outlined below:

| | 2017 | 2016 |
|---|---|---|
| **Investment properties** | $ | $ |
| Opening balance | 34,290 | 34,547 |
| Net additions and capital improvements | 170 | 775 |
| Transfer from property, plant and equipment | 365 | - |
| Fair value adjustment | (690) | (1,032) |
| **Total assets** | **34,135** | **34,290** |

**Sensitivity - capitalisation rate/discount rate - Weymouth**

For investment properties categorised into Level 3 of the fair value hierarchy, the following information is relevant:

The commercial units located at Roebuck Street, St. Michael are collectively referred to as "Weymouth". The Group, based on the calculations of its independent, qualified valuer has utilised a sensitivity test regarding the capitalisation rate, in essence, the discount rate or the cap rate used in the valuation of Weymouth. The discount rate is the rate of return on an investment property based on the income that the property is expected to generate.

The higher the discount rate used by independent, qualified valuer the lower the fair value of the investment property and the lower the discount rate used by independent, qualified valuer the higher the fair value of the investment property.

The fair value of Weymouth is highly sensitive to any change in the discount rate. The below table summarises the effect of changes in the discount rate on the fair value of the property.

| | Increase 2017 | Decrease 2017 | Increase 2016 | Decrease 2016 |
|---|---|---|---|---|
| 0.5% change in discount rate | (800) | 800 | (600) | 1,000 |
| 1% change in discount rate | (1,600) | 1,700 | (1,400) | 1,900 |

## 9. FAIR VALUE MEASUREMENTS (continued)

### D. Assets and Liabilities Not Measured at Fair Value

For assets and liabilities not measured at fair value in the consolidated statement of financial position, the following table discloses fair value information categorised by level in the preceding hierarchy as at 31 December 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | $ | $ | $ | $ |
| Cash and cash equivalents | 45,147 | - | - | 45,147 |
| Fixed deposits | 11,489 | - | - | 11,489 |
| Regulatory deposits | 2,000 | - | - | 2,000 |
| Restricted cash | 38,115 | - | - | 38,115 |
| Held-to-maturity financial assets | | | | |
| Fixed income securities | - | 22,820 | - | 22,820 |
| Loans and receivables financial assets | | | | |
| Fixed income securities | - | - | 115,352 | 115,352 |
| Mortgages | - | - | 11,516 | 11,516 |
| Other loans | - | - | 3,220 | 3,220 |
| **Total assets** | **96,751** | **22,820** | **130,088** | **249,659** |
| **Liabilities** | | | | |
| Investment contract liabilities | - | 107,738 | - | 107,738 |
| **Total liabilities** | **-** | **107,738** | **-** | **107,738** |

The Group also holds fixed income investments which support investment contract liabilities and insurance contract liabilities. If the base interest rates, as measured by the applicable yield curves, shifted parallel by 100 basis points higher/lower, the immediate impact to fair value would have been:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| 100 basis points lower | 4,908 | 5,993 |
| 100 basis points higher | (4,546) | (5,551) |

The interest rate sensitivity impact was calculated using the modified duration method.

## 9. FAIR VALUE MEASUREMENTS (continued)

### D. Assets and Liabilities Not Measured at Fair Value (continued)

For assets and liabilities not measured at fair value in the consolidated statement of financial position, the following table discloses fair value information categorized by level in the preceding hierarchy as at 31 December 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | $ | $ | $ | $ |
| Cash and cash equivalents | 36,002 | - | - | 36,002 |
| Fixed deposits | 26,429 | - | - | 26,429 |
| Regulatory deposits | 2,000 | - | - | 2,000 |
| Restricted cash | 38,211 | - | - | 38,211 |
| Held-to-maturity financial assets | | | | |
| Fixed income securities | - | 21,087 | - | 21,087 |
| Loans and receivables financial assets | | | | |
| Fixed income securities | - | - | 137,701 | 137,701 |
| Mortgages | - | - | 12,260 | 12,260 |
| Other loans | - | - | 3,220 | 3,220 |
| **Total assets** | **102,642** | **21,087** | **153,181** | **276,910** |
| **Liabilities** | | | | |
| Investment contract liabilities | - | 113,777 | - | 113,777 |
| **Total liabilities** | **-** | **113,777** | **-** | **113,777** |

## 10. INSURANCE RECEIVABLES AND OTHER ASSETS

| | 2017 | Restated 2016 |
|---|---|---|
| | $ | $ |
| Insurance receivables | 27,027 | 29,039 |
| Provision for doubtful debts | (5,294) | (3,862) |
| Insurance receivable (net) | 21,733 | 25,177 |
| Accounts receivable | 21,136 | 9,293 |
| Accrued investment income | 1,990 | 1,908 |
| **Total** | **44,859** | **36,378** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017
(in thousands of Barbados dollars except for per share amounts)

## 10. INSURANCE RECEIVABLES AND OTHER ASSETS (continued)

The movement in the provision for doubtful debts is shown below:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Balance at 1 January 2017 | 3,862 | 2,686 |
| Provision made during the year | 1,441 | 1,938 |
| Provision reversed during the year | (9) | - |
| Write-off during the year | - | (762) |
| **Balance at 31 December 2017** | **5,294** | **3,862** |

## 11. DEFERRED POLICY ACQUISITION COSTS

A reconciliation of the change in deferred policy acquisition costs is shown below:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| At 1 January | 2,999 | 2,773 |
| Recognised deferred acquisition costs | 4,286 | 7,769 |
| Amortisation charge through income | (5,026) | (7,543) |
| **At 31 December** | **2,259** | **2,999** |

## 12. REINSURANCE ASSETS

Reinsurance assets are comprised of the following:

| | 2017 | 2016 |
|---|---|---|
| Short-term insurance contracts: | $ | $ |
| Claims reported and adjustment expenses | 30,776 | 22,971 |
| Unearned premiums ceded | 13,770 | 14,500 |
| Claims incurred but not reported | 3,183 | 3,101 |
| **Total short-term insurance contracts** | **47,729** | **40,572** |
| Life and health insurance contracts: | | |
| Non-participating | | |
| Individual life | (375) | (339) |
| Group life | 359 | 341 |
| Health and accident | 61 | 48 |
| **Total life and health insurance contracts** | **45** | **50** |
| **Total reinsurance assets** | **47,774** | **40,622** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 13. INVESTMENT PROPERTIES

| | 2017 | 2016 |
|---|---|---|
| **Year ended 31 December** | **$** | **$** |
| At beginning of year | 34,290 | 34,547 |
| Additions to property | 170 | 775 |
| Transfer from property, plant and equipment | 365 | - |
| Fair value adjustment | (690) | (1,032) |
| **Closing net book amount** | **34,135** | **34,290** |

Investment properties, comprising office buildings at the Weymouth Corporate Centre and James Street, a vacant plot with derelict structure, with status of a UNESCO World Heritage Site, currently operating as a car parking facility at Hincks Street, Bridgetown; and two vacant lots at Warrens and at the Pine Commercial Estate are reported at their fair value.

Rental income generated from these investment properties during the year amounted to $2,192 (2016 - $2,173). Operating expenses incurred in support of generating rental income from investment properties was $1,631 (2016 - $1,775).

Investment properties in the amount of $21,211 are placed in trust with respect to the statutory funds. Consistent with other assets in the statutory fund, if these assets were to be sold, permission would have to be sought and granted pursuant to the Insurance Act of Barbados. The Regulator would require that these investment properties are replaced with suitable assets in the statutory fund. The most recent appraisals for the properties was as at December 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
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## 14. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Furniture, equipment and leasehold improvements | Motor vehicles | Total |
|---|---|---|---|---|
| **At 1 January 2016** | **$** | **$** | **$** | **$** |
| Cost | 16,649 | 12,865 | 2,075 | 31,589 |
| Accumulated depreciation | (494) | (8,239) | (1,328) | (10,061) |
| **Net book amount** | **16,155** | **4,626** | **747** | **21,528** |
| **Year ended 31 December 2016** | | | | |
| Opening net amount | 16,155 | 4,626 | 747 | 21,528 |
| Additions | 91 | 2,229 | 295 | 2,615 |
| Disposals | - | (69) | (109) | (178) |
| Disposals – accumulated depreciation | - | 50 | 35 | 85 |
| Depreciation charge | (249) | (1,059) | (356) | (1,664) |
| Revaluation | (1,988) | - | - | (1,988) |
| Reclassifications | 1,491 | (1,491) | - | - |
| **Closing net book amount** | **15,500** | **4,286** | **612** | **20,398** |
| **At 31 December 2016** | | | | |
| Cost | 15,500 | 13,534 | 2,261 | 31,295 |
| Accumulated depreciation | - | (9,248) | (1,649) | (10,897) |
| **Net book amount** | **15,500** | **4,286** | **612** | **20,398** |
| **Year ended 31 December 2017** | | | | |
| Opening net amount | 15,500 | 4,286 | 612 | 20,398 |
| Additions | 874 | 1,436 | 104 | 2,414 |
| Disposals | - | (373) | (696) | (1,069) |
| Disposals – accumulated depreciation | - | 8 | 576 | 584 |
| Depreciation charge | (272) | (1,054) | (286) | (1,612) |
| Reclassifications | 253 | (253) | - | - |
| **Closing net book amount** | **16,355** | **4,050** | **310** | **20,715** |
| **At 31 December 2017** | | | | |
| Cost | 16,627 | 14,344 | 1,669 | 32,640 |
| Accumulated depreciation | (272) | (10,294) | (1,359) | (11,925) |
| **Net book amount** | **16,355** | **4,050** | **310** | **20,715** |

The Company revalued its freehold property at Roebuck Street as at 31 December 2016 based on an appraisal done by an independent, qualified professional firm of certified valuers.

## 15. INCOME TAXES

### A. Income Tax

The income tax expense comprises:

| | 2017 | Restated 2016 |
|---|---|---|
| | $ | $ |
| Current tax | 957 | 1,133 |
| Deferred tax | (1,312) | (3) |
| **Total income tax expense** | **(355)** | **1,130** |

The taxation charge on taxable income differs from the theoretical amount that would arise using the applicable tax rates as follows:

| | 2017 | Restated 2016 |
|---|---|---|
| | $ | $ |
| Income before income taxes | (1,296) | 8,547 |
| Tax calculated at effective rate of 25% | (324) | 2,137 |
| Deductions allowed | (347) | (434) |
| Effect of different tax rates on taxable income | (761) | (618) |
| Income not subject to tax | (102) | (152) |
| Expenses not deductible for tax | 772 | 531 |
| Provision | 426 | - |
| Over accrual of taxes | (19) | (334) |
| **Total income tax expense** | **(355)** | **1,130** |

The Company's life business is subject to tax at a rate of 5% of gross investment income. All other investment income of the Company is subject to tax at a rate of 12.5%.

### B. Deferred Taxes

The deferred tax (asset) liability relates to the following items:

| | 2017 | 2016 |
|---|---|---|
| **Deferred tax (asset) liability:** | $ | $ |
| Accelerated tax depreciation | 358 | 481 |
| Net pension plan asset | 817 | 1,051 |
| Tax losses carried forward | (1,446) | - |
| **Deferred tax (asset) liability** | **(271)** | **1,532** |

## 15. INCOME TAXES (continued)

### C. Tax Recoverable

| | 2017 | Restated 2016 |
|---|---|---|
| | $ | $ |
| Tax recoverable at beginning of year | 4,163 | 2,886 |
| Tax payments made | 658 | 2,398 |
| Current tax expense for year | (957) | (1,133) |
| Tax under accrual | - | 12 |
| **Tax recoverable at end of year** | **3,864** | **4,163** |

### D. Tax Credit relating to Other Comprehensive Income

| | 2017 | | |
|---|---|---|---|
| | **Before tax** | **Tax credit** | **After tax** |
| | $ | $ | $ |
| Re-measurements of post-employment benefit obligations | (1,961) | 490 | (1,471) |
| Investments classified as available-for-sale | 922 | - | 922 |
| **Other comprehensive income** | **(1,039)** | **490** | **(549)** |

| | 2016 | | |
|---|---|---|---|
| | **Before tax** | **Tax credit** | **After tax** |
| | $ | $ | $ |
| Re-measurements of post-employment benefit obligations | (889) | 222 | (667) |
| Change in freehold property valuation | (1,988) | - | (1,988) |
| Investments classified as available-for-sale fair value gains | 535 | - | 535 |
| **Other comprehensive income** | **(2,342)** | **222** | **(2,120)** |

## 16. INTANGIBLE ASSETS

The carrying amounts of intangible assets are as follows:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Cost: beginning of year | 5,476 | 4,606 |
| Additions | 1,007 | 882 |
| Disposals | - | (12) |
| Impairment loss | (95) | - |
| Cost: end of year | 6,388 | 5,476 |
| **Accumulated amortisation: beginning** | (2,170) | (1,979) |
| Amortisation | (235) | (191) |
| **Accumulated amortisation: ending** | (2,405) | (2,170) |
| **Net book value: end of year** | **3,983** | **3,306** |

The amortisation charge on finite life intangibles assets is included in depreciation and amortisation in the consolidated statement of income.

**Software development costs**

The Company is engaged in significant development of its new core information systems. Costs associated with the development of the systems are deferred, to the extent that the cost satisfies the criteria under IAS 38 – Intangible assets, until such time that management determines that a component is available for use in the manner expected and then it is amortised over its useful life. Annually, the Company reviews its software development costs for evidence of impairment.

## 17. OTHER LIABILITIES

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| These include: | | |
| Dividend payable | 1,090 | 816 |
| Payables and accrued expenses | 11,621 | 11,723 |
| Insurance balances payable | 2,674 | 3,027 |
| Deferred commission income | 3,497 | 3,716 |
| **Total** | **18,882** | **19,282** |

Insurance balances payable include amounts payable to reinsurers and brokers.

## 18. RETIREMENT BENEFITS OBLIGATIONS

### A. Defined Contribution Pension Plan

In 2007, ICBL introduced a defined contribution plan for new employees. Contributions of $148 (2016 - $164) equating to the service cost for the year for these employees were made to this plan. The cost of the defined contribution plan is not reflected in the following tables.

### B. Post-Retirement Medical Plan and Impact of Curtailment

The Group also offers medical insurance benefits to retired employees. The present value of this future benefit obligation is calculated by a qualified actuary and the amount is accrued at the end of each year. Prior to 1 January 2014, ICBL paid to the insurer 60% of the total premiums and the pensioner paid the balance. Retirees after 31 December 2013 will pay 100% of their premiums if they want to continue to be covered by the plan. This change reduced the number of current employees who will be prospectively entitled to benefits and was treated as a curtailment.

Cash contributions to the plan by the Company for 2017 and 2016 were $26.

### C. Defined Benefit Pension Plan

The Group sponsors a defined benefit pension plan for eligible employees. The defined benefit plan is administered by a separate fund that is legally separated from the Company. Responsibility for governance of the plan including investment and contributions lies jointly with the Company and the Trustees of the pension plan.

Under the plan, the pension amount at retirement is based on an employee's final average earnings. The scheme is generally funded through payments determined by triennial actuarial calculations. Cash contributions to the plan by the Company during 2017 were $711 (2016 - $753).

The Company measures the fair value of assets and the accrued benefit obligations as of 31 December 2017. The most recent actuarial valuation of the plan's assets and the present value of the defined benefit obligation were carried out as of 31 December 2017.

The following table provides summaries of the defined benefit pension and post-retirement medical plans' estimated financial position at 31 December 2017 and 2016:

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## 18. RETIREMENT BENEFITS OBLIGATIONS

### C. Defined Benefit Pension Plan (continued)

| | Defined benefit pension plans | | Medical benefit plans | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Accrued benefit obligation** | $ | $ | $ | $ |
| Balance - beginning of year | 30,460 | 29,762 | 406 | 420 |
| Current service cost | 504 | 548 | - | - |
| Interest expense | 2,322 | 2,289 | 31 | 31 |
| Past service cost | (515) | - | - | - |
| | **2,311** | **2,837** | **31** | **31** |
| **Re-measurement gains** | | | | |
| Actuarial gains and losses arising from changes in financial assumptions | (537) | (595) | (37) | (19) |
| | **(537)** | **(595)** | **(37)** | **(19)** |
| **Payments from plans:** | | | | |
| Benefit payments | (2,005) | (1,544) | (26) | (26) |
| **Balance - End of year** | **30,229** | **30,460** | **374** | **406** |

| | Defined benefit pension plans | | Medical benefit plans | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Plan assets** | $ | $ | $ | $ |
| Fair value - beginning of year | 40,194 | 39,542 | - | - |
| | 40,194 | 39,542 | - | |
| **Re-measurement** | | | | |
| Return on plan assets | 1,393 | 1,479 | - | - |
| | **1,393** | **1,479** | **-** | **-** |
| **Contributions:** | | | | |
| Employer | 711 | 753 | 26 | 26 |
| **Payments from plans** | | | | |
| Administration | (36) | (36) | (26) | (26) |
| Benefit payments | (2,005) | (1,544) | - | - |
| **Fair value - end of year** | **40,257** | **40,194** | **-** | **-** |
| Effect of asset ceiling | (6,386) | (5,126) | - | - |
| | **33,871** | **35,068** | **-** | **-** |
| **Net benefit (asset) liability – end of year** | **(3,642)** | **(4,608)** | **374** | **406** |

## 18. RETIREMENT BENEFITS OBLIGATIONS (continued)

### C. Defined Benefit Pension Plan (continued)

| | Defined benefit pension plans | | Medical benefit plans | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| Current service cost | 504 | 548 | - | - |
| Past service cost | (515) | - | | |
| Net interest on the net defined benefit | (743) | (745) | 31 | 31 |
| Administration and other non-plan investment management | 36 | 36 | - | - |
| Interest on effect of asset ceiling | 397 | 373 | - | - |
| **Components of defined benefit costs (income) recorded in profit or loss** | **(321)** | **212** | **31** | **31** |
| **Re-measurement on the net defined benefit liability** | | | | |
| Expected return on plan assets | 3,065 | 3,034 | - | - |
| Actual return on plan assets | (1,393) | (1,479) | - | - |
| Actuarial gains and losses arising from changes in financial assumptions | (537) | (596) | 37 | 19 |
| Effect of asset ceiling | 863 | (51) | - | - |
| **Components of defined benefits cost (income) recorded in OCI** | **1,998** | **908** | **37** | **19** |

The past service cost, the service cost, the net-interest expense for the year and the expected return on assets are included in the employee benefits expense in the consolidated statement of income. The re-measurement on the net defined benefit liability (asset) is included in the consolidated statement of comprehensive income as part of other comprehensive income.

## 18. RETIREMENT BENEFITS OBLIGATIONS (continued)

### C. Defined Benefit Pension Plan (continued)

The asset allocation by major category for the defined benefit pension plans is as follows:

| | Quoted | Unquoted | 2017 Total | % | Quoted | Unquoted | 2016 Total | % |
|---|---|---|---|---|---|---|---|---|
| **Equity instruments** | $ | $ | $ | | $ | $ | $ | |
| Financial services | 177 | - | **177** | **0.44** | 174 | - | **174** | **0.44** |
| Mutual funds | - | 1,667 | **1,667** | **4.14** | - | 1,685 | **1,685** | **4.19** |
| **Fixed income instruments** | | | | | | | | |
| Government | - | 11,651 | **11,651** | **28.94** | - | 13,798 | **13,798** | **34.33** |
| Corporate bonds | - | 9,463 | **9,463** | **23.51** | - | 7,129 | **7,129** | **17.74** |
| **Term deposits** | - | 2,709 | **2,709** | **6.73** | - | 6,734 | **6,734** | **16.75** |
| **Cash and cash equivalents** | - | 11,398 | **11,398** | **28.31** | - | 9,157 | **9,157** | **22.78** |
| **Other** | - | 3,192 | **3,192** | **7.93** | - | 1,517 | **1,517** | **3.77** |
| **Total** | **177** | **40,080** | **40,257** | **100.00** | **174** | **40,020** | **40,194** | **100.00** |

**Risk**

Through its defined benefit pension plan and post-employment medical plan, the Company is exposed to a number of risks, the most significant which are detailed below:

Changes in bond yields – a decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bonds holdings.

Life expectancy – The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plans' liabilities. This is particularly significant where inflationary increases results in higher sensitivity to changes in life expectancy.

Inflation risk – The pension obligation is linked to inflation, and higher inflation will lead to higher liabilities. The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with equities inflation, meaning that an increase in inflation will also increase the deficit of the plan.

## 18. RETIREMENT BENEFITS OBLIGATIONS (continued)

### C. Defined Benefit Pension Plan (continued)

**Actuarial assumptions**

Those significant assumptions are as follows (weighted-average assumptions as of 31 December 2017 and 2016):

| | Defined benefit pension plans | | Medical benefit plans | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Benefit cost during the year: | % | % | % | % |
| Discount rate | 7.75 | 7.75 | 7.75 | 7.75 |
| Rate of compensation increase | 6.00 | 6.00 | - | - |
| Medical claims inflation | - | - | 6.00 | 6.00 |
| Pension growth rate | 2.50 | 2.50 | - | - |
| Accrued benefit obligation at end of year: | | | | |
| Discount rate | 7.75 | 7.75 | 7.75 | 7.75 |
| Compensation increase | 6.00 | 6.00 | 6.00 | 6.00 |
| Medical premium/medical claims inflation | - | - | 6.00 | 6.00 |

The expected return on assets assumption for pension cost purposes is the weighted average of expected long-term asset return assumptions by asset class, and is selected from a range of possible future asset returns.

Significant judgement is used in setting the assumptions used to calculate the Group's retirement benefit obligations. The sensitivity analyses have been determined based on reasonably possible changes of the significant actuarial assumptions occurring at the end of the reporting period. Changes in trend rate assumptions in either direction will change the retirement benefit obligation as follows:

| | Consolidates defined benefit pension plans | | Consolidate medical benefit plans | |
|---|---|---|---|---|
| | Increase 2017 | Decrease 2016 | Increase 2017 | Decrease 2016 |
| | $ | $ | $ | $ |
| Discount rate (1% p.a) | 26,698 | 34,593 | 341 | 411 |
| Salary (0.5% p.a.) | | | | |
| Medical premium / (1% p.a.) Medical claims inflation | 31,580 | 29,054 | 410 | 342 |
| Average life expectancy (1 year increase) | 31,027 | - | 388 | - |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and a change in some of the assumptions may be correlated.

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised in the statement of financial position.

## 18. RETIREMENT BENEFITS OBLIGATIONS (continued)

### C. Defined Benefit Pension Plan (continued)

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

For the funded plan, the Company ensures that the investment positions are managed with an asset-liability matching ("ALM") framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. The Company's ALM objective is to match assets to the pension's obligation by investing in long-term fixed interest securities with maturities that match the benefits payments as they fall due.

The Company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Company has not changed the process used to manage its risk from previous periods. Investments are well diversified, such that failure of any single investment would not have a material impact on the overall level of assets.

The funding requirements are based on a local actuarial measurement framework. In this framework the discount rate is set on a risk free rate. Furthermore, premiums are determined on a current salary base. Additional liabilities stemming from past service due to salary increase should be paid immediately to the fund.

Expected contributions to post-employment benefit plans for the year ending 2018 are $507 (2017 - $711).

The weighted average duration of the defined benefit obligation is 13.06 (2016 – 13.63 years).

## 19. INVESTMENT CONTRACT LIABILITIES

The composition of investment contract liabilities and the movement in liabilities are shown below:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Guaranteed interest pension liabilities | 107,738 | 113,777 |
| **Total investment contract liabilities** | **107,738** | **113,777** |

Investment contract liabilities carried at amortised cost

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| At 1 January | 113,777 | 112,664 |
| Pension contributions | 4,625 | 5,768 |
| Net investment income | 4,389 | 5,101 |
| Benefits paid | (14,102) | (8,838) |
| Management fees deducted | (951) | (918) |
| **At 31 December** | **107,738** | **113,777** |

## 20. INSURANCE CONTRACT LIABILITIES

### A. Assumptions and Methodology

#### i) Life and health insurance contracts

The nature of life and health insurance business is such that a number of assumptions are made in compiling these consolidated financial statements. Assumptions are made about investment returns, mortality rates, lapse rate, morbidity, expenses and premium payment patterns in connection with the in-force policies for each business unit. Assumptions are best estimates based on historic and expected experience of the business.

The valuation of liabilities was performed using PPM which is an approximation of CALM. In some instances, approximations are used due to the nature of liabilities. The approximations are not expected to change the results materially. Best estimate assumptions were generally based on industry and company experience. Provisions for adverse deviations ("PfADs") were determined by applying appropriate margins for adverse deviations ("MfADs") to the best estimate assumptions. A variety of factors are considered in the Company's valuation techniques, such as yield curve, credit spreads and default assumptions, which have market observable inputs.

*Investment returns*

Assets are not formally segmented by line of business or product line. Invested assets are notionally segmented to support the actuarial liabilities valued under PPM. For each segment the future cash flows from insurance and investment contracts and the assets supporting them are projected under a number of interest rate scenarios some of which are prescribed for PPM. Both current assets and future reinvestment consider credit / asset default risk (assumed to earn a credit spread (including appropriate default provision), above the risk-free Treasury yield based on current and future expected market conditions). Asset defaults were based on industry experience.

*Morbidity*

Morbidity refers to the likelihood that an insured will contract or develop any number of illnesses. The Company's portfolio of Company and individual health business is large enough for an internal analysis of lag and is used as the basis for setting annually renewable premiums. A very small block of individual disability assumes industry standard morbidity rates.

*Mortality*

Mortality refers to the rates at which death is expected to occur for defined classes of insured. The Company's portfolio of business is too small to form the basis for any internally produced mortality assumption. Therefore, the Company's mortality assumption is based on industry experience. The assumed mortality rates for life insurance contracts do not reflect any future improvement. For life contingent annuities, the assumed mortality assumption includes future mortality improvement, the effect of which is to increase insurance contract liabilities, based on prescribed mortality improvement rates promulgated by the Canadian Institute of Actuaries 1997-2004, adjusted for Caribbean experience.

*Lapse*

The best estimate lapse assumption is based on a combination of industry and the Company's lapse experience and pricing assumptions for newer products.

## 20. INSURANCE CONTRACT LIABILITIES (continued)

### A. Assumptions and Methodology

**i) Life and health insurance contracts (continued)**

*Expenses*

Actuarial liabilities provide for future administrative policy-related expenses. These include the costs of premium collection, claims adjudication and processing, relating consulting services, preparation and mailing of policy statements and related indirect expenses and overheads.

An inflation assumption is incorporated in the estimate of future expenses consistent with the interest rate scenarios projected under PPM.

*Premium payment patterns*

Universal life liabilities are sensitive to the amount of discretionary premium received from the policyholders. A premium persistency assumption is made for all universal life products and can vary by plan, age and policy duration.

**ii) Short-term insurance contract liabilities**

The ultimate cost of outstanding contract liabilities is estimated by using the Bornhuetter-Ferguson method on paid and reported losses. This is essentially a blend of two other methods, the first being the Loss Development Method whereby actual reported losses are multiplied by an expected loss development factor and the second, the Expected Loss Method whereby the future IBNR reserve equals the difference between a predetermined estimate of expected losses and actual reported losses.

### B. Composition of Insurance Contract Liabilities

| | 2017 | 2016 |
|---|---|---|
| **Gross** | | |
| Short-term insurance contracts: | $ | $ |
| Claims reported and loss adjustment expenses | 82,635 | 75,070 |
| Unearned premiums | 31,914 | 34,175 |
| Claims incurred but not reported | 5,131 | 5,045 |
| **Total short-term insurance contracts** | **119,680** | **114,290** |
| Life and health insurance contracts: | | |
| **Non-participating** | | |
| Individual life | 4,529 | 3,413 |
| Individual and group annuities | 7,206 | 6,819 |
| Group life | 8,637 | 7,202 |
| Health and accident | 1,612 | 1,412 |
| **Total life and health insurance contracts** | **21,984** | **18,846** |
| **Total insurance contract liabilities - gross** | **141,664** | **133,136** |

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## 20. INSURANCE CONTRACT LIABILITIES (continued)

### B. Composition of Insurance Contract Liabilities (continued)

| | 2017 | 2016 |
|---|---|---|
| **Net** | | |
| Short-term insurance contracts: | $ | $ |
| Claims reported and loss adjustment expenses | 51,858 | 52,099 |
| Unearned premiums | 18,145 | 19,675 |
| Claims incurred but not reported | 1,948 | 1,944 |
| **Total short-term insurance contracts** | **71,951** | **73,718** |
| Life and health insurance contracts: | | |
| **Non-participating** | | |
| Individual life | 4,202 | 3,071 |
| Individual and group annuities | 7,206 | 6,819 |
| Group life | 8,227 | 6,812 |
| Health and accident | 1,612 | 1,412 |
| Other | 692 | 682 |
| **Total life and health insurance contracts** | **21,939** | **18,796** |
| **Total insurance contract liabilities - net** | **93,890** | **92,514** |

### C. Changes In Short Term Insurance Contract Liabilities

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| **At 1 January** | $ | $ | $ | $ | $ | $ |
| Claims and adjustment expenses | 75,070 | (22,971) | 52,099 | 78,049 | (23,268) | 54,781 |
| Claims incurred but not reported | 5,045 | (3,101) | 1,944 | 6,435 | (4,031) | 2,404 |
| Total at 1 January | 80,115 | (26,072) | 54,043 | 84,484 | (27,299) | 57,185 |
| Cash paid for claims settled in year | (32,960) | 9,137 | (23,823) | (36,047) | 10,004 | (26,043) |
| Increase in liabilities: | | | | | | |
| Arising from current-year claims | 34,529 | (13,043) | 21,486 | 33,433 | (9,243) | 24,190 |
| Arising from prior-year claims | 6,082 | (3,982) | 2,100 | (1,755) | 466 | (1,289) |
| **Total at 31 December** | **87,766** | **(33,960)** | **53,806** | **80,115** | **(26,072)** | **54,043** |
| Claims and adjustment expenses | 82,635 | (30,777) | 51,858 | 75,070 | (22,971) | 52,099 |
| Claims incurred but not reported | 5,131 | (3,183) | 1,948 | 5,045 | (3,101) | 1,944 |
| **Total at 31 December** | **87,766** | **(33,960)** | **53,806** | **80,115** | **(26,072)** | **54,043** |

## 20. INSURANCE CONTRACT LIABILITIES (continued)

### C. Changes In Short Term Insurance Contract Liabilities (continued)

Claims incurred but not reported are recorded on a discounted basis, with the rates of interest used in discount being 5.65 % (2016 – 5.75%). The Company believes that its overall practices have been consistently applied over the years and that its provision for outstanding claims has resulted in reasonable approximations of the ultimate cost of claims incurred.

The fair value of the net provision for claims and adjustment expenses of $64,409 (2016 - $65,131) is $56,947 (2016 - $56,946). The fair value is calculated by the Company's actuaries and represents the discounted value of the net provision.

### D. Unearned Premium Liability

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| | $ | $ | $ | $ | $ | $ |
| **At 1 January** | **34,326** | **(14,568)** | **19,758** | **35,962** | **(14,789)** | **21,173** |
| Premium written during the year | 109,558 | (46,410) | 63,148 | 114,837 | (47,529) | 67,308 |
| Premium earned during the year | (111,816) | 47,128 | (64,688) | (116,473) | 47,750 | (68,723) |
| **Total at 31 December** | **32,068** | **(13,850)** | **18,218** | **34,326** | **(14,568)** | **19,758** |
| **Movement during the year, net of acquisition** | **(2,258)** | **718** | **(1,540)** | **(1,636)** | **221** | **(1,415)** |

### E. Changes in Life and Health Insurance Contract Liabilities

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| | $ | $ | $ | $ | $ | $ |
| **Life and health insurance contract liabilities – 1 January** | **18,846** | **(50)** | **18,796** | **18,257** | **(550)** | **17,707** |
| Change in provision for policy benefits: | | | | | | |
| Aging and changes in balances on in-force policies | 2,722 | 4 | 2,726 | 980 | 379 | 1,359 |
| Changes in assumptions: | | | | | | |
| Mortality | 17 | 8 | 25 | (350) | 121 | (229) |
| Future mortality improvements | 9 | - | 9 | - | - | - |
| Expense | 370 | 3 | 373 | 94 | - | 94 |
| Other changes | 20 | (10) | 10 | (135) | - | (135) |
| | 3,138 | 5 | 3,143 | 589 | 500 | 1,089 |
| **Life and health insurance contract liabilities – 31 December** | **21,984** | **(45)** | **21,939** | **18,846** | **(50)** | **18,796** |

The fair value of future policy benefits is determined by reference to the fair value of the assets supporting those liabilities.

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## 20. INSURANCE CONTRACT LIABILITIES (continued)

### F. Composition of the Assets Supporting Liabilities

The composition of the assets supporting life and health insurance contract liabilities is as follows:

| | 2017 | | | |
|---|---|---|---|---|
| | Bonds and fixed income securities | Mortgages and loans | Cash and term deposits | Total |
| Non-participating | $ | $ | $ | $ |
| Individual life | 3,651 | - | 1,253 | 4,904 |
| Individual and group annuities | - | 5,282 | 1,924 | 7,206 |
| Group life | 3,700 | 358 | 4,169 | 8,227 |
| Health and accident | 213 | - | 1,389 | 1,602 |
| | **7,564** | **5,640** | **8,735** | **21,939** |

| | 2016 | | | |
|---|---|---|---|---|
| | Bonds and fixed income securities | Mortgages and loans | Cash and term deposits | Total |
| Non-participating | $ | $ | $ | $ |
| Individual life | 3,703 | - | 50 | 3,753 |
| Individual and group annuities | - | 6,819 | - | 6,819 |
| Group life | 3,950 | 1,962 | 900 | 6,812 |
| Health and accident | 218 | 660 | 534 | 1,412 |
| | **7,871** | **9,441** | **1,484** | **18,796** |

## 21. SHARE CAPITAL

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number of Shares | $ | Number of Shares | $ |
| Balance – beginning of year | 39,291,123 | 39,664 | 39,274,503 | 39,611 |
| Shares issued under the employee share purchase plan | 55,559 | 152 | 16,620 | 53 |
| **Balance – end of year** | **39,346,682** | **39,816** | **39,291,123** | **39,664** |

The Company is authorised to issue an unlimited number of common shares at no par value.

## 21. SHARE CAPITAL (continued)

**Employee share purchase plan**

During the year the Company issued 55,559 (2016 – 16,620) shares which were purchased by employees under the Employee Share Purchase Plan. The discount given to staff of $3 (2016 - $8) was charged to staff cost as salaries.

### A. Statutory Reserve

**Catastrophe reserve**
The Insurance (Catastrophe Reserve Fund) Regulations 2003 – 88 of Barbados requires the establishment of a catastrophe reserve fund. Annual amounts of up to 25% of net premium income from property insurance business are allocated to the fund and are accounted for as an appropriation of retained earnings. Assets representing the fund in the amount of $15,651 (2016 - $14,643) have been placed in trust in accordance with the regulations of the Insurance Act subsequent to year end.

**Surplus reserve**
Section 152 of the Insurance Act of Barbados requires the appropriation towards a surplus reserve of at least 25% of net income until such time as the surplus reserve of the Company equals or exceeds the liability in respect of unearned premiums. As at 31 December 2017 the Company's surplus reserve was in excess of unearned premiums.

The Statutory reserves comprise of the following:

| | Catastrophe reserve | Surplus reserve | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Balance as at 31 December 2015 (Restated)** | **13,322** | **37,388** | **50,710** |
| Transfer to catastrophe reserve (Restated) | 1,321 | - | 1,321 |
| **Balance as at 31 December 2016 (Restated)** | **14,643** | **37,388** | **52,031** |
| Transfer to catastrophe reserve | 1,008 | - | 1,008 |
| **Balance as at 31 December 2017** | **15,651** | **37,388** | **53,039** |

### B. Earnings per Share

The earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2017 | Restated 2016 |
|---|---|---|
| | $ | $ |
| (Loss) profit attributable to the Company's equity holders | (1,166) | 7,044 |
| Weighted average number of ordinary shares in issue | 39,319 | 39,284 |
| **Basic and fully diluted earnings per share** | **(0.03)** | **0.18** |

## 22. ACCUMULATED OTHER COMPREHENSIVE INCOME

This consists of unrealised gains and losses on available-for-sale financial assets, actuarial gains and losses on employee benefit plans and revaluation adjustments on land & buildings held as property, plant and equipment:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **Items that will not be subsequently reclassified to profit or loss** | | |
| Re-measurement of post-employment benefit obligation | 1,969 | 498 |
| Change in property valuation | (2,597) | (2,597) |
| **Items that may be subsequently reclassified to profit or loss** | | |
| Changes in the fair value of available-for-sale financial assets | (4,074) | (3,152) |
| **Total** | **(4,702)** | **(5,251)** |

| | Available-for-sale financial assets | Retirement benefit obligation | Property | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **At 31 December 2016** | 3,152 | (498) | 2,597 | 5,251 |
| Change in retirement benefit obligation | - | (1,471) | - | (1,471) |
| Change in available-for-sale financial assets | 922 | - | - | 922 |
| **At 31 December 2017** | **4,074** | **(1,969)** | **2,597** | **4,702** |

## 23. COMMISSION AND OTHER INCOME

This includes commission earned from reinsurers and fee income from pension administration and investment management services.

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Commission income | 15,068 | 15,210 |
| Other income | 1,702 | 2,929 |
| **Total** | **16,770** | **18,139** |

Within other income, there is an expense recognised for the contribution margin relating to the pension plans which have a guaranteed minimum rate of return which is mainly driven by to a significant impairment on a fixed income security that was recognized. The total impairment recognized by these plans in relation to that security was $1,721.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(in thousands of Barbados dollars except for per share amounts)

## 24. INSURANCE CONTRACTS BENEFITS AND EXPENSES

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Gross life and health claims and benefits paid | 13,945 | 17,527 |
| Reinsurance recoveries | (1,122) | (1,640) |
| Change in insurance contract liabilities | 2,519 | 619 |
| **Total life and health policy benefits** | **15,342** | **16,506** |
| Gross short-term claim and adjustment expenses paid | 32,961 | 36,048 |
| Reinsurance recoveries | (9,197) | (10,044) |
| Change in insurance contract liabilities | 7,648 | (4,368) |
| Change in reinsurance assets | (7,886) | 1,227 |
| Other | 193 | (26) |
| **Total short-term claim and adjustment expenses** | **23,719** | **22,837** |
| **Total insurance contracts benefits and expenses** | **39,061** | **39,343** |

## 25. OPERATING EXPENSES

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Wages and salaries | 17,547 | 16,353 |
| Professional and consulting fees | 6,060 | 3,636 |
| Post-retirement benefits | 303 | 836 |
| IT maintenance contracts | 3,069 | 2,775 |
| Advertising and business development | 844 | 1,982 |
| Bank charges and foreign currency purchase tax | 965 | 371 |
| Office rent, building and utility cost | 2,155 | 2,488 |
| Share compensation expenses | 123 | 110 |
| Compliance, legal and regulatory | 66 | 135 |
| Office and administration expenses | 2,863 | 2,987 |
| Bad debts | 1,728 | 1,969 |
| Travel and entertainment | 207 | 439 |
| Membership and subscription | 136 | 134 |
| Training and development | 106 | 262 |
| Other | 1,375 | 1,475 |
| **Total** | **37,547** | **35,952** |

## 26. DUE TO AFFILIATES

During the year a number of transactions were entered into with affiliated parties in the normal course of business.

At 31 December 2017, the Company was indebted to its Ultimate Parent Company – BF&M Limited and its affiliates for expenses including but not limited to recharges for various IT project costs.

The following balances were outstanding at the end of the reporting period:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Island Heritage Insurance Company Limited | 13 | - |
| BF&M Limited | 372 | 2,019 |
| BF&M Life Insurance Company Limited | 210 | 1,441 |
| BF&M (Canada) Limited | 118 | 118 |
| BF&M General Insurance Company Limited | (905) | 167 |
| Hamilton Financial Limited | 1,411 | 1,411 |
| **Total** | **1,219** | **5,156** |

The amounts outstanding are unsecured, carry no rate of interest and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior years for bad or doubtful debts in respect of the amounts owed by affiliates.

Key management personnel have been defined as the executive team and board of directors of the Group. The following transactions were carried out with key management:

**A. Sales of Insurance Contracts and Other Services**

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Sales of insurance contracts and pension services: | | |
| - Key management | 118 | 104 |
| Purchase of services: | | |
| - Key management | 40 | 52 |

## 26. DUE TO AFFILIATES

### B. Key Management Compensation

Key management includes those persons at or above the level of Senior Vice President including Directors. The following table shows compensation to key management:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Salaries, directors fees and other short-term employee benefits | 2,976 | 3,240 |
| Post-employment benefits | 157 | 168 |
| Share based payments | 18 | 59 |
| **Total** | **3,151** | **3,467** |

The total interests of all directors and officers in the common shares of the Company at 31 December 2017 were 75 (2016 – 76) shares. No rights to subscribe for shares in the Company have been granted or exercised by any director or officer.

### C. Loans to Related Parties

Loans are extended to key management of the Company and to companies related to key management. These loans are collateralised by the property acquired with the proceeds of the loan. Mortgage terms are typically no more than 20 years in duration and interest rates are consistent with rates charged by the Company to non-related parties.

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| At 1 January | 3,684 | 4,085 |
| Adjustment for changes in key management | (3,251) | - |
| Net loan (repayments) advances | (61) | (600) |
| Interest charges | 21 | 199 |
| **Total as at 31 December** | **393** | **3,684** |

### D. Management Fees

Included in other income were management fees as follows:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Statutory Corporation Pension Fund | 882 | 863 |
| Mortgage Insurance Fund | 99 | 112 |
| Staff Pension Funds | 337 | 329 |
| Corporate Pension Plan and RRSP | 116 | 101 |
| **Total** | **1,434** | **1,405** |

## 27. COMMITMENTS AND CONTINGENCIES

### A. Operating Leases

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| No later than 1 year | 960 | 960 |
| **Total** | **960** | **960** |

### B. Commitments

The Group has commitments made in the normal course of business that are to be disbursed upon fulfillment of certain contractual conditions. At 31 December 2017 commitments under loan agreements amount to $136 (2016 - $10).

### C. Contingencies

The Group from time to time is subject to legal actions arising in the normal course of business for an insurance company. It is inherently difficult to predict the outcome of any of these proceedings with certainty and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial statements of the Group. However, based on information presently known, management does not expect that it is probable that the outcome of existing legal action, relating to an interpretation of contract terms, will have a material adverse effect on the consolidated financial position of the Group. Actual results could differ from management's best estimates.

## 28. SUBSEQUENT EVENTS

### Declaration of Dividends

On 29 March 2018 the Board of Directors declared a final dividend of $0.11 cents per share, payment date 23 April 2018 which will be accounted for as an appropriation of retained earnings in the 2018 financial year.

## 29. RESTATEMENT OF COMPARATIVE FINANCIAL STATEMENTS

During 2017 the Company noted an error in relation to the computation of excess of loss premium ceded, insurance receivables and other assets relating to the year ended 2016 and prior. The errors have been corrected by restating each of the affected financial statement line items for the prior periods. The following tables summarise the impacts on the Group's financial statements:

i. Consolidated statement of financial position

| | | Impact of correction of error | |
|---|---|---|---|
| **1 January 2016**<br>In thousands of dollars | **As previously reported** | **Adjustments** | **As restated** |
| | **$** | **$** | **$** |
| Insurance receivables and other assets | 41,296 | (1,779) | 39,517 |
| Tax recoverable | 2,441 | 445 | 2,886 |
| Others | 389,149 | - | 389,149 |
| **Total assets** | **432,886** | **(1,334)** | **431,552** |
| **Total liabilities** | **275,870** | **-** | **275,870** |
| Statutory reserve | 51,002 | (292) | 50,710 |
| Retained earnings | 50,948 | (1,042) | 49,906 |
| Others | 55,066 | - | 55,066 |
| **Total equity** | **157,016** | **(1,334)** | **155,682** |

| | | | |
|---|---|---|---|
| **31 December 2016**<br>In thousands of dollars | **As previously reported** | **Adjustments** | **As restated** |
| | **$** | **$** | **$** |
| Insurance receivables and other assets | 38,268 | (1,890) | 36,378 |
| Tax recoverable | 3,690 | 473 | 4,163 |
| Others | 386,190 | - | 386,190 |
| **Total assets** | **428,148** | **(1,417)** | **426,731** |
| **Total liabilities** | **272,883** | **-** | **272,883** |
| Statutory reserve | 52,354 | (323) | 52,031 |
| Retained earnings | 49,706 | (1,094) | 48,612 |
| Others | 53,205 | - | 53,205 |
| **Total equity** | **155,265** | **(1,417)** | **153,848** |

ii. Consolidated statement of profit or loss and OCI

| | | Impact of correction of error | |
|---|---|---|---|
| **For the year ended 31 December 2016**<br>In thousands of dollars | **As previously reported** | **Adjustments** | **As restated** |
| | **$** | **$** | **$** |
| Reinsurance ceded | (47,419) | (110) | (47,529) |
| Income taxes | (1,157) | 27 | (1,130) |
| Others | 56,076 | - | 56,076 |
| **Profit** | **7,500** | **(83)** | **7,417** |
| **Total comprehensive income** | **5,380** | **(83)** | **5,297** |

The impact on the Group's basic or diluted earnings per share was insignificant and there was no impact on the total operating, investing or financing cash flows for the years ended 31 December 2017 and 2016.

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# CORPORATE INFORMATION

- Notice of Eighteenth Annual Meeting of shareholders
- Shareholder Information
- Management Proxy Circular
- Statement of Corporate Governance Practices
- Terms of Reference for the Audit, Compliance & Corporate Risk Management Committee
- Form of Proxy

# NOTICE OF EIGHTEENTH ANNUAL MEETING OF SHAREHOLDERS

(Company No. 9228)

NOTICE IS HEREBY GIVEN THAT THE EIGHTEENTH ANNUAL MEETING of the Shareholders of Insurance Corporation of Barbados Limited (hereinafter called "ICBL") will be held at the Hilton Barbados Resort, Needham's Point, St. Michael, Barbados on **1 June 2018 at 5:30 p.m.** for the following purposes:-

1. Welcome and Opening Remarks from Mr. R. John Wight, Chairman of ICBL;

2. Presentation of ICBL's Financial Performance for the financial year ended 31 December 2017 from Mr. R. John Wight, Chairman of ICBL;

3. Ordinary Resolutions:
   i. To receive and consider the audited Consolidated Financial Statements of ICBL for the year ended 31 December 2017 together with the reports of Management, the Directors and Auditors thereon;

   ii. To elect three (3) Directors -
   The following are the names of those existing Directors who retire by rotation and have been proposed for re-election as Directors of ICBL, each to serve a three-year term: -
   (a) Mr. Gordon Henderson
   (b) Mrs. Jennifer Hunte

   The following is the name of the individual that has been proposed for election as a Director of ICBL to serve a three-year term: -
   (a) Mr. Geoffrey Scott;

   iii. To appoint the Auditors for the ensuing year and to authorise the Directors to fix the remuneration of such Auditors;

4. To transact such further or other business which may properly come before an annual meeting of Shareholders or any adjournment or adjournments thereof.

**AND NOTICE IS FURTHER GIVEN THAT** only Shareholders of record at the close of business on 8 May 2018 (the "Record Date") will be entitled to Notice of the Meeting. The number of eligible votes that may be cast at this Meeting is 39,346,682 being the total number of common shares in the capital of Insurance Corporation of Barbados Limited outstanding on 8 May 2018.

Dated the 27th day of April 2018.
**BY ORDER OF THE BOARD OF DIRECTORS**

Valentina Blackman

.....
Valentina J.G.R. Blackman
Corporate Secretary

**Note:** IF YOU ARE UNABLE TO ATTEND THE MEETING IN PERSON, WE URGE YOU TO EXERCISE YOUR RIGHT TO APPOINT A PROXY TO ATTEND AND VOTE AT THE MEETING IN YOUR STEAD.

## VOTING

A simple majority is required to pass Ordinary Resolutions. A two-thirds majority is required to pass Special Resolutions. Voting at the meeting may be done by ballot.

## APPOINTMENT OF A PROXY

To appoint a proxy you must complete, date, sign and return the enclosed form of proxy to the Corporate Secretary at the Registered Office of ICBL located at Roebuck Street, Bridgetown, Barbados, no later than 12 noon on 31 May 2018 or if the meeting is adjourned, by no later than 12 noon one business day before the date of the adjourned meeting.

## SUBMISSION OF QUESTIONS IN ADVANCE

Whether or not you are able to attend the meeting, you may submit/register questions in advance. Questions may be mailed to the Corporate Secretary via post at the address stated above or alternatively sent via email using the addresses ***ICBLannualreport@icb.com.bb*** or ***ICBLinvestors@icb.com.bb***.

Depending on the nature of the question, we will attempt to address as many of the more frequently asked questions as soon as possible either prior to the Meeting OR in the Chairman's, CEO's and Chief Financial Officer's presentations to the Meeting OR after the Meeting in the Shareholders Area Login.

## PHOTOGRAPHY AND WEBCAST

In addition to the usual photography, we may arrange for the Annual General Meeting to be filmed. If filmed, then an edited version may be made available for viewing on our website at ***http://www.icbl.com/investor-relations/investor-relations*** in the Shareholders Area Login.

For the safety and security of all those present at the Meeting, all other cameras and recording devices are not permitted.

## FINAL DIVIDEND

A final dividend of $0.11 per share for the year ended 31 December 2017 was declared by the Board of Directors and was paid to Shareholders of record at the close of business on 9 April 2018. The payment date was 23 April 2018.

# SHAREHOLDER INFORMATION

## ICBL Director Shareholdings as at 9 April, 2018

| SHAREHOLDERS | SHARES | NO. OF SHARES HELD NON-BENEFICIALLY |
|---|---|---|
| Mr. R. John Wight | Nil | Mr. Wight represents BF&M Limited which owns 100% of Hamilton Financial Limited |
| Mrs. Juanita Thorington-Powlett | 500 | Nil |
| Mr. Goulbourne Alleyne | 24,992 | Nil |
| Sir Paul Altman | Nil | Nil |
| Sir Trevor Carmichael, Q.C. | Nil | Nil |
| Mr. Gordon Henderson | Nil | Nil |
| Mrs. Jennifer Hunte | Nil | Nil |
| Ms. Toni Jones | Nil | Nil |
| Mr. Charles Watchorn | Nil | Nil |

## ICBL - Shareholders owning more than 5% as at 9 April, 2018

| SHAREHOLDERS | SHARES | % of Shares |
|---|---|---|
| HAMILTON FINANCIAL LIMITED | 20,161,171 | 51.24 |
| NATIONAL INSURANCE BOARD | 3,900,000 | 9.91 * |

*Combined total of two accounts with the Barbados Stock Exchange

## ICBL Shareholdings - by Geographical Location as at 9 April, 2018

| COUNTRY | SHAREHOLDERS | % OF SHAREHOLDERS | SHARES | % OF SHARES |
|---|---|---|---|---|
| ANTIGUA AND BARBUDA | 1 | 0.04 | 3,000 | 0.01 |
| BELGIUM | 1 | 0.04 | 2,000 | 0.01 |
| BERMUDA | 6 | 0.27 | 10,950 | 0.03 |
| BARBADOS | 2,142 | 95.71 | 19,021,608 | 48.34 |
| CANADA | 18 | 0.80 | 28,239 | 0.07 |
| UNITED KINGDOM | 16 | 0.71 | 64,642 | 0.16 |
| GUYANA | 1 | 0.04 | 105 | 0.00 |
| SAINT LUCIA | 1 | 0.04 | 20,161,171 | 51.24 |
| TRINIDAD AND TOBAGO | 2 | 0.09 | 2,700 | 0.01 |
| UNITED STATES OF AMERICA | 47 | 2.10 | 50,267 | 0.13 |
| SAINT VINCENT AND THE GRENADINES | 2 | 0.09 | 1,500 | 0.00 |
| VIRGIN ISLANDS (BRITISH) | 1 | 0.04 | 500 | 0.00 |
| | **2,238** | **100** | **39,346,682** | **100** |

## ICBL Shareholdings - Category Analysis as at 9 April, 2018

| SHAREHOLDERS | SHARES | % of Shares |
|---|---|---|
| Company | 70 | 27,924,684 |
| House | 1 | 19,726 |
| Individual | 2,144 | 6,050,507 |
| Nominee Account (No Tax) | 15 | 5,315,085 |
| Nominee Account (Taxed 12.5%) | 6 | 29,280 |
| Charity | 2 | 7,400 |
| | **2,238** | **39,346,682** |

## ICBL Shareholdings per account basis - Range Analysis as at 9 April, 2018

| SHAREHOLDERS | NO. OF SHAREHOLDERS | % OF SHAREHOLDERS | SHARES | % OF SHARES |
|---|---|---|---|---|
| 01: Up to 200 | 99 | 4.42 | 11,912 | 0.03 |
| 02: 201 to 500 | 513 | 22.92 | 243,700 | 0.62 |
| 03: 501 to 1,000 | 560 | 25.02 | 509,036 | 1.29 |
| 04: 1,001 to 5,000 | 752 | 33.60 | 2,069,943 | 5.26 |
| 05: 5,001 to 10,000 | 196 | 8.76 | 1,554,708 | 3.95 |
| 06: 10,001 to 50,000 | 90 | 4.02 | 2,046,235 | 5.20 |
| 07: 50,001 to 100,000 | 10 | 0.45 | 674,408 | 1.71 |
| 08: 100,001 to 500,000 | 11 | 0.49 | 2,389,905 | 6.07 |
| 09: 500,001 to 2,000,000 | 6 | 0.27 | 9,685,664 | 24.62 |
| 10: Over 2,000,000 | 1 | 0.04 | 20,161,171 | 51.24 |
| | **2,238** | **100.00** | **39,346,682** | **100.00** |

# MANAGEMENT PROXY CIRCULAR

(Company No. 9228)

The information contained in this Management Proxy Circular is furnished pursuant to the provisions of the Companies Act, Cap. 308 of the Laws of Barbados in connection with the solicitation of Proxies by the Management of Insurance Corporation of Barbados Limited ("the Company") for use at the Eighteenth Annual Meeting of the Shareholders of the Company to be held on **Friday 1 June, 2018 at 5:30 p.m**. at the Hilton Barbados Resort, Needham's Point, St. Michael, Barbados for the purposes set out in the Notice.

It is expected that the solicitation will be by mail, primarily. The cost of the solicitation will be borne by the Company.

Unless otherwise noted, all information contained in this Management Proxy Circular is provided as at 27 April 2018 and all amounts are in Barbados Dollars.

## PROXIES

The enclosed Form of Proxy to appoint a person to represent a Shareholder at the Eighteenth Annual Meeting of the Shareholders may be completed by the Shareholder who is entitled to vote at the meeting but is unable to do so, personally. The persons named in the Form of Proxy will vote the shares in respect of which they are appointed, in accordance with the directions of the shareholders appointing them. If no direction is made in a Proxy with respect to any matter set out in the Proxy, the Proxy will be voted in favour of the matter.

A Shareholder is entitled to revoke a Proxy that he/she has given at any time prior to the use of that Proxy. A Proxy may be revoked by depositing an instrument in writing executed by him/her, or by his/her Attorney authorised in writing, at the registered office of the Company at Roebuck Street, St. Michael, Barbados at any time up to and including the first business day of the Meeting, or any adjournment thereof at which the Proxy is to be used; or with the Chairman of the Meeting on the day of the Meeting; or any adjournment thereof; or in any manner permitted by law, but prior to the exercise of such Proxy in respect of any particular matter.

## RECORD DATE, NOTICE OF MEETING AND VOTING SHARES

The Directors of the Company have fixed 8 May 2018 as the record date of the Company for the purpose of determining the Shareholders entitled to receive notice of the Meeting. Only the Shareholders of common shares of the Company of record at the close of business on 8 May 2018 will be entitled to receive notice of the Meeting.

Only the shareholders of common shares of the Company will be entitled to vote at the Meeting. Each shareholder is entitled to one vote for each share held.

As at the date hereof there are 39,346,682 common shares of the Company issued and outstanding.

## ELECTION OF DIRECTORS

Section 4.4 of By-Law No. 5 of the Company provides that one third of the Directors or the number nearest thereto, must retire by rotation annually. As at 27 April 2018 there are nine (9) Directors of the Company.

The three (3) individuals who represent one-third of the nine (9) Directors required to retire at the end of the Eighteenth Annual Meeting of Shareholders are Mr. Gordon Henderson, Mrs. Jennifer Hunte and Sir Trevor Carmichael Q.C. Sir Trevor has attained the age of seventy-two (72) years and will not seek re-election.

In light of the foregoing, the two (2) Directors who are eligible for re-election and consequently have so offered themselves are Mr. Gordon Henderson and Mrs. Jennifer Hunte. Accordingly, the Board of Directors has nominated the below named individuals for re-election to serve as Directors for a three-year term or until their successors are elected or appointed. They are: -

| Nominee for Re-election | Present Occupation | Date first became a Director |
|---|---|---|
| Mr. Gordon Henderson | Independent Consultant and Strategic Advisor | 12 June 2012 |
| Mrs. Jennifer Hunte | Deputy Director, NIS | 19 July 2001 to 17 October 2009 and 5 May 2010 to present |

### Nominee For Election

On 15 January 2018 Mr. Geoffrey Scott was appointed to the post of Chief Executive Officer of Insurance Corporation of Barbados Limited. The Board has nominated Mr. Scott to serve as Director of the Company for a three-year team or until his successor is elected or appointed.

Biographical notes on all of the nominees for election to the Board of Directors are set out in the Schedule annexed hereto.

It is intended that the shares represented by Proxies solicited by Management will be voted in favour of the election of the nominees proposed by the Directors.

Management does not contemplate that any of the persons named above will, for any reason, become unable or unwilling to serve as a Director. However, if such an event should occur prior to the election, it is intended that the discretionary authority shall be exercised to vote the Proxy hereby solicited (unless otherwise directed as aforesaid) for the election of any other person or persons as Directors.

## APPOINTMENT OF AUDITORS

Management proposes to nominate the accounting firm of PricewaterhouseCoopers SRL, the present auditors of the Company's consolidated accounts, as auditors of the Company to hold office until the next Annual Meeting of Shareholders.

The Shareholders will be asked to vote on a resolution to re-appoint PricewaterhouseCoopers SRL as the auditors of the Company to hold office until the next Annual Meeting of Shareholders.

It is intended that the shares represented by Proxies solicited by Management will be voted in favour of the re-appointment of PricewaterhouseCoopers SRL.

## OTHER MATTERS COMING BEFORE THE MEETING

It is not the intention of the Management of the Company to bring any matters before the meeting other than the matters referred to in the Notice of the Annual Meeting. However, if any other matters which are not known to Management should properly come before the Meeting or any adjournment thereof, the persons named in the accompanying Form of Proxy will vote on such matters in accordance with their best judgment. The same discretionary authority will apply to any amendments to the matters set out in the Notice of the Meeting.

## DISCLOSURES

No Director's statement is submitted pursuant to section 71 (2) of the Companies Act, Cap. 308 of the Laws of Barbados.
No Auditor's statement is submitted pursuant to section 163 (1) of the Companies Act, Cap. 308 of the Laws of Barbados.
No Shareholder's proposal or statement is submitted pursuant to sections 112(a) and 113(2) of the Companies Act, Cap. 308 of the Laws of Barbados.
No service contracts have been entered into between the Company and any Managers of the Company.

## RECOMMENDATIONS BY THE BOARD

The Board of Directors recommends that the shareholders vote in favour of the Ordinary Resolutions outlined in the Notice of the Meeting and this Management Proxy Circular.

## DIRECTORS' APPROVAL

The contents of this Management Proxy Circular and the sending thereof to the shareholders of the common shares of the Company have been approved by the Directors of the Company.

Dated the 27th day of April 2018.

Valentina Blackman

Valentina J.G.R. Blackman
Corporate Secretary

# SCHEDULE REFERRED TO IN THE MANAGEMENT PROXY CIRCULAR

## NOMINEES FOR RE-ELECTION TO THE BOARD OF DIRECTORS

**Mr. Gordon Henderson**
B.A. Econ (Summa Cum Laude), LL.B (Hons.)
Non-Executive and Independent Director

Mr. Henderson is an independent director and strategic advisor. From 1999-2012 he was a senior executive at BMO Bank of Montreal and President and CEO of BMO Life Insurance Company. He is currently a director of BF&M Limited and BF&M Life Insurance Company Limited.

He is well acquainted with the Barbados business community having been Deputy Chairman of Barbados-based BMO Reinsurance Limited for more than a decade. Before joining BMO, Mr. Henderson spent 17 years at Aetna Canada Holdings, the Canadian based subsidiary of Aetna Inc. of Hartford Connecticut. He held several senior executive positions with Aetna Canada including Senior Vice-President Individual Insurance Division; General Counsel; President & CEO, Aetna Casualty & Surety Company of Canada; and Chief Agent, Aetna Life Insurance Company.

He holds an Honours B.A. in Economics (Summa Cum Laude) from McMaster University, Hamilton, Ontario and an LL.B. from Osgoode Hall Law School, Toronto. In 1982, he was called to the Bar of the Province of Ontario and is a member of the Law Society of Upper Canada.

**Mrs. Jennifer Hunte**
BSc. FCPA, FCGA, FCIS, Acc. Dir.
Non-Executive and Independent Director

Mrs. Jennifer Hunte is the Deputy Director of the National Insurance Department. She began her career in the private sector in Banking and Audit. In 1992, she entered the Civil Service where she has held the posts of Co-operatives Officer - Co-operatives Department, Chief Accountant - Ministry of Finance, and Financial Controller - National Insurance Department. She has also acted as the Director of the National Insurance Department.

Mrs. Hunte is a member of the Company's Human Resources Committee and Chairperson of the Audit, Compliance and Corporate Risk Management Committee. She has served on the Boards of Public Companies in which the National Insurance Board has an investment interest.

Mrs. Hunte holds a BSc. Accounting from the University of the West Indies, Cave Hill, is a Fellow of the Institute of Chartered Secretaries and Administrators, Canada (FCIS) and a recipient of the Certified General Accountants Fellowship Award (FCPA, FCGA). She has completed the Directors' Education and Accreditation Program and has been awarded the designation Acc. Dir. Accredited Director. She is a member of the Institute of Chartered Accountants of Barbados, the Chartered Professional Accountants of British Columbia and the Chartered Professional Accountants Barbados Chapter.

**NOMINEE FOR ELECTION TO THE BOARD OF DIRECTORS**

**Mr. Geoffrey Scott**
B.Sc., M.B.A.

Mr. Geoffrey Scott has built his career in financial services by combining his knowledge of risk and return with a passion for finding creative solutions. Having started his career as a bank teller, Mr. Scott understands the needs of clients, employees and key stakeholders from the ground up. He is well regarded for creating an environment of teamwork and open communications – using strategies that have resulted in improved profits and strong employee engagement.

Mr. Scott joined ICBL as Chief Executive Officer on January 15, 2018. In this role, he leads Barbados' largest general insurance company, also a growing provider of health and life insurance. Under his leadership, ICBL is seeking opportunities to expand, to strengthen relationships with its clients, and to provide a challenging and rewarding environment for its employees.

Prior to joining ICBL, he spent over 25 years in the financial services industry, including leadership roles in the core areas of client relationship management and risk management. He assumed progressively senior positions as a corporate banker with leading Canadian banks, culminating in an executive posting as the head of a significant and profitable commercial banking team. He transitioned to Barbados in 2012 as the Chief Risk Officer at a leading Caribbean commercial bank, where he successfully led several change initiatives which strengthened the risk culture and alignment with business strategies.

Mr. Scott has a Bachelor of Commerce degree from the University of Toronto, and an M.B.A. from McGill University and Manchester Business School. He served as a Director on the board of the Royal Conservatory of Music in Toronto from 2007 to 2012, where he also served on the Finance and Governance Committees.

# STATEMENT OF CORPORATE GOVERNANCE PRACTICES

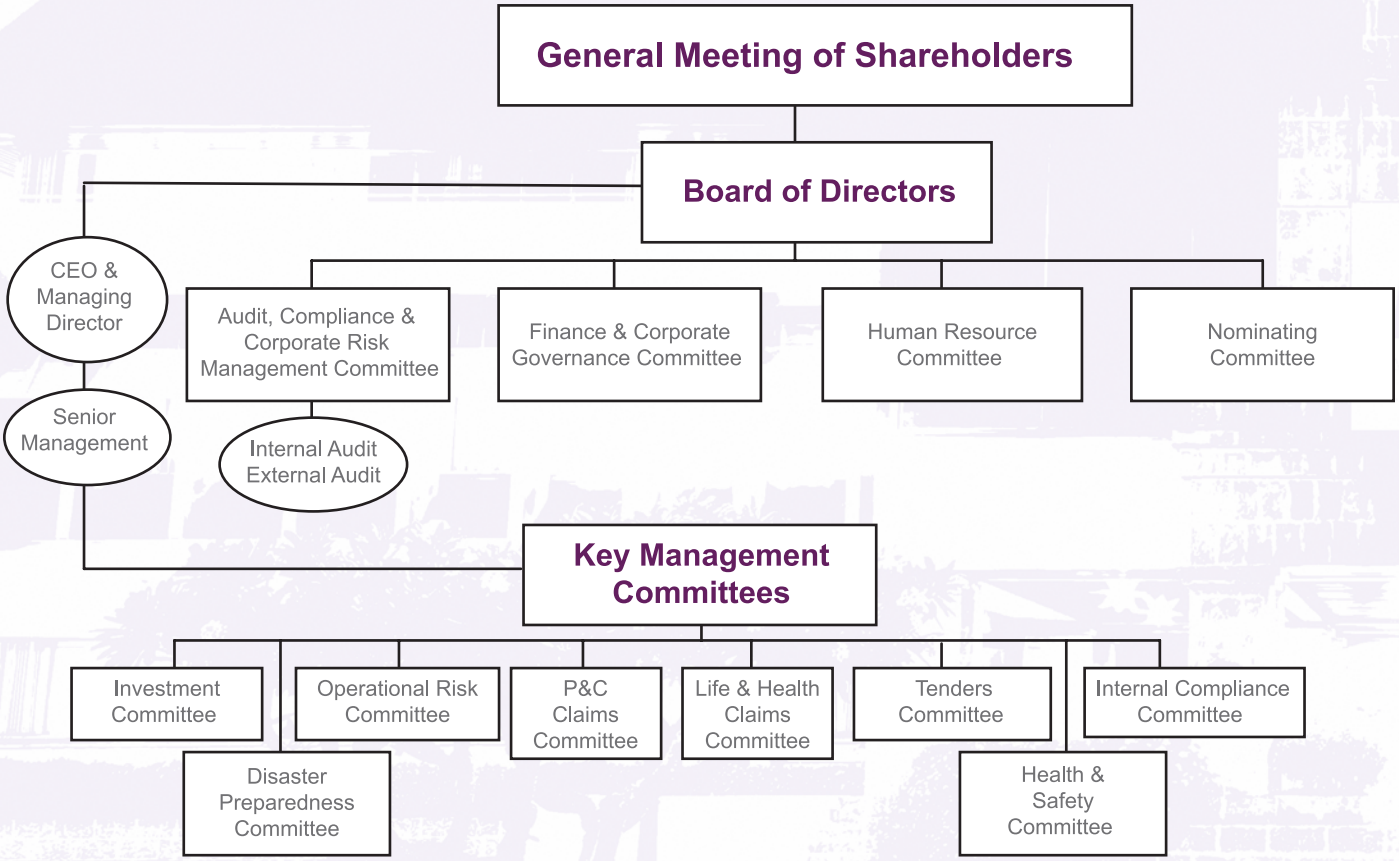
(Company No. 9228)

The Board of Directors of ICBL has the ultimate responsibility for the quality of corporate governance practised within ICBL. One of the stated goals of ICBL is "to become a leader in corporate governance".

This Statement of Corporate Governance Practices seeks to provide shareholders with an overview of the main Corporate Governance practices of ICBL.

ICBL's corporate governance practices conform to the Guideline on Corporate Governance issued by the Financial Services Commission (FSC), the Corporate Governance Recommendations issued by the Barbados Stock Exchange Inc. (BSE) as well as to international best practices.

## CORPORATE GOVERNANCE FRAMEWORK




The existing written guidelines, policies and procedures of ICBL as at 30 March 2018 are as follows: -

- By-Law No. 5 (available on website **(www.icbl.com)**
- Corporate Governance Guidelines (available on website **(www.icbl.com)**
- Position Description for the Chairman of the Board (available on website **(www.icbl.com)**
- Position Description for the CEO (available on website **(www.icbl.com)**

- Terms of References for Board Committees (available on website **www.icbl.com**)
  - Audit Compliance & Corporate Risk Management Committee
  - Finance & Corporate Governance Committee
  - Human Resource Committee
  - Nominating Committee

- Terms of References for Committee Chairs (available on website **www.icbl.com**)
  - Audit Compliance & Corporate Risk Management Committee
  - Finance & Corporate Governance Committee
  - Human Resource Committee
  - Nominating Committee

- Guidelines and Policies
  - Code of Ethics and Business Conduct (available on website **www.icbl.com**)
  - Investment Guidelines (see provisions of the Insurance Act)
  - Anti-Money Laundering Guidelines
  - Insider Trading Policy (available on website **www.icbl.com**)
  - Whistleblowing Policy (available on website **www.icbl.com**)
  - Anti-Fraud Policy
  - Related Parties Transaction Policy
  - Complaints Handling Charter (available on website **www.icbl.com**)

- Charters for Management Committees Internal
  - Audit Department Charter
  - Risk Charter
  - P&C Claims Committee Charter
  - Life & Health Committee Charter

Some of these documents have been posted on our website in the Corporate Governance and Investor Relations sections.

## ANNUAL MEETINGS OF SHAREHOLDERS

The annual meeting of shareholders will commence at the appointed time stated in the Notice of Annual Meetings, provided a quorum among shareholders has been attained. Hence attendance by at least two shareholders is required. The business to be conducted at the meeting is set out in the Notice and additional details pertaining to the meeting are set out in the Management Proxy Circular. Both documents may be found in the Annual Report and on ICBL's website. A shareholder who is unable to attend the meeting may complete and return the Form of Proxy contained in the Annual Report to the Corporate Secretary of ICBL prior to the date of the meeting.

The Chairman presides over the meeting and any declarations made by him at the meeting are final. Participation by shareholders is encouraged at annual meetings of shareholders and this usually takes the form of proposing or seconding a motion which is placed before the meeting by the Chairman. Once a proposer and a seconder have been identified, the Chairman then invites shareholders to speak on the particular motion. Shareholders should remain mindful that there are other shareholders who may be interested in expressing their views on a motion. At the appropriate time when the Chairman believes that discussion on the motion has been exhausted, the Chairman will invite shareholders to cast their votes for or against the motion. It is the Chairman who determines whether or not a motion has in fact been passed. The Chairman will formally declare that a motion has been passed and the process outlined above will be repeated until all of the business set down on the agenda for the Annual Meeting has been completed.

Shareholders are asked to note that under the agenda item entitled "Any Other Business", the Chairman normally gives shareholders another opportunity to ask any questions which may properly come before an Annual Meeting of Shareholders of ICBL.

## MANDATE OF BOARD OF DIRECTOR

The Mandate of ICBL's Board of Directors is set out in Section 3.1. of ICBL's Corporate Governance Guidelines. A copy of this document may be found on ICBL's website.

## MEETINGS OF THE SHAREHOLDERS, BOARD AND BOARD COMMITTEES AND DIRECTOR ATTENDANCE RECORD FOR 2017

The BSE requires listed companies to disclose the attendance record of Directors at Annual Meetings, Board and Committee meetings.
The below information is submitted in respect of the period 1 January to 31 December 2017.

| Name of Director | 17th Annual Meeting of Shareholders | Board of Directors | Audit Committee | Finance Committee | Human Resource Committee | Nominating Committee |
|---|---|---|---|---|---|---|
| Mr. R. John Wight | ✔ | 100% (7/7) | N/A | 100% (4/4) | N/A | 100% (2/2) |
| Mrs. Juanita Thorington-Powlett | ✔ | 100% (7/7) | N/A | 100% (4/4) | 100% (3/3) | 100% (2/2) |
| Mrs. Ingrid Innes (Ceased to be a Director w.e.f.14 Jan 2017) | | N/A | N/A | N/A | N/A | N/A |
| Mr. Goulbourne Alleyne | ✔ | 100% (7/7) | N/A | N/A | N/A | N/A |
| Sir Paul Altman | Excused | 71.4% (5/7) | N/A | 50% (2/4) | N/A | N/A |
| Sir Trevor Carmichael | ✔ | 100% (7/7) | 60% (3/5) | N/A | N/A | 50% (1/2) |
| Mr. Gordon Henderson | ✔ | 85.7% (6/7) | N/A | 100% (4/4) | N/A | N/A |
| Mrs. Jennifer Hunte | ✔ | 100% (7/7) | 100% (5//5) | N/A | 100% (4/4) | N/A |
| Ms. Toni Jones | ✔ | 100% (7/7) | 100% (5/5) | N/A | 100% (4/4) | N/A |
| Mr. Eric Smith (Ceased to be a Director w.e.f.1 June 2017) | Excused | 50% (1/2) | N/A | 100% (1/1) | 100% (1/1) | 50% (1/2) |
| Mr. Charles Watchorn | ✔ | 100% (7/7) | 100% (5/5) | N/A | N/A | N/A |
| **Group Average** | **90.7%** | **84.6%** | **82%** | **90%** | **100%** | **75%** |

## APPROACH TO BOARD EVALUATIONS, COMMITTEE EVALUATIONS AND EVALUATION OF INDIVIDUAL DIRECTORS

Pursuant to Section 4.5 of ICBL's Corporate Governance Guidelines, ICBL has embarked on evaluations of its Board, its Committees and its individual Directors. The purpose of the evaluation is to assess the performance of the Board and its Committees in order to ensure that they are carrying out their functions effectively and in accordance with their Mandates as well as to conform to international best practices. At ICBL, evaluations are carried out by an independent body. The independent body is given free access to each Director and the information collected during the evaluation process is compiled into a Report which is eventually laid before the Board of Directors.

The Terms of Reference of each Committee save and except the Human Resource Committee provide that annually the Committee should engage in an evaluation of its work. Also, each year Directors are required to complete a Director's Self-Assessment and Evaluation Questionnaire/Form. The completed document is returned to and reviewed by an independent body.

The Chairman meets with each Director on a one-on-one basis to review each Director's performance.

## ELECTION OF DIRECTORS

Election of Directors is done in accordance with the Companies Act, Cap. 308 of the Laws of Barbados as well as in accordance with ICBL's By-Laws.

**Pursuant to Section 72 (1) of the Companies Act -**

"...a quorum of directors of a company may fill a vacancy among the directors of the company, except a vacancy resulting from an increase in the number or minimum number of directors, or from a failure to elect the number or minimum of directors required by the articles of the company."
This is known as a "casual vacancy".

**Pursuant to Section 4.3.1 of ICBL's By-Laws -**

"Except otherwise provided by the articles or by-laws, no person shall be eligible for election as a director at any general meeting unless either:

(a) he is recommended by the board of directors, or

(b) not less than thirty (30) clear days before the date appointed for the annual general meeting, written notice, executed by not less than the number of persons holding at least two (2) per cent of the issued and outstanding shares in the class in the capital of the Company from whom the nomination is proposed, has been given to the Company of the intention to propose a person for election together with a copy of the individual's signed letter of consent confirming that person's willingness to be nominated and to serve as a director, if elected."

At the Eighteenth Annual Meeting of Shareholders, three (3) Directors are to be elected. Two (2) of the three (3) names proposed are Directors who are seeking re-election to the Board while one of the persons proposed is new. The names and a short biographical note on each nominee for re-election/election are set out in the Notice of the Eighteenth Annual Meeting and in the Management Proxy Circular which accompanies it.

## RATIONALE FOR THE NUMBER OF DIRECTORS AND ROTATION POLICY

On 21 March 2006 the shareholders voted in favour of a special resolution to increase the maximum number of Directors to fourteen (14). As a consequence thereof, the Articles of Incorporation of ICBL were revised to provide that there shall be a minimum of three (3) Directors and a maximum of fourteen (14) Directors. The minimum requirement of three (3) is based on the fact that ICBL is a public company. The increase in number of Directors to fourteen (14) was considered necessary to avail ICBL of additional Directors with the requisite experience and knowledge of anticipated new area of business.

By-Law No. 5 of ICBL provides for the rotation of directors and is in accordance with the stated recommendation of the BSE. Shareholders should note however, that at times it is necessary to propose the election of a Director for an initial term shorter than three (3) years in order to fit into the collective rotation schedule for all Directors of ICBL.

## QUALIFICATION OF DIRECTORS

ICBL's policy on Director Qualifications is set out in section 4.2 of its Corporate Governance Guidelines entitled "Composition - Qualities of a Director".

ICBL has now established a convention which requires a Director who attains the age of 72 years to retire from the Board. However, if a Director attains his 72nd year of age in the midst of his term of office then he is entitled to serve out his term.

## COMPANY'S POLICY ON POSITION DESCRIPTIONS

Position descriptions exist within ICBL's Corporate Governance Guidelines for the Chairman of the Board, the Managing Director & CEO. The Position Descriptions for the Chairman, CEO and the Chairs of each Committee of the Board are posted on our website.

## RIGHT OF DIRECTORS TO RECEIVE INFORMATION AND THE ROLE OF THE COMPANY SECRETARY VIS-À-VIS COMPLIANCE WITH SECTION 58 OF THE COMPANIES ACT

The Board of Directors as a rule has set one (1) week prior to the meeting date as the length of time it requires Management, through the Company Secretary, to provide all of the information necessary for its meetings and for meetings of its Committees.

The Board exercises its power to set policy but day-to-day management is delegated to the Managing Director & CEO who is assisted by Senior Managers, Operational Managers and Supervisors.

Pursuant to section 58 of the Companies Act, Cap 308 of the Laws of Barbados, the Company Secretary is a qualified Attorney-at-Law with 30 years call to the Bar of Barbados. The Company Secretary is a Fellow of the Institute of Chartered Secretaries and Administrators Canada. The Company Secretary is assisted in the discharge of her functions by four (4) Attorneys-at-Law. The Attorneys-at-Law may from time to time be assigned to serve as Committee Secretary to the Audit Compliance & Corporate Risk Management Committee.

## COMPANY'S POLICY ON CONTINUING EDUCATION AND ORIENTATION OF DIRECTORS

ICBL provides new Directors within seven (7) days of election/appointment with documents such as a copy of ICBL's Directors' Manual, a copy of ICBL's Code of Ethics and Business Conduct and a copy of ICBL's Corporate Governance Guidelines. The Directors' Manual provides information inter alia on the history of ICBL, organisation of the Company, its products and services, meeting procedures, etc. In addition, new Directors meet with some of the members of the Management Team in order to gain greater insight into the operations of the business and to have any queries answered.

ICBL facilitates ongoing training of its Directors. Directors have attended workshops or received training in such areas as Corporate Governance training, Anti-Money Laundering, Risk Management, reinsurance and pertinent changes in the International Financial Reporting Standards.

## DIRECTOR INDEPENDENCE AND REQUIREMENT TO PROVIDE EVIDENCE OF INDEPENDENCE

Section 4.3 of ICBL's Corporate Governance Guidelines states inter alia that the Board should include a balance of executive and non-executive Directors (including independent Directors) to ensure that neither Management nor any other individual or group of individuals dominate the Board's decision making. It also sets out considerations which determine the independence of a Director.

## INTERACTION BETWEEN COMMITTEES AND THE BOARD

At every meeting of the Board of Directors, the Chair of a Committee is required to present an oral report on the deliberations of that Committee at its most recent meeting. Also, the Minutes of all meetings of Board Committees are laid at the Board meeting which follows closest thereafter. This gives those Directors who do not sit on that particular Committee an opportunity to acquaint themselves with any issues being faced by that Committee.

## SELECTION OF COMMITTEE CHAIRS AND MEMBERS

Members of a Committee are chosen based on their expertise in relation to the mandate of the Committee. For example, persons who have accounting or actuarial professional qualifications or have worked in financial institutions such as banks are selected to sit on the Audit Compliance & Corporate Risk Management Committee.

The membership of the Committees as at 31 December 2017 is as follows -

| No. | Names | Finance & Corporate Governance Committee | Audit Compliance & Corporate Risk Management Committee | Human Resource Committee | Nominating Committee | *Management Committee of the ICBL/NIB Joint Venture |
|---|---|---|---|---|---|---|
| 1. | R. John Wight** (Non-Independent and Non-Executive) | C | - | - | C | - |
| 2. | Juanita Thorington- Powlett (Independent and Non-Executive) | M | - | C | M | - |
| 3. | Goulbourne Alleyne (Non-Independent and Executive) | - | - | - | - | M |
| 4. | Sir Paul Altman (Non-Independent and Non-Executive) | M | - | - | - | - |
| 5. | Sir Trevor Carmichael (Non-Independent and Non-Executive) | - | M | - | M | - |

| No. | Names | Finance & Corporate Governance Committee | Audit Compliance & Corporate Risk Management Committee | Human Resource Committee | Nominating Committee | *Management Committee of the ICBL/NIB Joint Venture |
|---|---|---|---|---|---|---|
| 6. | Gordon Henderson (Independent and Non-Executive) | M | - | - | - | - |
| 7. | Jennifer Hunte (Independent and Non-Executive) | - | C | M | - | - |
| 8. | Toni Jones (Independent and Non-Executive) | - | M | M | - | M |
| 9. | Charles Watchorn** (Independent and Non-Executive) | - | M | - | - | - |

C = Committee chair
M = Committee member
* Management Committee of the ICBL/NIB Joint Venture is also comprised of two members selected by the National Insurance Board
** Interlocking Directorship [Directors of BF&M Limited]

## OVERVIEW OF THE MANDATES OF EACH COMMITTEE

**The Finance & Corporate Governance Committee reports to the Board, inter alia, on –**

(1) the actual financial performance compared to the Budget;
(2) the alignment of strategic planning and objectives of ICBL;
(3) corporate governance matters;
(4) monitoring and reporting on ICBL's compliance with related Laws and the guidelines/recommendations issued by the regulatory bodies; and
(5) additional responsibilities are assumed following identified best practices in Corporate Governance as practised in Barbados and other major business jurisdictions.

In 2017, this Committee met four (4) times.

**The Audit Compliance & Corporate Risk Management Committee reports to the Board, inter alia, on –**

(1) the adequacy and accuracy of the financial reporting process;
(2) the effectiveness of the internal control structure;
(3) management of financial risks and operational risks; and
(4) the selection, oversight and remuneration of internal auditors, external auditors and actuaries.

In 2017, this Committee met five (5) times.

**The Human Resource Committee reports to and advises the Board on –**

(1) the development of ICBL's human resource functions (recruitment and selection, deployment, staff training and development, industrial relations, pensions etc.);
(2) the effectiveness of Human Resource policies and procedures;
(3) the adequacy of resources and capabilities to meet the changing managerial, operational and technical needs/expertise required in ICBL; and
(4) the suitability of the physical conditions of the work place.

In 2017, this Committee met three (3) times.

**The Nominating Committee assists the Board of Directors in -**

(1) fulfilling its responsibility to the shareholders, potential shareholders and investment community by identifying individuals qualified to serve as directors; and
(2) selecting or recommending that the Board selects the nominees for all directorships, whether such directorships are filled by the Board of Directors or the shareholders.

In 2017, this Committee met two (2) times.

The Mandates/Terms of Reference of each Committee are reviewed on an annual basis. Changes were proposed to the Mandates/Terms of Reference of the Audit Compliance & Corporate Risk Management Committee and to the Finance & Corporate Governance Committee.

## FINANCIAL LITERACY OF THE MEMBERS OF THE AUDIT COMPLIANCE & CORPORATE RISK MANAGEMENT COMMITTEE

| | |
|---|---|
| **1. Mrs. Jennifer Hunte – Chairperson**<br>(Non-Executive and independent Director) | Mrs. Jennifer Hunte holds a BSc. Accounting from the University of the West Indies, Cave Hill Campus, is a Fellow of the Institute of Chartered Secretaries and Administrators, Canada (FCIS) and a recipient of the Certified General Accountants Fellowship Award (FCPA, FCGA). She has completed the Directors' Education and Accreditation Program and has been awarded the designation Acc. Dir., Accredited Director. She is a member of the Institute of Chartered Accountants of Barbados, the Chartered Professional Accountants of British Columbia and the Chartered Professional Accountants Barbados Chapter.<br><br>Mrs. Hunte has over thirteen years experience as Financial Controller. Prior to becoming Financial Controller, she has held various posts with responsibilities which included analysis of financial statements, provision of management and financial accounting advice, audit of small and medium-sized entities and analysis of information required for planning, expenditure control and forecasting activities. |
| **2. Sir Trevor Carmichael,** Q.C.<br>(Non-Executive and independent Director) | Sir Trevor Carmichael Q.C. has been engaged in the practice of law in excess of thirty (30) years specialising in corporate, commercial and international tax aspects of the discipline. For over twenty (20) years he has been a member of the Audit Committee of two international banks based in Barbados.<br><br>He has authored over one hundred (100) articles and monographs in the areas of Law, Economics and Public Policy and he serves as a Panel Member of the International Centre for Settlement of Investment Disputes of the World Bank in Washington. He is the co-author of Commonwealth Caribbean Trusts Law.<br><br>He has been the visiting Professor of Caribbean Foreign Investment Law to the Florida State University Summer Programme at the U.W.I. and has served continuously as an External Examiner in one of the Law Faculty's core courses.<br><br>Sir Trevor was appointed twenty (20) years ago as one of eight Organisation of American States experts responsible for drafting a new OAS Convention on International Contracts. |

| | |
|---|---|
| **3. Ms. Toni Jones**<br>(Non-Executive and independent Director) | Ms. Jones is an Attorney-at-Law who has specialized in Company and Real Property Law during her twenty-five (25) years plus career. She is the Principal Legal Officer at one of the largest statutory corporations in the island. She provides a civil practice inclusive of litigation. Additionally she has headed up the Corporate Secretarial practice of one of the major public accounting firms and for Chase Manhattan Bank. Her responsibilities in this area included inter alia providing legal, corporate secretarial and administrative services to her clients and prepared prospectuses for the public offering of securities.<br><br>Ms. Jones served as General Manager for a number of international business companies. She headed up the legal marketing and distributor division of a local company as well as serving as a director and corporate secretary. She also served on the Barbados Board of Tourism as it was transitioned to the Barbados Tourism Authority.<br><br>In each role she has significant insight in understanding the financial statements of those business units as well as those of her clients. She draws on her corporate law and administration background to ensure proper compliance with law and reporting practice. |
| **4. Mr. C.L.F. "Lee" Watchorn**<br>(Non-Executive and independent Director) | Mr. Watchorn is an actuary by profession and a Fellow of the Canadian Institute of Actuaries and the Society of Actuaries. As part of this training he completed a course in insurance accounting. He was in charge of all of Sun Life's business in Canada for 8 years and during this time one of his direct reports was the CFO for Canada. Since leaving Sun Life, Mr. Watchorn has joined a number of corporate Boards and he has chaired or currently chairs the Audit Committees of Equitable Life of Canada, BF&M Limited and Island Heritage Insurance Company Ltd. Mr. Watchorn has also served on or chaired the Audit and Finance Committees of a number of not-for-profit organizations. He currently teaches an insurance course in the MBA programme at York University. One of his lectures focuses on insurance company accounting. |

## CODE OF BUSINESS CONDUCT AND ETHICS AND DISCLOSURE

ICBL has adopted a written Code of Business Conduct and Ethics which applies to Directors, Management and Staff of the Company. The Code establishes minimum standards designed to promote ethical behaviour and integrity in business dealings. Each year, Directors, Management and Staff are required to sign a form indicating that they have read and complied with the Code.

## BOARD COMPENSATION

By-Law No. 5 provides for the compensation of Directors. Directors who are also executives of ICBL do not receive Directors' fees. For the year ended 31 December 2017, Directors' compensation amounted to $383,325.

## EXECUTIVE COMPENSATION

The CEO's compensation is established and determined by the Board of Directors. Compensation of Senior Executives is determined by the CEO. The Human Resource Committee serves as the Compensation Committee of the Board of Directors on matters relating to the compensation of staff at the level of Operational Managers and below. Compensation of Operational Managers is subject to collective bargaining negotiations with the represented union.

The objective of ICBL's compensation system is to support the Company's long-term sustainable growth for the benefit of the shareholders. This is achieved by a compensation system designed to attract and retain talented staff and reward excellent performance in achieving the Company's strategic goals.

The guiding principle of ICBL's compensation system is to align pay with performance. Compensation is based on achievement of the Company's strategic goals, key metrics and objectives. Using the annual employee appraisal system, a balanced weighting is placed on financial goals and operating targets and rewards are assessed on a combination of Company, division and individual performance objectives. The compensation system has been designed to offer incentives to executives, to create a focus on increasing shareholder value in the long-term.

ICBL's compensation system has three key components as outlined below:

1. **Base Salary**
   The Base salary provides stable compensation for an executive's capability in performing job responsibilities and can increase based on promotions and career progression.

2. **Short-Term Incentive (Bonus Scheme)**
   The bonus scheme is intended to reward executives for the Company's achievement of its key metrics and objectives as well as individual performance over a calendar year.

3. **Pension and Benefits**
   These benefits assist employees in providing for their health and retirement planning. Benefit plans include group life and health insurance.

## DISCLOSURE OF DOLLAR VALUE(S) OF SHARES AND SHARE-RELATED RIGHTS GRANTED TO DIRECTORS

No share-related rights have been granted to Directors but Executive Directors are eligible to participate in the Employee Share Purchase Plan and the Long Term Incentive Plan.

## APPOINTMENT OF MANAGING DIRECTOR & CEO

The Board of Directors appoints the Managing Director & CEO of ICBL.

## ORGANISATION OF MANAGEMENT AND DISCLOSURE OF INFORMATION ON THE MANAGEMENT TEAM

Information on the Management Team is available on ICBL's website. As at 30 March 2017, the aggregate shareholding of ICBL's senior executives was 101,461 shares.

## INTERNAL CONTROLS, RISK MANAGEMENT AND INTERNAL AUDIT

ICBL's Corporate Governance Guidelines state that the Board of Directors is responsible for overseeing the establishment of internal controls, risk management and audit. The Audit Compliance & Corporate Risk Management Committee of the Board is charged with direct oversight of these activities within ICBL.

ICBL's well-established internal controls are reviewed each year by the Board and its Audit Compliance & Corporate Risk Management Committee. The internal controls are tested each year during the interim and annual audit. ICBL has embarked on a formal enterprise risk management programme and has identified and classified the risks which face ICBL.

The Internal Auditor reports functionally to the Audit Compliance & Corporate Risk Management Committee. This Committee approves the internal audit plan on an annual basis and receives reports on a regular basis from the Internal Auditor. The Committee also receives reports on a regular basis from the Chief Financial Officer and the Vice President of Claims and Enterprise Risk Management. The Committee meets with the Managing Director/ CEO.

## EXTERNAL AUDIT AND EXTERNAL AUDIT FEES

Each year the shareholders, acting on the recommendation of the Board of Directors, appoint the external auditors of the Company but delegate the power to fix their remuneration to the Board of Directors.
Auditor's fee relating to the year ended 31 December 2017 was $429,798.

## ADDITIONAL GOVERNANCE DISCLOSURE

ICBL's website will be utilised to make any additional disclosures of its governance practices which may become necessary, in order to comply with the Guidelines issued by the FSC and the Corporate Governance Recommendations issued by the BSE.

# AUDIT, COMPLIANCE & CORPORATE RISK MANAGEMENT COMMITTEE

**Terms of Reference**
Adopted by the Board of Directors on 10 May 2007
(Last revised 22 November 2017)

## OBJECTIVE:

- To report to the Board on the adequacy and accuracy of the financial reporting process, the effectiveness of the internal control structure and Management of financial and operational risks, as well as to oversee and approve the selection, oversight and remuneration of internal and external auditors (and appointed actuaries) and adherence by the Company to related Acts, Laws and to the Barbados Stock Exchange Listing Regulations.
- The function of the Committee is oversight. The Management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements. Management is responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations.

## AUTHORITY AND RESOURCES:

- The Board authorizes the Committee, within the scope of its responsibilities, to request the attendance of external auditors, internal auditors, appointed actuaries, Management or staff at meetings and obtain outside legal or other professional advice where appropriate.

## COMPOSITION AND ORGANISATION:

- The Committee will consist of a minimum of four external independent Directors.
- All members of the Committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
- Members will be appointed for a three-year term of office, which will coincide with the directorship of the Board and the Board will nominate the chair of the Committee. The Chairman of the Committee shall be an independent Director.
- A quorum consists of three members.
- The Secretary of the Committee will be the Company Secretary or her nominee.
- Meetings shall be held not less than four times a year with special meetings convened as required by the Committee members or Management.
- The Committee may meet separately in in-camera/executive sessions with the External Auditors, the Internal Auditor, the appointed actuaries or any other person it may require and during these sessions may discuss any restrictions on the scope of their activities or access to required information and any serious disputes with Management.
- The in-camera/executive sessions should not usurp functions that are properly the province of the full Committee, and may occur during regularly Scheduled Committee Meetings.

## ROLES AND RESPONSIBILITIES:

### Internal Control

- Review and assess the effectiveness of the internal controls of the Company.
- Evaluate the manner in which Management ensures and monitors the adequacy of accounting and internal systems, paying particular attention to computer controls and security.
- Assess Management's response to and implementation of internal control recommendations made by the Company's external and internal auditors.

**Corporate Risk Management**

- Gain an understanding of the current areas of greatest risk and how Management is managing these risks.
- To review and recommend to the Board for approval the Company's overall firm-wide risk appetite statement and oversee management compliance therewith.
- Review and assess the Company's enterprise risk management process.
- Review with Management the external and internal auditors and the appointed actuaries, as appropriate, the Company's significant risks and exposures, including the most likely sources of material future risks and exposures.
- Assess the adequacy of management's risk assessments, controls and strategies.
- Ensure Management understands significant risks and exposures and assesses the effectiveness of their approach to mitigate these risks.
- Ensure that the Board receives reports at least annually, on the significant risks facing the Company and how these risks are being managed.
- Receive periodic reports from the Senior Management on the Company's compliance with its guidelines and policies relating to risk assessment and risk Management.
- Receive periodic reports from the Company's legal counsel on legal matters which could significantly impact the financial statements.

**Appointed Actuaries**

- Recommend to the Board the appointment of the actuaries.
- Review the fee and role of the appointed actuaries and review the findings in their annual report and DCAT and peer review if applicable.

**Financial Reporting**

- To advise Management, the internal auditors and the independent auditors that they are expected to provide to the Committee a timely analysis of significant issues and practices relating to accounting principles and policies, financial reporting and internal control over financial reporting.
- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review the quarterly and annual financial statements for accuracy and determine whether they are complete and consistent with appropriate accounting principles, paying particular attention to unusual and complex transactions.
- To approve the quarterly and annual financial statements and to recommend them for presentation to the ICBL Board of Directors.
- To review and approve the Management Discussion and Analysis (or its equivalent) of the Company's financial statements and annual and interim press releases before the company publicly discloses this information.

**External Audit**

- Recommend to the Board the appointment of the External Auditor.
- Review the role of the external auditors including approval of their proposed audit scope, timing and approach, performance, audit findings and fees.
- Assess the performance of the external auditors.
- Consider the independence of the external auditor including reviewing the range of services provided in the context of all consulting services bought by the Company.
- As appropriate, meet separately with the external auditors to discuss matters that the Committee or external auditors believe should be discussed in the absence of Management.
- Assess with the Company's external auditors, the existence of fraud, illegal acts or deficiencies in internal control.
- Review the results of the annual audit and both the auditors' interim and final reports to Management.
- Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis.
- Ensure that Management responds appropriately to recommendations by the external auditors.

**Internal Audit**

- Review and approve the Charter of the internal audit function.
- Ensure that internal audit reports directly to the Chairman of the Audit Committee and administratively to the Chief Executive Officer.
- Review the qualifications, organizational structure and budget of the internal audit function.
- Discuss with Management the internal audit function responsibilities, activities, effectiveness and staffing and any recommended changes in the planned scope of the internal audit function.
- Review the activities of the Company's internal audit function, including the proposed annual audit plan, periodic progress reports on the status of the plan, and summaries of any significant issues raised during the performance of internal audits, including the resolution of recommendations made concerning the Company's system of internal controls.
- Receive summaries of, and, as appropriate, the significant reports to Management prepared by the internal audit function and Management's responses thereto.

**Fraud**

- Review the results of Management's investigation and follow-up of any fraudulent acts.

**Annual Performance Evaluation**

- The Committee shall prepare and review with the Board an annual performance evaluation of the Committee, this evaluation must compare the performance of the Committee with the requirements of these Terms of Reference.
- In addition, the Committee shall review and reassess, at least annually, the adequacy of the Terms of Reference and recommend to the Board of Directors any improvements that the Committee considers necessary or valuable.
- The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board may take the form of an oral report by the Chairman of the Committee or any other member of the Committee designated by the Committee to make this report.

**General**

- Review and recommend to the Board for approval any policies that the Board delegates to the Committee.

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# FORM OF PROXY

(Company No. 9228)

The undersigned shareholder of **INSURANCE CORPORATION OF BARBADOS LIMITED** hereby appoints: **Mr. R. John Wight, Chairman of ICBL** or failing him, the Chairman of the Meeting or instead of all of the foregoing,.....of.....
.....
as nominee of the undersigned to attend and act for the undersigned and on behalf of the undersigned at the **ANNUAL MEETING** of the Shareholders of the said Company to be held on Friday 1 June 2018 and at any adjournment or adjournments thereof in the same manner, to the same extent and with the same powers as if the undersigned were present at the said meetings or such adjournment or adjournments thereof.

**PLEASE INDICATE WITH AN "X" IN THE SPACES BELOW HOW YOU WISH YOUR VOTES TO BE CAST.**

| RESOLUTIONS | FOR | WITHHOLD |
|---|---|---|
| ***Ordinary Business*** | | |
| 1. Be it resolved that the audited Consolidated Financial Statements for the year ended 31 December 2017 and the Reports of Management, Directors and Auditors thereon be adopted. | ☐ | ☐ |
| 2. (i) Be it resolved that **Mr. Gordon Henderson**, be re-elected a Director of the Company in accordance with section 4.4 of By-Law No. 5 until the conclusion of the third annual general meeting following his election. | ☐ | ☐ |
| (ii) Be it resolved that **Mrs. Jennifer Hunte** be re-elected a Director of the Company in accordance with section 4.4 of By-Law No. 5 until the conclusion of the third annual general meeting following her election. | ☐ | ☐ |
| (iii) Be it resolved that **Mr. Geoffrey Scott**, be elected a Director of the Company in accordance with section 4.3.1 of By-Law No. 5 until the conclusion of the third annual general meeting following his election. | ☐ | ☐ |
| 3. Be it resolved that PricewaterhouseCoopers SRL be re-appointed as the Auditors of the Company for the year 2018 and that the Board be authorised to fix their remuneration. | ☐ | ☐ |

Dated this ..... day of..... 2018.
(Please insert date)

Signature of Shareholder .....

Name of Shareholder .....
(PRINT NAME IN CAPITAL LETTERS)

**NOTES:**

1. A shareholder who is entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxy holder to attend and act at the meeting in the manner and to the extent authorised by the Form of Proxy. A proxy holder need not be a shareholder.

2. In the case of a shareholder who is a body corporate, votes at meetings of shareholders may be given by an individual authorised, by resolution of the directors or governing body of that body corporate to represent it at meetings of shareholders of the Company.

3. A Proxy must be executed in writing by the shareholder or his attorney so authorised in writing.

4. Forms of Proxy are required to be deposited at the office of the Company no later than 12 noon on 31 May 2018 or if the meeting is adjourned, by no later than 12 noon one business day before the date of the adjourned meeting.

5. Envelopes containing the Form of Proxy must be addressed to The Corporate Secretary, Insurance Corporation of Barbados Limited, Roebuck Street, Bridgetown, Barbados and must be received at the office of the Company no later than the time specified in 4, above.

***If used, please remember to date and sign this form.***

FOLD HERE

**Return to:**

Corporate Secretary,
Insurance Corporation of Barbados Limited,
Roebuck Street,
Bridgetown,
Barbados

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# "ONE TEAM"

C. Alleyne, G. Alleyne, K. Alleyne, Y. Arrindell, C. Barnett, A. Beckles, A. Belgrave, M. Belgrave, N. Belgrave, K. Benskin, K. Benskin, K. Bentham, B. Best, K. Best, L. Best, S. Best, G. Best-Tasker, J. Blackman, M. Blackman, V. Blackman, A. Blackman-Burrowes, S. Bourne, S. Bovell, F. Bowen, A. Boyce, R. Boyce, A. Bradshaw, B. Bradshaw, D. Bradshaw, D. Bradshaw-Bromes, Y. Branch, D. Branker, A. Brathwaite, C. Brathwaite, N. Brathwaite, L. Brathwaite-Graham, K. Brewster, S. Bridgeman, S. Browne, Jo-A. Bryan, A. Bullen Hoyte, K. Bynoe, A. Cheltenham, D. Clarke, E. Clarke, I-Z. Clarke, N. Clarke, R. Clements, R. Connolly, J. Coppin, L. Coppin, C. Cox, D. Craigg, N. Cummins, S. Cummins, J. Daniel, G. Davis, L. Denny, D. Dowrich, R. Eastmond, D. Edghill, M. Farley, A. Farrell, A. Francis, J. Gibbons, R. Gibbs, D. Gilkes, G. Gilkes, J. Gilkes, K. Gill, S. Gollop, S. Gooding, P. Goodridge, S. Grannum, T. Grazette, T. Greaves, C. Greene, E. Greenidge, C. Griffith, M. Griffith, S. Hall, N. Harewood, V. Harris, T. Haynes, S. Headley, S. Headley, K. Herbert, P. Hinds, E. Hinkson, G. Hinkson, A. Holder, F. Holligan, D. Howard, K. Hunte, K. Ince, H. Inniss, K. Jeffers, L. Jemmott, N. JnCharles, G. Jordan, J. Jordan, K. Jordan, J. Joseph, J. Kellman, R. Kellman, S. Kellman, D. King, R. King, C. Kirton, N. Kirton, S. Kissoondath, R. Knight, D. Lambert, A. Layne, N. Licorish, B. Lloyd, P. Lowe, N. Lunn, C. Mapp, A. Marshall, L. Marshall, J. Mayers, D. Medford, C. Millar, P. Moore, M. Morgan, S. Morris, T. Newton, J. Nicholls, J. Nowell, E. Nurse, M. O'Dell, T. Odle, M. O'Neale, C. Phillips, S. Phillips, M. Pierre, S. Pinder, C. Pollard, B. Porte, J. Prescod, R. Prescod, J. Quintyne, N. Raja, N. Reid, B. Rivera, C. Riviere, M. Roach, M. Ross, A. Ryan, R. Ryan, A. Sandiford, G. Sargeant, G. Scott, A. Seales, J. Sealy, D. Skeene, A. Small, B. Small, R. Small, R. Smith, C. Sobers, H. Sobers, R. Spooner, A. Stanford, J. Stuart, S. Sue, S. Suttle, J. Taylor, T. Taylor, T. Thompson, K. Thompson-Straker, R. Thornhill, D. Trotman Sargeant, A. Trotman, N. Walker, R. Walker, H. Walton, G. Weekes, B. Welch, S. White, T. White, T. Wilkinson, L. Williams-Marcus, C. Wilson, S. Yearwood

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