

AUDITED FINANCIAL STATEMENTS

Colonial Medical Insurance Company Limited
Year Ended December 31, 2018
With Independent Auditors' Report

Ernst & Young Ltd.



Colonial Medical Insurance Company Limited

Audited Financial Statements

Year Ended December 31, 2018

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Independent Auditors' Report

The Shareholder
Colonial Medical Insurance Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Colonial Medical Insurance Company Limited (the Company) which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors 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.

Ernst + Young Ltd.

Hamilton, Bermuda
April 24, 2019

Colonial Medical Insurance Company Limited

Statement of Financial Position (Expressed in Bermuda Dollars)

	December 31	
	2018	2017
Assets		
Cash and cash equivalents (Notes 3 and 10)	\$ 25,862,952	\$ 22,564,773
Financial assets (Notes 4, 9 and 11)	86,405,635	72,087,554
Accounts receivable and accrued interest	655,825	373,496
Amounts due from related companies (Note 11)	12,925,065	18,743,598
Insurance balances receivable (Note 5)	6,029,439	5,532,356
Reinsurance balances receivable	998,846	2,114,166
Losses recoverable from reinsurers (Note 6)	4,033,824	3,197,895
Prepays and other assets	749,803	501,265
Funds withheld (Note 10)	2,500	2,500
Deferred acquisition costs (Note 6)	15,194	14,604
Property, plant and equipment (Note 7)	783,894	1,102,426
Intangible assets (Note 8)	726,784	768,278
Total assets	\$ 139,189,761	\$ 127,002,911
Liabilities		
Bank overdraft (Note 3)	\$ 1,135,486	\$ 769,434
Amounts due to related companies (Note 11)	13,567,895	647,317
Reinsurance balances payable	1,938,671	1,880,377
Outstanding losses and loss expenses (Notes 6, 10 and 11)	17,192,847	16,478,147
Accounts payable and other liabilities	5,679,079	6,999,295
Unearned premiums	267,120	253,479
Total liabilities	39,781,098	27,028,049
Shareholder's equity		
Share capital (Note 10)	2,000,000	2,000,000
Contributed surplus (Note 10)	1,500,000	1,500,000
Retained earnings	95,908,663	96,474,862
Total equity attributable to the equity holder of the Company	99,408,663	99,974,862
Total liabilities and shareholder's equity	\$ 139,189,761	\$ 127,002,911

See accompanying notes.

On behalf of the Board:

Director

Director

Colonial Medical Insurance Company Limited

Statement of Comprehensive Income

(Expressed in Bermuda Dollars)

	Year Ended December 31	
	2018	2017
Premiums written (<i>Notes 10 and 11</i>)	\$ 188,065,832	\$ 179,492,116
Reinsurance premiums assumed (<i>Note 11</i>)	4,326,405	5,128,664
Total premiums written	192,392,237	184,620,780
Change in unearned premiums written	(13,641)	23,114
Total premiums earned	192,378,596	184,643,894
Reinsurance premiums ceded (<i>Notes 10 and 11</i>)	(8,860,115)	(8,567,006)
Net premiums earned	183,518,481	176,076,888
Claims paid (<i>Note 6</i>)	141,288,532	130,115,632
Change in outstanding loss provisions (<i>Note 6</i>)	714,700	(1,259,637)
Claims recovered and recoverable from reinsurers (<i>Note 6</i>)	(5,626,626)	(3,391,491)
Net claims incurred	136,376,606	125,464,504
Commission incurred on reinsurance	354,490	(120,331)
Commission expense (<i>Note 11</i>)	(14,096,959)	(13,839,912)
Other underwriting expenses	(10,722,667)	(9,605,636)
Net underwriting income	22,676,739	27,046,505
Net investment income (loss) (<i>Note 4</i>)	(1,237,927)	3,824,106
Administration fee income (<i>Note 14</i>)	1,045,727	730,405
General and administrative expenses (<i>Notes 11 and 13</i>)	(15,050,738)	(15,074,314)
Net income and comprehensive income for the year	\$ 7,433,801	\$ 16,526,702

See accompanying notes.

Colonial Medical Insurance Company Limited

Statement of Changes in Shareholder's Equity

(Expressed in Bermuda Dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total Equity Attributable to the Equity Holder of the Company
Balance at December 31, 2016	\$ 2,000,000	\$ 1,500,000	\$ 85,448,160	\$ 88,948,160
Net income for the year	–	–	16,526,702	16,526,702
Dividends (Note 16)	–	–	(5,500,000)	(5,500,000)
Balance at December 31, 2017	\$ 2,000,000	\$ 1,500,000	\$ 96,474,862	\$ 99,974,862
Net income for the year	–	–	7,433,801	7,433,801
Dividends (Note 16)	–	–	(8,000,000)	(8,000,000)
Balance at December 31, 2018	\$ 2,000,000	\$ 1,500,000	\$ 95,908,663	\$ 99,408,663

See accompanying notes.

Colonial Medical Insurance Company Limited

Statement of Cash Flows (Expressed in Bermuda Dollars)

	Year Ended December 31	
	2018	2017
Operating activities		
Net income	\$ 7,433,801	\$ 16,526,702
Adjustments for:		
Depreciation and amortization (Notes 7 and 8)	764,797	704,765
Dividend and interest income	(1,345,832)	(1,019,228)
Net unrealized gains on investments	2,683,136	(2,926,448)
Realized losses (gains) on sale of investments	(388,794)	(247,435)
Amortization on investments	(128,659)	(3,675)
Operating cash flow before changes in non-cash operating working capital	9,018,449	13,034,681
Change in non-cash operating working capital (Note 15)	13,203,851	(2,248,305)
Cash flows provided by operating activities	22,222,300	10,786,376
Investing activities		
Proceeds from sale of investments	72,333,888	12,395,563
Purchase of investments	(88,817,652)	(20,118,690)
Dividend and interest income received	1,345,832	1,019,228
Amounts due from related company	4,252,530	(2,582,304)
Purchase of plant, property and equipment (Note 7)	(181,224)	(360,597)
Purchase of intangible assets (Note 8)	(223,547)	(399,008)
Cash flows used in investing activities	(11,290,173)	(10,045,808)
Financing activities		
Dividends paid (Note 16)	(8,000,000)	(5,500,000)
Cash flows used in financing activities	(8,000,000)	(5,500,000)
Decrease in cash and cash equivalents	2,932,127	(4,759,432)
Cash and cash equivalents at beginning of year	21,795,339	26,554,771
Cash and cash equivalents at end of year	\$ 24,727,466	\$ 21,795,339
Cash balances comprise		
Cash and cash equivalents	\$ 25,862,952	\$ 22,564,773
Bank overdraft	(1,135,486)	(769,434)
	\$ 24,727,466	\$ 21,795,339

See accompanying notes.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (Expressed in Bermuda Dollars)

December 31, 2018

1. General

Colonial Medical Insurance Company Limited (the Company) was incorporated in the Islands of Bermuda on August 9, 1990, and carries on business as an insurance company and holds a Class 3B license under the Insurance Act, 1978 of Bermuda and related regulations (the Insurance Act). The Company commenced writing business on January 1, 1991.

The Company is a wholly owned subsidiary of Colonial Group International Ltd. (CGI). CGI is fully owned by Edmund Gibbons Limited, an entity domiciled in Bermuda. The registered office and principal place of business of the Company is Jardine House, 33-35 Reid Street, Hamilton, Bermuda.

The Company provides health insurance coverage in Bermuda, Cayman, the British Virgin Islands, the Turks & Caicos Islands and Barbados for medical, dental, vision, long term disability, short term disability, group life and accidental death and dismemberment risks. The Company also offers international health insurance coverage for medical, dental, life, long term disability and accidental death and dismemberment risks for individuals and groups working outside their home country.

The Company assumed and administered all of the group medical, dental, group life and accidental death and dismemberment business written by British Caymanian Insurance Company Limited, a company incorporated in the Cayman Islands and related through a common shareholder, up to August 31, 2007. As of September 1, 2007, the Company started writing business directly in Cayman. The coverage provided and reinsurance purchased since that date is substantially the same as the other business written by the Company.

Effective February 1, 2007, the Company assumed and administered all of the group medical, dental, group life and accidental death and dismemberment business written by Colonial Insurance (BVI) Limited, a company incorporated in the British Virgin Islands and related through a common shareholder. The coverage provided and reinsurance purchased is substantially the same as the other business written by the Company.

The Company was registered as an insurer in Barbados on February 9, 2016, and commenced writing business in that jurisdiction September 1, 2017.

The Company also provides administrative services to a number of self-insured programs, under which it assumes no net underwriting risk but receives an administration fee (Note 14).

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements, including all notes, were authorized for issue by the Board of Directors on April 24, 2019.

Basis of Measurement

The financial statements have been compiled on the going concern basis and prepared on the historical cost basis, except for the financial assets at fair value through profit or loss, which are stated at fair value, and financial assets held-to-maturity, which are carried at amortized cost. The statement of financial position is presented in order of liquidity.

Functional and Presentation Currency

The financial statements are presented in Bermuda dollars, the Company's functional currency.

Foreign Currency Translation

Transactions involving currencies other than the Bermuda dollar are translated at exchange rates ruling at the time of those transactions. All monetary assets and liabilities originating in such currencies are translated at the rates ruling at the statement of financial position date. Any profits or losses on exchange are included in the statement of comprehensive income.

Use of Estimates and Judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the Notes 4, 6 and 9.

Fair Value Measurement

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. Fair value is measured using the assumptions that market participants would use when pricing an asset or liability. The Company determines fair value by using quoted prices in active markets for identical or similar assets or liabilities. When quoted prices in active markets are not available, fair value is determined using valuation techniques that maximize the use of observable inputs. When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation techniques and valuation inputs. The use of alternative valuation techniques or valuation inputs may result in a different fair value. A description of the fair value methodologies and assumptions by type of asset is included in Note 4.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Company considers all cash on hand, time deposits with an original maturity of three months or less and money market funds which can be redeemed without penalty as equivalent to cash.

Financial Assets

The Company has the following financial assets: (i) financial assets at fair value through profit or loss and (ii) financial assets at amortised cost. Management determines the classification at initial recognition and this is dependent on the nature of the assets and the purpose for which the assets were acquired.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial Assets Carried at Amortized Cost

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets classified as investments at amortized cost include all notes and bonds, loans and other receivables and term deposits.

Financial Assets at Fair Value Through OCI (Debt Instruments)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon de-recognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

Financial Assets at Fair Value Through OCI (Equity Instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company has not designated any financial assets under this classification.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes listed equity investments which the Company had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

De-recognition

A financial asset is de-recognized when the Company's rights to contractual cash flows expires, when the Company transfers substantially all its risks and rewards of ownership or when the Company no longer retains control.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of Financial Assets

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

The Company's expected credit loss ("ECL") calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk, and so allowances for financial assets should be measured on a Lifetime ECL ("LTECL") basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, Exposure at Default ("EAD") and Loss Given Defaults ("LGD")
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Under the general approach expected credit losses are categorized into one of three stages. Under stage 1 of the general approach, each financial asset or financial asset grouping will be measured for expected credit losses that result from default events that are possible within the 12 months subsequent to the current fiscal period (12-month ECL). Under stage 2 and 3 of the general approach, the financial asset or financial asset group must recognize an expected credit loss allowance for possible default events that may take place over the remaining life of the instrument (lifetime ECL). The categorization of an individual asset or asset group into stage 1, stage 2 or stage 3 is determined by whether there was a significant increase in credit risk since the initial recognition to the reporting date, with the exception that of an asset that is categorized as low credit risk.

The stage 1 ECL classification is used for low credit risk assets or assets that have shown significant improvement in credit quality and is reclassified from stage 2 or has had no significant change in credit risk since initial recognition.

The stage 2 ECL classification is used for assets for which there has been a significant decrease in credit quality since initial recognition, or stage 3 assets that have shown significant improvement in credit quality. The stage 3 ECL is reserved for assets considered to be credit impaired.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

The Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Further, the Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of Non-Financial Assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Company bases its impairment calculation on detailed budgets and forecast calculations.

Impairment losses are recognized in the statement of comprehensive income. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

Insurance Contracts

Insurance contracts are those contracts where the Company has accepted significant insurance risk from the policyholders by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Contracts under which the Company does not accept significant insurance risk are classified as either investment contracts or considered service contracts and are accounted for in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” or IAS 18 “Revenue”, respectively.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

All Company’s insurance contracts are classified as short-term and include health insurance, short-duration group life insurance contracts and long and short term disability insurance contracts. These contracts protect the Company’s customers from the consequences of events such as death, disability and sickness. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

Premiums

The Company’s insurance premiums are earned pro rata over the term of the applicable risk period specified in the insurance policy. The Company’s insurance policies cover losses occurring or claims made during the term of the policy. Generally, the Company receives a fixed premium which is identified in the policy and is recorded on the inception date of the contract and earned evenly over the policy term. Net premiums represent gross premiums, net of the share ceded to reinsurers for insuring part of the risk. Unearned premiums represent the portion of premiums written applicable to the unexpired terms of policies in force.

Receivable and Payable Related to Insurance Contracts

Receivables and payables related to insurance contracts are recognized when due. These include amounts due to and from insurance contract holders, brokers and agents. Premiums receivable are recorded at amounts due less any allowance for estimated uncollectible premiums receivable.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

Deferred Acquisition Costs

Deferred acquisition costs represent the cost of acquiring new business, consisting of commission expenses, policy issuance and other costs which are directly related to the production of new business. Acquisition costs on insurance business are deferred and amortized to income over the period in which the premiums are earned.

Reinsurance Contracts Held

The Company uses reinsurance in the normal course of business to manage its risk exposure. Insurance ceded to a reinsurer does not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet its obligations for reinsurance ceded to it under the reinsurance agreements.

Reinsurance assets represent the benefit derived from reinsurance agreements in force at the reporting date, taking into account the financial condition of the reinsurer. Amounts recoverable from reinsurers are estimated in accordance with the terms of the relevant reinsurance contract.

Premiums ceded and claims reimbursed are presented on a gross basis in the statement of comprehensive income. Reinsurance assets are not offset against the related insurance contract liabilities and are presented separately in the statement of financial position.

Reinsurance profit commission is calculated based on past underwriting results in accordance with the terms of the reinsurance contracts and is received from the reinsurers. The reinsurance profit commission is recorded on an accrual basis.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

Outstanding Losses and Loss Expenses

Unpaid losses and loss expenses in the statement of financial position include (i) reserves for reported unpaid losses and (ii) loss expenses for losses incurred but not reported (referred to as “IBNR” reserves).

- Reserves for reported unpaid losses

The reserve for reported unpaid losses and loss expenses is established for losses that have been reported but not yet paid. The reserve for reported unpaid losses and loss expenses is estimated based on claims reported from insureds or amounts reported from ceding companies and represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company.

- IBNR reserves

IBNR reserves represent a provision for claims that have been incurred but not yet reported to the Company as well as future loss development on losses already reported in excess of the reserve for reported unpaid losses and loss expenses. The Company Appointed Actuary is responsible for determining the amount of the IBNR reserves. The Company’s Actuary employs a variety of generally accepted methodologies to determine estimated ultimate loss reserves, including the “Bornhuetter-Ferguson incurred loss method” and frequency and severity approaches.

The Company’s outstanding loss and loss expense reserves are reviewed regularly and adjustments, if any, are reflected in earnings in the period in which they become known. The establishment of new loss and loss expense reserves or the adjustment of previously recorded loss and loss expense reserves could result in significant positive or negative changes to the Company’s financial condition for any particular period. While management believes the Company’s estimate of loss and loss expense reserves is reasonable, the ultimate loss experience may not be reliably predicted and it is possible losses and loss expenses may be materially different than the total reserve for losses and loss expenses recorded by the Company.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. The cost of replacing a component of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized as incurred in general and administrative expenses in the statement of comprehensive income.

Depreciation is charged to general and administrative expenses in the statement of comprehensive income on a straight-line basis over the estimated useful life of the asset. The estimated useful lives are as follows:

Computer hardware	5 years
Furniture and office equipment	5 years
Vehicles	5 years
Leasehold improvements	10 years

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Identifiable Intangible Assets

Finite-life intangible assets are amortized on a straight-line basis over their useful life. The Company has classified software costs as intangible assets if they are not an integral part of the computer equipment. Finite intangible assets are recorded at cost less accumulated amortization. Amortization is provided for on a straight line basis over the following estimated useful lives.

Computer hardware	5 years
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Income

Commission income represents reinsurance commission income and is recorded on an accrual basis when services are rendered.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

Investment Income

Interest on cash and debt securities is recorded on an accrual basis. Dividend income is recognized when the right to receive it is established. For loans and receivables reported at amortized cost, interest income is calculated using the effective interest rate method and is reported in the income statement.

Leases

Those leases whereby all of the significant risks and rewards of ownership are transferred to the Company are classified as finance leases. At the commencement of the lease term, finance leases are recognized as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments.

The minimum lease payments are apportioned between finance charges and repayments of the outstanding liability. Finance charges are charged to each period of the lease term so as to produce a constant rate of interest on the outstanding balance of the liability.

All other leases are classified as operating leases. Payments made under operating leases, net of any incentive received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Defined Contribution Plan

Contributions to the defined contribution plan are recognized as an expense in net income or loss in the statement of comprehensive income as incurred. A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient funds to pay all employees the benefits relating to employee service in current and prior periods.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

Retiree Benefits

The Company's employees are part of the Edmund Gibbons Limited Retirees Pension and Health Insurance benefits plans (EGL Plan) whereby, the retirees will be reimbursed by the Company for a portion of the Basic Medical Plan premium from 25% - 100%, depending on the number of years of service. There is no contractual agreement or stated policy with EGL for charging the Company its share of net defined benefit cost and therefore, the portion of premium paid for the eligible retiree is included in expenses.

Taxation

Under the laws of Bermuda there is presently no income, withholding or capital gains tax payable by the Company.

New Standards, Interpretations and Amendments to Published Standards

New Standards, Amendments and Interpretations Effective for the Financial Year

The Company applied IFRS 9 retrospectively for the first time effective January 1, 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are shown below which resulted in no financial impact.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

The reclassification and measurement of financial assets and liabilities transitioned from IAS 39 to IFRS 9 is shown below:

Asset Classification and Measurement Category Under IAS 39	January 1, 2017 Carrying Value	January 1, 2017 Adjustment	January 1, 2017 Carrying Value and Measurement Category Under IFRS 9	
			Fair Value through Profit or Loss	Amortized Cost
Held to maturity investments	\$ 225,000	\$ (225,000)	\$ –	\$ –
Amortized cost investments	–	225,000	–	225,000

The impairment requirements under IFRS 9 mandate that the expected credit loss approach has replaced the IAS 39 incurred loss approach for the estimation of impairment losses. See further detail under Note 2 - Impairment of Financial Assets.

The Company has reviewed the ECL for the related investments that it is holding at amortized costs or FVOCI and determined that any ECL provision would be immaterial and therefore have not recorded any impairment provision in the results of the Company. It is the Company's policy to regularly review its ECL models in the context of actual loss experience and adjust when necessary.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Company.

IFRS 15 *Revenue from Contracts with Customers* Effective 1 January 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers, which replaced IAS 18 Revenue and IAS 11 Construction Contracts. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model requires the Company to (i) identify the contract with the customer, (ii) identify each of the performance obligations included in the contract, (iii) determine the amount of consideration in the contract, (iv) allocate the consideration to each of the identified performance obligations and (v) recognise revenue as each performance obligation is satisfied.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

2. Summary of Significant Accounting Policies (continued)

There are no significant impacts from the adoption of IFRS 15 in relation to the timing of when the Company recognises revenues. Therefore, the Company will continue to recognise fee income charged for services provided as the services are provided (for example on completion of the underlying transaction). Revenue recognition for net investment income is recognised based on requirements of IFRS 9.

New Standards, Amendments and Interpretations Issued but not yet Effective from the Financial Year Beginning January 1, 2018 and not Early Adopted IFRS 16 & IFRS 17

IFRS 16 Leases was issued in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize ‘short-term’ leases and leases of ‘low-value’ assets. Generally, the profit or loss recognition pattern for recognized leases will be similar to today’s finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Company is currently evaluating the impact of this standard.

IFRS 17 Insurance Contracts was issued in May 2017 and provides a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. IFRS 17 is effective for reporting periods starting on or after January 1, 2022. Early application is permitted, provided that the Company also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Company intends to adopt the standard at its mandatory effective date and is currently evaluating the impact of this standard.

There were no other such standards, interpretations or amendments to existing standards that are expected to have a significant impact on the Company.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

3. Cash and Cash Equivalents

Cash and cash equivalent balances in the amount of \$16,710,170 (2017 – \$11,958,980) are held by 3 Bermuda based financial institutions.

As at December 31, 2018 and 2017, the bank overdraft amount related to the overdrawn balance per the books and resulted primarily from un-presented cheques.

4. Financial Assets

At the balance sheet date, financial assets are categorized as follows:

	2018		2017	
	Carrying Value	Cost Amortized Cost	Carrying Value	Cost Amortized Cost
At fair value through profit or loss	\$ 69,156,772	\$ 68,204,245	\$ 61,679,846	\$ 58,117,193
Held-to-maturity	17,248,863	17,248,863	10,407,708	10,407,708
	\$ 86,405,635	\$ 85,453,108	\$ 72,087,554	\$ 68,524,901

Amortized Costs

Investments at amortized costs include fixed maturity debt instruments which mature as follows:

	2018	2017
Less than one year	\$ 375,467	\$ –
From one year to five years	\$ 8,046,669	\$ 5,505,740
From six years to ten years	\$ 8,281,782	\$ 4,901,968
Over ten years	\$ 544,945	\$ –
	\$ 17,248,863	\$ 10,407,708

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

4. Financial Assets (continued)

Financial assets carried at amortized cost and comprise of a Bermuda Government debt instrument maturing in 2020 of \$Nil (2017 – \$225,000), which has a coupon rate of 5.603%, corporate debt instruments and US Treasury bonds. The corporate debt instruments and US Treasury bonds have maturities ranging from 2019 to 2036 with coupon rates ranging from 1.25% and 4.5%. The Bermuda Government debt instrument maturing in 2020 has a \$Nil value (2017 – \$225,000) as the bond was called in Dec 2018. The fair value of these investments at the balance sheet date are \$17,001,185 (2017 – \$10,452,357).

Financial Assets at amortized cost, include those assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial Assets at Amortized Cost are presented in the Consolidated Statement of Financial Position.

At Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss comprise the following:

	December 31, 2018		December 31, 2017	
	Fair Value	Cost	Fair Value	Cost
Managed funds	\$ 47,818,809	\$ 46,728,537	\$ 61,591,118	\$ 57,772,696
US Government Bonds	21,251,006	21,200,010	–	–
Common equity securities	86,957	275,698	88,728	344,497
Total	\$ 69,156,772	\$ 68,204,245	\$ 61,679,846	\$ 58,117,193

The managed funds owned by the Company invest in a number of different types of investments which include: large cap, small cap and emerging market equity, U.S. bonds, high yield bonds, and alternative investments which can include private equity. These investments are subject to the conditions and restrictions as further defined in the terms of the offering of each fund, which are usually contained in a formal Offering Memoranda. Such Offering Memoranda generally define the nature and types of investments in which a managed fund can invest and provide for specified procedures regarding further investment in and redemption from the particular fund.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

4. Financial Assets (continued)

Whilst investments in managed investment funds can achieve investment diversification, these investments can also subject the Company to a concentration of risk in one company or investment strategy. Due to the fact that investments in managed investment funds can only be redeemed or transferred in accordance with the terms of the offering of the particular fund, generally weekly, monthly, or quarterly, the ability of the Company to realize such investments may be restricted.

The investment portfolio is monitored by the Investment Committee and is subject to investment guidelines approved by the Board of Directors.

The maturity profile of fixed maturity securities, comprising US Government debt, categorized at fair value through profit or loss, at their carrying value as at the Statement of Financial Position date is as follows:

	December 31	
	2018	2017
Due less than one year	\$ 15,398,856	\$ –
Due from one through five years	4,682,759	–
Due from six through 10 years	1,169,391	–
	\$ 21,251,006	\$ –

For managed funds the Company's largest concentration in any one investee is 10% (2017 – 21%) of total investments. The security is a Ireland based fund investing in fixed income securities. For equity securities, the Company's largest concentration in any one investee is less than 0.07% (2017 – 0.5%) of total investments. The Company's largest Bond concentration in any one holding is a US Treasury bill which is 15% of the total investments. The next largest is 1%.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

4. Financial Assets (continued)

Fair Value Measurement

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical instruments.

Level 2 – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc.) and inputs that are derived from or corroborated by observable market data. Most debt securities are classified within Level 2.

Level 3 – Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In making the assessment, the Company considers factors specific to the asset or liability and such an assessment will involve significant management judgment. Because of the inherent uncertainty in the valuation of these Level 3 investments, fair values of such investments may differ from the values that would have been used had a ready market for these investments existed. The differences could be material.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

4. Financial Assets (continued)

The following table presents the Company's fair value hierarchy for those assets or liabilities measured at fair value and for which fair values are disclosed as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Managed funds	\$ 3,059,094	\$ 39,208,470	\$ 5,553,748	\$ 47,21,312
US Government bonds	21,251,006	–	–	21,251,006
Common equity securities	19,000	–	67,957	86,957
	<u>\$ 24,329,100</u>	<u>\$ 39,208,470</u>	<u>\$ 5,621,705</u>	<u>\$ 69,159,275</u>
Assets for which fair values are disclosed				
Amortized cost	\$ 2,300,843	\$ 14,700,342	\$ –	\$ 17,001,185
Total	<u>\$ 26,629,943</u>	<u>\$ 53,908,812</u>	<u>\$ 5,621,705</u>	<u>\$ 86,160,460</u>

The following table presents the Company's fair value hierarchy for those assets or liabilities measured at fair value and for which fair values are disclosed as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Managed funds	\$ 7,404,404	\$ 48,707,700	\$ 5,479,014	\$ 61,591,118
Common equity securities	27,500	–	61,228	88,728
	<u>\$ 7,431,904</u>	<u>\$ 48,707,700</u>	<u>\$ 5,540,242</u>	<u>\$ 61,679,846</u>
Assets for which fair values are disclosed				
Amortized cost	\$ 10,210,782	\$ 241,575	\$ –	\$ 10,452,357
Total	<u>\$ 17,642,686</u>	<u>\$ 48,949,275</u>	<u>\$ 5,540,242</u>	<u>\$ 72,132,203</u>

There was a reclassifications of investments between Level 1 and Level 2 during the years ended December 31, 2018 and 2017 amortized cost assets. All corporate bond holding were classed as Level 1 for December 31, 2017 and have now been re-classed to Level 2.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

4. Financial Assets (continued)

(a) Financial Assets in Level 1

The fair value of investments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These investments are included in Level 1. Investments included in Level 1 comprise primarily domestic and foreign quoted equity shares and managed funds.

(b) Financial Assets in Level 2

The fair value of investments 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.

Specific valuation techniques include market standard valuation methodologies, which include discounted cash flow analysis, consensus pricing from various broker dealers that are typically the market makers, or other similar techniques. The assumptions and valuation inputs in applying these market standard valuation methodologies are determined primarily using observable market inputs, which include, but are not limited to, benchmark yields, reported trades of identical or similar instruments, broker-dealer quotes, issuer spreads, bid prices and reference data including market research publications. In limited circumstances, non-binding broker quotes are used. If all significant inputs required to obtain the fair value an investment are observable, the investment is included in Level 2. Investments included in Level 2 comprise primarily corporate debt securities and managed funds.

Fair values of the Company's interests in unquoted managed fund investments are based upon the Net Asset Values of the underlying investment funds as reported by the investment managers or their independent administrators. The Company's ability to redeem its managed fund investments at the reported net asset value per share (or its equivalent) determines whether the managed fund investment is categorized within Level 2 or Level 3 of the fair value hierarchy. If the managed fund can be redeemed within a time period of 3 months with no gates or other redemption restrictions it is classified within Level 2. Otherwise the managed fund is classified within Level 3.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

4. Financial Assets (continued)

Level 3 common equity securities represent holdings not on a recognized stock exchange and are valued at book value less a discount to recognize illiquidity.

(c) Financial Assets in Level 3

The following table provides a summary of the changes in fair value of the Company's Level 3 financial assets (and liabilities) for the year ended December 31, 2018:

	Managed Funds	Common Equities	Total
Beginning balance at January 1, 2018	\$ 5,479,014	\$ 61,228	\$ 5,540,242
Movement in unrealized gains (losses)	74,734	6,680	81,414
Purchases and issuances	–	–	–
Transfers into/out of Level 3	–	49	49
Ending balance at December 31, 2018	\$ 5,553,748	\$ 67,957	\$ 5,621,705
Total gains (losses) for the year included in income on Level 3 assets (recognized in investment income)	\$ 74,734	\$ 6,680	\$ 81,414

The following table provides a summary of the changes in fair value of the Company's Level 3 financial assets (and liabilities) for the year ended December 31, 2017:

	Managed Funds	Common Equities	Total
Beginning balance at January 1, 2017	\$ 4,360,119	\$ 19,252	\$ 4,379,371
Movement in unrealized gains (losses)	117,079	(51,208)	65,871
Purchases and issuances	1,095,000	–	1,095,000
Transfers into/out of Level 3	(93,184)	93,184	–
Ending balance at December 31, 2017	\$ 5,479,014	\$ 61,228	\$ 5,540,242
Total gains (losses) for the year included in income on Level 3 assets (recognized in investment income)	\$ 117,079	\$ (51,208)	\$ 65,871

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

4. Financial Assets (continued)

A review of the fair value hierarchy classifications is conducted on an ongoing basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets and liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the period in which the reclassifications occur.

The Level 3 investments of \$5,621,705 are primarily composed of funds valued on a Net Asset Value (NAV) basis. The most significant input in the valuation is the NAV of the underlying fund. Generally an increase in the NAV of each underlying fund will have an equal increase in the fair value of the investments.

Investment Income

Investment income comprises the following:

	<u>2018</u>	<u>2017</u>
Investment management fees	\$ (418,077)	\$ (372,680)
Interest and dividend income	1,345,832	1,019,228
Amortization	128,659	3,675
Realized gains (losses) on sale of investments	388,794	247,435
Net unrealized gains on investments	(2,683,136)	2,926,448
	<u>\$ (1,237,927)</u>	<u>\$ 3,824,106</u>

5. Insurance Balances Receivable

Insurance balances receivable are presented net of an allowance for doubtful accounts of \$167,391 (2017 – \$895,613).

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

6. Outstanding Losses and Loss Expenses and Reinsurance Assets

Outstanding losses and loss expenses are reported gross of reinsurance ceded and the ceded liabilities are reported separately as a reinsurance asset. Outstanding losses and loss expenses include reserves for reported unpaid losses and losses and loss expenses incurred but not reported.

The outstanding claims provision comprises:

	2018	2017
Medical	\$ 13,796,051	\$ 13,124,208
Dental	533,588	495,462
Vision	151,534	156,710
Long-term disability	2,711,674	2,701,767
	\$ 17,192,847	\$ 16,478,147

Movements in insurance liabilities and reinsurance assets are as follows:

	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Loss reserves						
Notified claims	\$ 2,701,767	\$ (2,419,833)	\$ 281,934	\$ 4,212,433	\$ (3,776,194)	\$ 436,239
Incurring but not reported	13,776,380	(778,062)	12,998,318	13,525,351	(660,072)	12,865,279
Total at beginning of year	16,478,147	(3,197,895)	13,280,252	17,737,784	(4,436,266)	13,301,518
Movements during the year						
Claims incurred						
– current year	142,612,392	(5,366,876)	137,245,516	129,892,995	(3,533,490)	126,359,505
Claims incurred – prior year	(609,160)	(259,750)	(868,910)	(1,037,000)	141,999	(895,001)
Total claims incurred	142,003,232	(5,626,626)	136,376,606	128,855,995	(3,391,491)	125,464,504
Claims settled in the year	(141,288,532)	4,790,697	(136,497,835)	(130,115,632)	4,629,862	(125,485,770)
Total at end of year	17,192,847	(4,033,824)	13,159,023	16,478,147	(3,197,895)	13,280,252
Notified claims	2,711,674	(2,431,455)	280,219	2,701,767	(2,419,833)	281,934
Incurring but not reported	14,481,173	(1,602,369)	12,878,804	13,776,380	(778,062)	12,998,318
Total at end of year	\$ 17,192,847	\$ (4,033,824)	\$ 13,159,023	\$ 16,478,147	\$ (3,197,895)	\$ 13,280,252

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

6. Outstanding Losses and Loss Expenses and Reinsurance Assets (continued)

The determination of the provision for future policy benefits is dependent on the estimates relating to the historical monthly lag patterns of claim payments relative to the claim incurred date. These lag patterns are used to develop completion factors which estimate the ultimate level of incurred claims for each month. The Company also reviews enrollment and patterns of claims paid per employee per month to estimate incurred claims for months closest to the valuation date. This is referred to as the PEPM method.

The use of the 12-month weighted average Completion Factor Method, blended with the PEPM method for recent months, is selected as it provides stability and reliability in the provision for future policy benefits. With respect to both methods, paid claims are adjusted for reinsurance recoveries and medical trends.

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. As claims are typically settled within a one year period, the Company has not included disclosure about claims development.

Claims Paid

Gross claims paid consist of:

	<u>2018</u>	<u>2017</u>
Medical	\$ 121,703,196	\$ 110,587,331
Dental	10,640,677	10,563,350
Vision	1,949,780	1,789,656
Long-term disability	619,046	506,096
Group life	1,649,445	1,333,197
Other	4,726,388	5,336,002
	<u>\$ 141,288,532</u>	<u>\$ 130,115,632</u>

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

6. Outstanding Losses and Loss Expenses and Reinsurance Assets (continued)

Deferred Acquisition Costs

The following reflects the amounts of acquisition costs deferred and amortized as of the year end date:

	<u>2018</u>	<u>2017</u>
Deferred acquisition cost, beginning of year	\$ 14,604	\$ 15,657
Amortization expense	590	(1,053)
Deferred acquisition cost, end of year	<u>\$ 15,194</u>	<u>\$ 14,604</u>

7. Property, Plant and Equipment

Property, plant and equipment as at December 31, 2018, are detailed below:

	<u>January 1, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2018</u>
Cost				
Leasehold improvements	\$ 2,862,061	\$ –	\$ –	\$ 2,862,061
Computer hardware	3,460,848	172,057	–	3,632,905
Furniture and fixtures	746,511	9,167	–	755,678
Office equipment	690,771	–	–	690,771
Vehicles	48,408	–	–	48,408
	<u>\$ 7,808,599</u>	<u>\$ 181,224</u>	<u>\$ –</u>	<u>\$ 7,989,823</u>
	<u>January 1, 2018</u>	<u>Depreciation Expense</u>	<u>Disposals</u>	<u>December 31, 2018</u>
Accumulated depreciation				
Leasehold improvements	\$ 2,357,386	\$ 277,620	\$ –	\$ 2,635,006
Computer hardware	2,952,240	199,118	–	3,151,358
Furniture and fixtures	709,674	10,399	–	720,073
Office equipment	685,936	2,001	–	687,937
Vehicles	937	10,618	–	11,555
	<u>\$ 6,706,173</u>	<u>\$ 499,756</u>	<u>\$ –</u>	<u>\$ 7,205,929</u>
Net book value	<u>\$ 1,102,426</u>			<u>\$ 783,894</u>

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

7. Property, Plant and Equipment (continued)

Property, plant and equipment as at December 31, 2017, are detailed below:

	January 1, 2017	Additions	Disposals	December 31, 2017
Cost				
Leasehold improvements	\$ 2,862,061	\$ –	\$ –	\$ 2,862,061
Computer hardware	3,176,198	284,650	–	3,460,848
Furniture and fixtures	718,972	27,539	–	746,511
Office equipment	690,771	–	–	690,771
Vehicles	–	48,408	–	48,408
	<u>\$ 7,448,002</u>	<u>\$ 360,597</u>	<u>\$ –</u>	<u>\$ 7,808,599</u>
	January 1, 2017	Depreciation Expense	Disposals	December 31, 2017
Accumulated depreciation				
Leasehold improvements	\$ 2,071,276	\$ 286,110	\$ –	\$ 2,357,386
Computer hardware	2,762,839	189,401	–	2,952,240
Furniture and fixtures	703,142	6,532	–	709,674
Office equipment	681,906	4,030	–	685,936
Vehicles	–	937	–	937
	<u>\$ 6,219,163</u>	<u>\$ 487,010</u>	<u>\$ –</u>	<u>\$ 6,706,173</u>
Net book value	<u>\$ 1,228,839</u>			<u>\$ 1,102,426</u>

8. Intangible Assets

Intangible assets comprising computer software as at December 31, 2018, are detailed below:

	January 1, 2018	Additions	Disposals	December 31, 2018
Cost				
Computer software	\$ 2,715,126	\$ 223,547	\$ –	\$ 2,938,673
	<u>\$ 2,715,126</u>	<u>\$ 223,547</u>	<u>\$ –</u>	<u>\$ 2,938,673</u>
	January 1, 2018	Amortization Expense	Disposals	December 31, 2018
Accumulated amortization				
Computer software	\$ 1,946,848	\$ 265,041	\$ –	\$ 2,211,889
	<u>\$ 1,946,848</u>	<u>\$ 265,041</u>	<u>\$ –</u>	<u>\$ 2,211,889</u>

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

Net book value	<u>\$ 768,278</u>	<u>\$ 726,784</u>
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8. Intangible Assets (continued)

Intangible assets comprising computer software as at December 31, 2017, are detailed below:

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2017</u>
Cost				
Computer software	\$ 2,316,118	\$ 399,008	\$ –	\$ 2,715,126
	<u>\$ 2,316,118</u>	<u>\$ 399,008</u>	<u>\$ –</u>	<u>\$ 2,715,126</u>
	<u>January 1, 2017</u>	<u>Amortization Expense</u>	<u>Disposals</u>	<u>December 31, 2017</u>
Accumulated amortization				
Computer software	\$ 1,729,093	\$ 217,755	\$ –	\$ 1,946,848
	<u>\$ 1,729,093</u>	<u>\$ 217,755</u>	<u>\$ –</u>	<u>\$ 1,946,848</u>
Net book value	<u>\$ 587,025</u>			<u>\$ 768,278</u>

Amortization expense of \$265,041 (2017 – \$217,755) is included within general and administrative expenses in the statement of comprehensive income.

9. Risk Management and Financial Instruments

The activities of the Company involve the use of insurance contracts and financial instruments. As such, the Company is exposed to insurance risks and financial risks. This note presents information about the Company's exposure to each of the above risks, the objectives, policies, and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company is also guided by the risk management framework of its ultimate parent. The Board and the Company's parent have established an Investment Committee, Risk Oversight Committee and Audit Committee, which along with the President and Chief Operating Officer – Health (COO) of the Company are responsible for developing and monitoring the Company's risk management policies. The committees, President and COO report regularly to the Board of Directors on their activities.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

9. Risk Management and Financial Instruments (continued)

The risk management policies are established to identify and analyze the risks faced by the Company, set appropriate risk limits and controls and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee and Risk Oversight Committee of the Parent company are standing committees of the Board of Directors and assist the Board in fulfilling its oversight responsibilities relating to the financial reporting process, internal accounting and financial controls, audit and risk review process, risk assessment and risk management and compliance with legal and regulatory requirements. The Audit Committee, Risk Oversight Committee and Investment Committee meet at least three times per annum and report to the Board on their performance with respect to their respective terms of reference.

The principles used by the Company in managing its risks are set out below:

Insurance Risk

An insurance contract transfers risk from the policyholder to the insurer. Insurance contract risk arises from the uncertainty of one or more of the following:

Whether an insured event will occur

When that insured event will occur

How much the insurer will be required to pay if the insured event occurs

The Company's insurance portfolio contains medical, dental, and vision insurance policies issued to employer groups and individuals in Bermuda, Cayman, the British Virgin Islands, the Turks & Caicos Islands and Barbados. In issuing these policies, the Company bears insurance risk where the insured events are the rendering of medical, dental, and vision health services as specified by these policies by providers to policyholders, thereby generating an insurance claim.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

9. Risk Management and Financial Instruments (continued)

The Company's portfolio is also comprised of group life, short and long-term disability, and accidental death and dismemberment (AD&D) insurance policies. Life and AD&D insurance policies insure the event that an individual or group member dies or becomes dismembered during the policy year and pays out specified benefits to the policyholder or beneficiaries of the deceased. The insurance risk of these policies is whether the event occurs or not. Disability insurance insures the event that an individual becomes disabled and is unable to work and pays out specified benefits which is usually an annuity payable periodically for a specified amount of time. Similar to group life insurance, the Company bears the uncertainty the event occurs or not during the policy term. It also bears the risk inherent in the uncertainty of the longevity of any benefit payment stream.

The Company provides coverage with the following maximum limits:

	Maximum Coverage Limit
Medical	\$ 5,000,000
Group life	\$ 2,000,000
Accidental death and dismemberment	\$ 2,000,000

The Company also offers international health insurance coverage for medical, dental, life, long term disability and accidental death and dismemberment risks for individuals and groups working outside their home country. The maximum annual coverage limit is \$2,000,000 per insured.

The majority of the insurance risk to which the Company is exposed is of a short-tail nature. Policies generally cover a 12-month period. The duration of claims liability varies as presented below:

	2018	2017
Net short-term insurance liabilities	2 months	2 months

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

9. Risk Management and Financial Instruments (continued)

Insured events can occur at any time during the coverage period and can generate losses of variable amounts. An objective of the Company is to ensure that sufficient claims liabilities are established to cover future insurance claim payments related to past insured events. The Company's success depends upon its ability to accurately assess the risk associated with the insurance contracts underwritten by the Company. The Company establishes claims liabilities to cover the estimated liability for the payment of all losses including loss adjustment expenses incurred with respect to insurance contracts underwritten by the Company. Claims liabilities do not represent an exact calculation of the liability. Rather, claims liabilities are the Company's best estimates of its expected ultimate cost of resolution and administration of claims.

The composition of the Company's insurance risk, as well as the methods employed to mitigate risks are described below.

Risk Related to the Timing, Frequency and Severity of Claims

The occurrence of claims being unforeseeable exposes the Company to the risk that the number and the severity of claims would exceed the estimates.

Strict claim review policies are in place to assess all new and ongoing claims. Regular detailed reviews of claims handling procedures and frequent investigations of possible fraudulent claims reduce the Company's risk exposure. Further, the Company enforces a policy of actively managing and promptly pursuing claims in order to reduce its exposure to unpredictable future developments that could negatively impact the business.

Reinsurance Protection

In the normal course of business the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, the Company would also be liable for the reinsured amount.

The Company follows the policy of underwriting and reinsuring all contracts of insurance which limit the retained liability of the Company to a maximum amount of \$350,000 (2017 – \$350,000) on any one individual medical loss per year.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

9. Risk Management and Financial Instruments (continued)

For group life, the Company purchases reinsurance for 80% of the first \$250,000 per life under a quota share agreement. Group life and accidental death and dismemberment coverage in excess of \$250,000 is fully reinsured on a quota share basis. For long term disability the Company purchases reinsurance for 90% of the associated risk. Short term disability is reinsured for 60% of the Company's gross liability to a maximum gross weekly benefit of \$3,500 per person.

The international health insurance coverage for medical, dental, life, long term disability and accidental death and dismemberment risks is reinsured at the same limits mentioned above.

Catastrophe Risk

The Company has limited its exposure to catastrophe risk by imposing maximum claim amounts on certain contracts in addition to using reinsurance arrangements. The Company purchased catastrophic excess of loss life reinsurance for losses in excess of \$250,000 per occurrence limited to \$5,000,000 each occurrence. This reinsurance provides cover for the loss of six lives or more that are involved in any one loss.

Sensitivity to Insurance Risk

Valuation of the Company's claims liabilities estimates are based on the quantification of the components of the Company's insurance risk as modeled by their corresponding relevant risk variables:

Insurance Risk Component	Relevant Risk Variable
Whether an insured event occurs	Frequency of claims
When an insured event occurs	Timing of claims
Amount the insurer is required to pay upon occurrence	Severity of claims

The Company's historical measures of these variables' performance are implicitly accounted for in claims liability valuation models. In more recent periods these measures become increasingly estimated using historical measures as incomplete claims and exposure experience emerges.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

9. Risk Management and Financial Instruments (continued)

Estimated assumptions on the values of these variables may impact the accuracy of the valuation of claims liabilities estimates. Although unlikely, reasonable and significant variations away from these estimates will impact profit (loss) and equity.

The claims liabilities' sensitivity to estimated measures of these risk variables is outlined below. The methodology evaluates the effects of changes in assumptions related to insurance risk as they are reflected in the reporting period alone on the claim liabilities estimates. The dollar change in this expression comprises the impact to the financial statements, the effect being identical for both the profit (loss) and shareholder equity.

Note that the effects of changes in the timing of claims risk variable assumption is considered nonmaterial in this sensitivity analysis due to the short-tail nature of the insurance risk.

The frequency assumption range can be thought of as a change in the incidence rate for claims as it relates to IBNR. The severity assumption range can be thought of as a change in the magnitude of the claims ultimately paid as it relates to the valuation of claims liabilities. These ranges reflect fluctuations in incidence and severity that are implicit in the actual fluctuations of past claim liability runout accumulations.

	Frequency of Claims +14%	Frequency of Claims -14%	Severity of Claims +10%	Severity of Claims -10%
	Increase (Decrease)			
At December 31, 2018				
Impact on profit	\$ 1,190,002	\$ (1,190,002)	\$ 1,068,941	\$ (1,282,729)
Impact on shareholder's equity	\$ 1,190,002	\$ (1,190,002)	\$ 1,068,941	\$ (1,282,729)

Financial Risk

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

9. Risk Management and Financial Instruments (continued)

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies of the Company are discussed below.

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company's maximum credit risk exposure is the carrying value of assets less any provisions for irrecoverable amounts. The Company is exposed to credit risk in the following areas:

Cash and Investments

Investment asset allocation is determined by the Company's investment manager who manages the distribution of the assets to achieve the Company's investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored by the Company's Board of Directors and the Parent's Investment Committee. Details of concentrations of cash and cash equivalents and investments are disclosed in Notes 3 and 4.

Insurance Balance Receivable

The Company's exposure to credit risk is influenced by the financial stability of entities that purchase insurance products. This credit risk is controlled by monitoring the aging of all amounts outstanding on an ongoing basis and monitoring the customers' financial health by reference to the media and discussions with the customers. A provision is made for non-recovery if considered necessary.

As at December 31, 2018, approximately \$490,484 (2017 – \$394,618) of insurance balances receivable due to the Company for Bermuda based policies were from three major groups. Management is of the opinion that this concentration will not have a significant impact on the Company's financial condition.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

9. Risk Management and Financial Instruments (continued)

Collateral is not held against any of the outstanding balances, however the Company has the right to cancel the policy for non-payment. Based on the Company's current aging procedure, all premiums receivable over 30 days are considered to be past due but not impaired. Customer accounts that become past due over 60 days are placed on-hold and those that are over 90 days past due are considered for impairment by management. Steps taken to cancel or extend the terms of credit are instituted on a case by case basis.

Reinsurance Balances Receivable

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. Consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of its reinsurers to minimize the exposure to significant losses from reinsurer insolvencies.

The Company reviews the creditworthiness of reinsurers on an annual basis and only enters and maintains contracts with reinsurers that have been rated as A- or higher by the AM Best credit rating agency and have in excess of \$500 million in capital and surplus. Current financial statements for the reinsurers are reviewed annually. Based on the individual reinsurance agreements, the Company may have the right to offset amounts due to reinsurers against any amounts due from reinsurers.

Amounts due from reinsurers are assessed regularly for any indication of impairment. At December 31, 2018, losses recoverable from reinsurers were due from three reinsurers who all have an A.M. Best rating of at least A. At year end there is no significant credit risk associated with any of the Company's reinsurers.

Amounts due from reinsurers relating to medical and AD&D and group life are assessed monthly and quarterly respectively for any indication of impairment. At December 31, 2018, there was no significant credit risk associated with any of the Company's reinsurers.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

9. Risk Management and Financial Instruments (continued)

Related-Party and Other Receivables

Amounts due from related parties and other receivables are assessed and monitored on a monthly basis for any indication of impairment. As at December 31, 2018, \$9,122,153 (2017 – \$13,374,682) of amounts due from related parties were due from Gibbons Management Services Limited, representing 71% (2017 – 71%) of total amounts due from related parties. As at December 31, 2018, all amounts were considered to be collectible.

The following table analyses the aging of the Company's receivables:

	Insurance Balances Receivable	Accounts Receivable and Accrued Interest	Losses Recoverable and Reinsurance Balances Receivable	Amounts Due From Related Parties	Total
Amounts not currently due	\$ –	\$ –	\$ 4,033,824	\$ 12,925,065	\$ 16,958,889
Up to 30 day	4,124,323	655,825	998,846	–	5,778,994
31 – 60 days	1,151,371	–	–	–	1,151,371
61 – 90 days	403,591	–	–	–	403,591
Over 90 days	350,154	–	–	–	350,154
	\$ 6,029,439	\$ 655,825	\$ 5,032,670	\$ 12,925,065	\$ 24,642,999

The following table analyses the aging of the Company's receivables as at December 31, 2017:

	Insurance Balances Receivable	Accounts Receivable and Accrued Interest	Losses Recoverable and Reinsurance Balances Receivable	Amounts Due From Related Parties	Total
Amounts not currently due	\$ –	\$ –	\$ 3,197,895	\$ 18,743,598	\$ 21,941,493
Up to 30 day	3,755,593	373,496	2,114,166	–	6,243,255
31 – 60 days	799,063	–	–	–	799,063
61 – 90 days	230,978	–	–	–	230,978
Over 90 days	746,722	–	–	–	746,722
	\$ 5,532,356	\$ 373,496	\$ 5,312,061	\$ 18,743,598	\$ 29,961,511

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

9. Risk Management and Financial Instruments (continued)

Included in insurance and reinsurance balances receivable are amounts past due of \$753,744 (2017 – \$746,722) that are not considered to be impaired. The balances are reviewed on a case by case basis with necessary provisions applied. The remaining net balance is expected to be collected within the year.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company is exposed to daily calls on its available cash resources for the payment of claims and operating expenses. In order to manage liquidity, management seeks to maintain levels of cash and short-term deposits sufficient to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following summarizes the contractual recovery or settlement of other assets held (within 12 months from the balance sheet date) and the maturity profile of the Company's liabilities relating to financial instruments and insurance contracts:

	December 31, 2018			December 31, 2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Financial assets						
Cash and cash equivalents	\$ 25,862,952	\$ –	\$ 25,862,952	\$ 22,564,773	\$ –	\$ 22,564,773
Financial assets	69,404,450	17,001,185	86,405,635	56,139,604	15,947,950	72,087,554
Reinsurance balances receivables	998,846	–	998,846	2,114,166	–	2,114,166
Insurance balances receivable	6,029,439	–	6,029,439	5,532,356	–	5,532,356
Funds withheld	2,500	–	2,500	2,500	–	2,500
Accounts receivable and accrued interest	655,825	–	655,825	373,496	–	373,496
Amounts due from related companies	12,925,065	–	12,925,065	18,743,598	–	18,743,598
Total	\$ 115,879,077	\$ 17,001,185	\$ 132,880,262	\$ 105,470,493	\$ 15,947,950	\$ 121,418,443

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

9. Risk Management and Financial Instruments (continued)

	December 31, 2018			December 31, 2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Financial liabilities						
Bank overdraft	\$ 1,135,486	\$ –	\$ 1,135,486	\$ 769,434	\$ –	\$ 769,434
Outstanding losses and loss expenses	17,192,847	–	17,192,847	16,478,147	–	16,478,147
Reinsurance balances payable	1,938,671	–	1,938,671	1,880,377	–	1,880,377
Amounts due to related companies	13,567,895	–	13,567,895	647,317	–	647,317
Accounts payable and other liabilities	5,679,079	–	5,679,079	6,999,295	–	6,999,295
Total	<u>\$ 39,513,978</u>	<u>\$ –</u>	<u>\$ 39,513,978</u>	<u>\$ 26,774,57</u>	<u>\$ –</u>	<u>\$ 26,774,570</u>
Liquidity margin	<u>\$ 80,438,824</u>	<u>\$ 12,927,460</u>	<u>\$ 93,366,284</u>	<u>\$ 78,695,923</u>	<u>\$ 15,947,950</u>	<u>\$ 94,643,873</u>

Market Risk

Market risk is the risk that changes in market prices such as equity prices, interest rates and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest-Rate Risk

The Company invests in managed funds, the fair values of which are affected by changes in interest rates. Details of interest rate risk on related party balances are disclosed in Note 11. The Company's interest rate risk exposure on its corporate bond securities is not considered significant.

Currency Risk

The majority of the Company's financial assets and liabilities are denominated in Bermuda dollars therefore the Company is not normally exposed to significant currency risk.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

9. Risk Management and Financial Instruments (continued)

Equity Price Risk

The Company is subject to equity price risk due to daily changes in the market values of securities in its fund and equity portfolios. Equity price risk is actively managed in order to mitigate anticipated unfavorable market movements where this lies outside the risk appetite of the parent company's Investment Committee. Diversified portfolios of assets are held in order to reduce exposure to individual equities. At the balance sheet date, management estimates that a 10% increase in prices for securities held, with all other variables held constant, would increase net income by approximately \$8,696. A 10% decrease in equity prices would have a corresponding decrease in net income.

Limitations of Sensitivity Analysis

The sensitivity information included in this note demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions such as instances when risk free interest rates fall towards zero.

10. Capital Management and Statutory Requirements

Capital Management

The Company's capital base is structured to exceed regulatory and internal capital targets while maintaining an effective capital structure. The Board of Directors is responsible for designing the Company's capital plan with management responsible for the implementation of the plan. The policy is designed to ensure that adequate capital is maintained to provide the flexibility necessary to take advantage of growth opportunities, to support the risks associated with the business and to provide returns to shareholders. The policy is also designed to provide an appropriate level of risk management over capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength or to allow the Company to take advantage of opportunities for expansion.

The Company's capital base consists of common shares, contributed surplus, and retained earnings.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

10. Capital Management and Statutory Requirements (continued)

Share Capital

	<u>2018</u>	<u>2017</u>
Authorized share capital of par value BD\$1 each: 2,250,000 (2017 – 2,250,000) ordinary shares	<u>\$ 2,250,000</u>	<u>\$ 2,250,000</u>
Issued and fully paid: 2,000,000 (2017 – 2,000,000) ordinary shares	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>

Contributed Surplus

Contributed surplus represents amounts paid to the Company by the shareholder in addition to its subscription to the Company's share capital.

Statutory Requirements

The Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act, 1978 of Bermuda.

Each year the Company is required to file with the Bermuda Monetary Authority (the Authority) a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

The prescribed form of capital and solvency return comprises the insurer's Bermuda Solvency Capital Requirement (BSCR) model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provisions by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

10. Capital Management and Statutory Requirements (continued)

As a Class 3B insurer, the Company is required to maintain available statutory capital and surplus in an amount that is equal to or exceeds the target capital levels based on enhanced capital requirements (ECR) calculated using the BSCR model. The BSCR model is a risk-based capital model introduced by the Authority that measures risk and determines ECR and a target capital level (defined as 120% of the ECR) based on the Company's statutory financial statements. In circumstances where the Authority concludes that the Company's risk profile deviates significantly from the assumptions underlying the ECR or the Company's assessment of its management policies and practices, it may issue an order requiring that the Company adjust its ECR.

During the year ended and as of December 31, 2018, Colonial Medical Company Limited met the target capital level required under the BSCR.

The Insurance Act mandates certain actions and filings with the Authority if the Company fails to meet and maintain its ECR or solvency margin, including the filing of a written report detailing the circumstances giving rise to the failure and the manner and time within which the insurer intends to rectify the failure. The Company is prohibited from declaring or paying a dividend if its statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach.

At December 31, 2018, the Company's ECR was \$27,830,000 (unaudited) (2017 – \$26,708,000).

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

10. Capital Management and Statutory Requirements (continued)

The Company is required by its license to maintain capital and surplus greater than a minimum statutory amount determined as the greater of a percentage of outstanding losses (net of reinsurance recoverable) or a given fraction of net written premiums. At December 31, 2018, the Company was required to maintain a minimum margin of solvency of \$27,830,000 (2017 – \$26,708,000). Actual statutory capital and surplus is \$97,148,182 (2017 – \$97,602,893), calculated as follows:

Statutory capital and surplus comprises:

	<u>2018</u>	<u>2017</u>
Shareholder's equity	\$ 99,408,663	\$ 99,974,862
Less non-admitted assets:		
Property, plant and equipment	(783,894)	(1,102,426)
Intangible assets	(726,784)	(768,278)
Prepaid expenses	(749,803)	(501,265)
Statutory capital and surplus	<u>\$ 97,148,182</u>	<u>\$ 97,602,893</u>

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, investments, accounts receivable and accrued interest, funds withheld, insurance and reinsurance balances receivable and the amounts due from related companies (to the extent required to meet the liquidity ratio). Certain categories of assets do not qualify as relevant assets under the statute. The relevant liabilities are total general business insurance reserves (net of reinsurance recoverable) and total other liabilities.

At December 31, 2018, the Company was required to maintain relevant assets of at least \$26,810,456 (2017 – \$17,872,548). At that date, relevant assets were \$119,165,736 (2017 – \$101,956,287) and the minimum liquidity ratio was therefore met.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

10. Capital Management and Statutory Requirements (continued)

The Company must separately disclose Cayman risk according to the insurance laws of the Cayman Islands.

	2018	2017
Premiums written	\$ 92,673,745	\$ 88,791,456
Reinsurance premiums ceded	\$ 6,090,813	\$ 5,997,398
Net premium earned	\$ 86,582,932	\$ 82,794,058
Net claims incurred	\$ 73,298,477	\$ 68,167,273

Included in Outstanding Loss and loss expenses is \$7,356,573 (2017 – \$7,086,467) which represents Cayman Risk. The reasonableness of the Cayman outstanding loss reserve is supported by a separate independent actuarial study in accordance with the Company’s accounting policies stated in Note 6.

Losses recoverable from reinsurers amounting to \$759,736 (2017 – \$425,097) represents the net amounts for Cayman recoveries. These reinsurers have been rated as A- or higher by AM Best.

Included within cash and cash equivalents are restricted deposits of \$337,411 (2017 – \$2,052,156,) \$714,798 (2017 – \$714,798) and \$125,000 (2017 – \$Nil) with banking institutions in the Cayman Islands, Turks & Caicos Islands and Barbados. The money is being held in favor of the Cayman Islands Monetary Authority, the Superintendent of Insurance of the Turks & Caicos Islands and the Barbados Financial Services Commission as part of that country’s regulatory requirement. This amount is not to be reduced or removed without the prior written consent of the Cayman Islands Monetary Authority and the Superintendent of Insurance in Turks and Caicos Islands. As part of registering as an insurer in Barbados the Company placed a restricted deposit of \$628,141 (2017 – \$628,141) with the Barbados Financial Services Commission which is not to be reduced or removed without the prior written consent of the Barbados Financial Services Commission.

Included in Financial Assets are bonds that are held in trust, in favor of the Cayman Islands Monetary Authority, for policy holder obligations amounting to \$12,132,709 (2017 – \$10,182,707). This amount is not to be reduced or removed without the prior written consent of the Cayman Islands Monetary Authority.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

11. Related-Party Transactions

The Company is a wholly-owned subsidiary of Colonial Group International Ltd. (incorporated in Bermuda). The Company's ultimate parent is Edmund Gibbons Limited (incorporated in Bermuda).

The following transactions were carried out with related parties:

(a) Income and Expenses

	2018	2017
	Income	Income
	(Expense)	(Expense)
Premiums written ¹	\$ 7,463,598	\$ 7,272,711
Reinsurance premiums assumed ²	\$ 4,231,659	\$ 4,676,714
Reinsurance premiums ceded ³	(518,918)	(519,806)
Commission income ³	57,795	55,734

¹ The Company insures the health and life risks of several companies related through common control. These risks are written at standard commercial rates and are subject to the normal reinsurance protection purchased by the Company.

² The Company provides a 100% quota share on medical business of an affiliate based in the British Virgin Islands. These risks are written at standard commercial rates and are subject to the normal reinsurance protections of the Company. Other balances and costs associated with this reinsurance business include:

	2018	2017
Outstanding losses and loss expenses	\$ 675,574	\$ 455,583
Commission expense	\$ 679,656	\$ 817,572
Claims incurred	\$ 2,817,771	\$ 1,571,277

³ On January 1, 2012, the Company entered into a quota share group life reinsurance agreement with Colonial Life Assurance Company Limited (CLAC), a company related through common control. Under this agreement, the Company cedes 50% of the net group life insurance premium to CLAC with a 10% ceding commission earned by the Company.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

11. Related-Party Transactions (continued)

Management fee income ⁴	3,605,700	3,328,223
Rent ⁵	(1,344,766)	(1,275,225)
Investment advisory fees ⁶	(418,077)	(330,574)

(b) Year-end Balances

	<u>2018</u>	<u>2017</u>
Due from related parties		
Gibbons Management Services Limited	\$ 9,122,152	\$ 13,374,682
British Caymanian Insurance Company Limited	2,755,854	3,963,423
Colonial Group International Ltd.	47,523	591,537
Colonial Insurance (BVI) Limited	999,536	773,414
Atlantic Medical Insurance Limited	–	28,580
Colonial Insurance Brokers Limited	–	11,962
	<u>\$ 12,925,065</u>	<u>\$ 18,743,598</u>

	<u>2018</u>	<u>2017</u>
Due to related parties		
Colonial Insurance Company Limited	\$ 474,356	\$ 633,081
Colonial Life Assurance Company Limited	41,047	14,236
Atlantic Medical Insurance Limited	13,188	–
Colonial Insurance Brokers Limited	37,925	–
Colonial Group International Ltd.	13,000,000	–
Other Colonial Affiliates	1,379	–
	<u>\$ 13,567,895</u>	<u>\$ 647,317</u>

⁴ The Company provides management and consultancy services to a medical insurance company related through common control.

⁵ Rent expense is charged by a company related through common control for the rental of office space and other group overhead expenses.

⁶ The Company pays investment advisory fees at 0.5% of total net asset value of the investment portfolio to Clarien Bank Limited, a company related through common control.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

11. Related-Party Transactions (continued)

The amounts due to and from companies related through common control are due on demand. No provisions are held against amounts due from related parties (2017 – \$Nil). The balance due from Gibbons Management Services Limited bears interest at 5% per annum. The balance due to Colonial Insurance Company Limited is repayable on demand and bears interest at a rate of 3% per annum. Interest expense of \$26,606 (2017 – \$22,948) was paid on the balance due to Colonial Insurance Company Limited. Included in investment income is net interest income of \$554,095 (2017 – \$410,512) received from related parties. Balances with all other related parties are non-interest bearing.

(c) Investments

During the year, the Company used Clarien Bank Limited and its wholly owned subsidiaries (Clarien) for certain banking, investment custodian, and investment management services. Prior to December 31, 2013, the Company and Clarien were related by common control. On December 31, 2013, CGIL's parent company, Edmund Gibbons Limited (EGL), disposed of its controlling interest in Clarien. The Company and Clarien remained related parties due to a minority equity interest retained by EGL in 2014. During 2015 EGL regained a 100% controlling interest in Clarien. In December 2017 NCB Financial Group Limited acquired 50.1% of Clarien Group Limited with EGL retaining a 31.98% shareholding and Funds managed by Portland Private Equity owning the balance.

At December 31, 2018, the Company had 6 (2017 – 6) positions with an aggregate carrying value of \$18,393,405 (2017 – \$20,368,484) in investment funds managed by Clarien Bank Limited.

At December 31, 2018, investments held-for-trading with a fair value of \$63,682,695 (2017 – \$61,679,846) and investments held-to-maturity with an amortized cost of \$10,585,231 (2017 – \$225,000) were held and managed by Clarien Bank Limited. The transactions with Clarien Bank Limited occur on standard commercial terms.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

11. Related-Party Transactions (continued)

(d) Key Management Compensation

Compensation to key management employees deemed to be related parties under IAS 24 was as follows:

	<u>2018</u>	<u>2017</u>
Short term employee benefits	\$ 1,500,222	\$ 3,495,652
Defined contribution pension and medical insurance expenses	<u>109,807</u>	<u>239,643</u>
	<u>\$ 1,610,029</u>	<u>\$ 3,735,295</u>

12. Minimum Lease Commitments

The Company's primary lease for land and buildings commenced January 1, 2014 and expires on December 31, 2021. Minimum annual lease commitments on all leases as of December 31, 2018 are as follows:

	<u>Land and Buildings</u>
Within one year	\$ 819,724
One to five years	\$ 1,639,448

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

13. General and Administrative Expenses

	2018	2017
Staff costs (<i>refer below</i>)	\$ 11,091,561	\$ 11,423,762
Property	1,344,766	1,292,225
Computer expenses	1,016,599	968,302
Marketing	814,873	804,188
Professional and legal fees	806,802	793,550
Depreciation and amortization	764,797	704,765
Corporate fees	751,515	640,920
Travel	501,826	468,465
Finance charges	652,629	562,797
Office	350,308	324,155
Bad debts	286,441	117,729
Communication	199,238	194,619
Donations	51,777	64,307
Memberships/subscriptions	23,306	42,753
Management fee income	(3,605,700)	(3,328,223)
Total general and administration expenses	\$ 15,050,738	\$ 15,074,314

Staff Related Expenses

The Company maintains a defined contribution pension plan for all full time employees. The monthly contributions by the employees and the Company are based on 5% of the employees' salaries. The Company's portion of the contributions vests over 3 to 5 years. The Company paid contributions for the year amounting to \$193,360 (2017 – \$200,666) which are included in staff costs in the general and administrative expenses in the statement of comprehensive income.

14. Administration Fees

The Company provides administrative services to a number of self-insurance programs. The Company collects premiums and pays claims on behalf of the self-insurance programs, but does not assume any insurance risk. Revenue is measured based on the consideration specified in the contract with the customer, and excludes amounts collected on behalf of third parties. The Company recognizes revenue evenly as services are provided to customers.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)

(Expressed in Bermuda Dollars)

15. Change in Non-Cash Operating Working Capital

	2018	2017
(Increase) decrease in:		
Losses recoverable from reinsurers	\$ (835,929)	\$ 1,238,371
Reinsurance balances receivable	1,115,320	(1,686,328)
Insurance balances receivable	(497,083)	892,573
Amounts due to from related companies (net)	14,486,581	(2,976,892)
Accounts receivable and accrued interest	(282,329)	(355,249)
Deferred acquisition costs	(590)	1,053
Prepays and other assets	(248,538)	(134,691)
Increase (decrease) in:		
Outstanding losses and loss expenses	714,700	(1,259,637)
Unearned premiums	13,641	(23,114)
Reinsurance balances payable	58,294	341,730
Accounts payable and other liabilities	(1,320,215)	1,713,879
	\$ 13,203,851	\$ (2,248,305)

16. Dividends

During the year, the Company declared a dividend payable to its sole shareholder of \$8,000,000. Subsequent to year end, a dividend of \$1,900,000 was declared by the Company.

17. Subsequent Events

The Company has completed its subsequent events evaluation for the period subsequent to the statement of financial position through April 24, 2019, the date the financial statements were available to be issued. During this period, there were no other subsequent events requiring disclosure or recognition in the audited financial statements.

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