

AUDITED FINANCIAL STATEMENTS

Colonial Medical Insurance Company Limited  
Year Ended December 31, 2017  
With Independent Auditor's Report

Ernst & Young Ltd.



**Colonial Medical Insurance Company Limited**

**Audited Financial Statements**

**Year Ended December 31, 2017**

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## Independent Auditor's 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, 2017, 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, 2017 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 *Auditor's 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.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

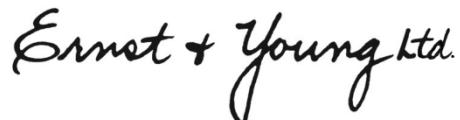
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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



Hamilton, Bermuda  
April 25, 2018

# Colonial Medical Insurance Company Limited

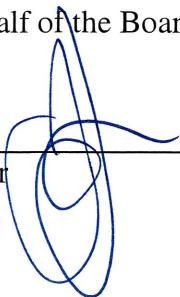
## Statement of Financial Position (Expressed in Bermuda Dollars)

|  | December 31           |                       |
|--|-----------------------|-----------------------|
|  | 2017                  | 2016                  |
| <b>Assets</b>  |                       |                       |
| Cash and cash equivalents ( <i>Notes 3 and 10</i> )                | \$ 22,564,773         | \$ 27,110,094         |
| Financial assets ( <i>Notes 4, 9 and 11</i> )                      | 72,087,554            | 61,186,869            |
| Accounts receivable and accrued interest                           | 373,496               | 18,247                |
| Amounts due from related companies ( <i>Note 11</i> )              | 18,743,598            | 13,058,890            |
| Insurance balances receivable ( <i>Note 5</i> )                    | 5,532,356             | 6,424,929             |
| Reinsurance balances receivable                                    | 2,114,166             | 427,838               |
| Losses recoverable from reinsurers ( <i>Note 6</i> )               | 3,197,895             | 4,436,266             |
| Prepays and other assets   | 501,265               | 366,574               |
| Funds withheld ( <i>Note 10</i> )                                  | 2,500                 | 2,500                 |
| Deferred acquisition costs ( <i>Note 6</i> )                       | 14,604                | 15,657                |
| Property, plant and equipment ( <i>Note 7</i> )                    | 1,102,426             | 1,228,839             |
| Intangible assets ( <i>Note 8</i> )                                | 768,278               | 587,025               |
| <b>Total assets</b>  | <b>\$ 127,002,911</b> | <b>\$ 114,863,728</b> |
| <b>Liabilities</b>   |                       |                       |
| Bank overdraft ( <i>Note 3</i> )                                   | \$ 769,434            | \$ 555,323            |
| Amounts due to related companies ( <i>Note 11</i> )                | 647,317               | 521,805               |
| Reinsurance balances payable                                       | 1,880,377             | 1,538,647             |
| Outstanding losses and loss expenses ( <i>Notes 6, 10 and 11</i> ) | 16,478,147            | 17,737,784            |
| Accounts payable and other liabilities                             | 6,999,295             | 5,285,416             |
| Unearned premiums  | 253,479               | 276,593               |
| <b>Total liabilities</b>   | <b>27,028,049</b>     | <b>25,915,568</b>     |
| <b>Shareholder's equity</b>  |                       |                       |
| Share capital ( <i>Note 10</i> )                                   | 2,000,000             | 2,000,000             |
| Contributed surplus ( <i>Note 10</i> )                             | 1,500,000             | 1,500,000             |
| Retained earnings  | 96,474,862            | 85,448,160            |
| Total equity attributable to the equity holder of the Company      | 99,974,862            | 88,948,160            |
| <b>Total liabilities and shareholder's equity</b>                  | <b>\$ 127,002,911</b> | <b>\$ 114,863,728</b> |

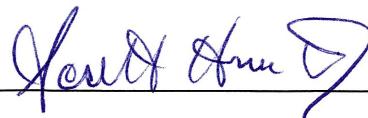
See accompanying notes.

On behalf of the Board:

Director



Director



Colonial Medical Insurance Company Limited

Statement of Comprehensive Income  
*(Expressed in Bermuda Dollars)*

|   | <b>Year Ended December 31</b> |                |
|---|-------------------------------|----------------|
|   | <b>2017</b>                   | <b>2016</b>    |
| Premiums written ( <i>Notes 10 and 11</i> )                           | \$ 179,492,116                | \$ 165,864,557 |
| Reinsurance premiums assumed ( <i>Note 11</i> )                       | 5,128,664                     | 5,937,197      |
| Total premiums written  | <u>184,620,780</u>            | 171,801,754    |
| Change in unearned premiums written                                   | 23,114                        | 39,370         |
| Total premiums earned   | <u>184,643,894</u>            | 171,841,124    |
| Reinsurance premiums ceded ( <i>Notes 10 and 11</i> )                 | <u>(8,567,006)</u>            | (7,711,917)    |
| Net premiums earned   | <u>176,076,888</u>            | 164,129,207    |
| Claims paid ( <i>Note 6</i> )   | 130,115,632                   | 119,535,750    |
| Change in outstanding loss provisions ( <i>Note 6</i> )               | (1,259,637)                   | 4,026,866      |
| Claims recovered and recoverable from reinsurers<br>( <i>Note 6</i> ) | <u>(3,391,491)</u>            | (4,653,856)    |
| Net claims incurred   | <u>125,464,504</u>            | 118,908,760    |
| Commission incurred on reinsurance                                    | (120,331)                     | (619,692)      |
| Commission expense ( <i>Note 11</i> )                                 | (13,839,912)                  | (12,355,377)   |
| Other underwriting expenses   | (9,605,636)                   | (8,203,605)    |
| Net underwriting income   | <u>27,046,505</u>             | 24,041,773     |
| Net investment income ( <i>Note 4</i> )                               | 3,824,106                     | 788,668        |
| Administration fee income ( <i>Note 14</i> )                          | 730,405                       | 828,435        |
| General and administrative expenses ( <i>Notes 11 and 13</i> )        | <u>(15,074,314)</u>           | (13,637,187)   |
| Net income and comprehensive income for the year                      | <u>\$ 16,526,702</u>          | \$ 12,021,689  |

*See accompanying notes.*

Colonial Medical Insurance Company Limited

Statement of Changes in Shareholder's Equity  
*(Expressed in Bermuda Dollars)*

|                              | <b>Share Capital</b> | <b>Contributed Surplus</b> | <b>Retained Earnings</b> | <b>Total Equity Attributable to the Equity Holder of the Company</b> |
|------------------------------|----------------------|----------------------------|--------------------------|--|
| Balance at December 31, 2015 | \$ 2,000,000         | \$ 1,500,000               | \$ 75,926,471            | \$ 79,426,471  |
| Net income for the year      | —                    | —                          | 12,021,689               | 12,021,689   |
| Dividends ( <i>Note 16</i> ) | —                    | —                          | (2,500,000)              | (2,500,000)  |
| Balance at December 31, 2016 | 2,000,000            | 1,500,000                  | 85,448,160               | 88,948,160   |
| Net income for the year      | —                    | —                          | <b>16,526,702</b>        | <b>16,526,702</b>  |
| Dividends ( <i>Note 16</i> ) | —                    | —                          | (5,500,000)              | (5,500,000)  |
| Balance at December 31, 2017 | <b>\$ 2,000,000</b>  | <b>\$ 1,500,000</b>        | <b>\$ 96,474,862</b>     | <b>\$ 99,974,862</b>   |

*See accompanying notes.*

**Colonial Medical Insurance Company Limited**

**Statement of Cash Flows**  
*(Expressed in Bermuda Dollars)*

|  | <b>Year Ended December 31</b> |               |
|--|-------------------------------|---------------|
|  | <b>2017</b>                   | <b>2016</b>   |
| <b>Operating activities</b>  |                               |               |
| Net income   | \$ 16,526,702                 | \$ 12,021,689 |
| Adjustments for:   |                               |               |
| Depreciation and amortization ( <i>Notes 7 and 8</i> )                   | 704,765                       | 645,957       |
| Dividend and interest income   | (1,019,228)                   | (941,663)     |
| Net unrealized gains on investments                                      | (2,926,448)                   | (1,210,763)   |
| Realized losses (gains) on sale of investments                           | (247,435)                     | 1,064,349     |
| Amortization on investments  | (3,675)                       | 4,466         |
| Operating cash flow before changes in non-cash operating working capital | 13,034,681                    | 11,584,035    |
| Change in non-cash operating working capital ( <i>Note 15</i> )          | (2,248,305)                   | 1,662,829     |
| Cash flows provided by operating activities                              | <b>10,786,376</b>             | 13,246,864    |
| <b>Investing activities</b>  |                               |               |
| Proceeds from sale of investments  | 12,395,563                    | 31,253,276    |
| Purchase of investments  | (20,118,690)                  | (42,204,842)  |
| Dividend and interest income received                                    | 1,019,228                     | 941,663       |
| Amounts due from related company   | (2,582,304)                   | (558,872)     |
| Purchase of plant, property and equipment ( <i>Note 7</i> )              | (360,597)                     | (209,583)     |
| Purchase of intangible assets ( <i>Note 8</i> )                          | (399,008)                     | (228,130)     |
| Cash flows used in investing activities                                  | <b>(10,045,808)</b>           | (11,006,488)  |
| <b>Financing activities</b>  |                               |               |
| Dividends paid ( <i>Note 16</i> )  | <b>(5,500,000)</b>            | (2,500,000)   |
| Cash flows used in financing activities                                  | <b>(5,500,000)</b>            | (2,500,000)   |
| Decrease in cash and cash equivalents                                    | (4,759,432)                   | (259,624)     |
| Cash and cash equivalents at beginning of year                           | <b>26,554,771</b>             | 26,814,395    |
| Cash and cash equivalents at end of year                                 | <b>\$ 21,795,339</b>          | \$ 26,554,771 |
| <b>Cash balances comprise</b>  |                               |               |
| Cash and cash equivalents  | \$ 22,564,773                 | \$ 27,110,094 |
| Bank overdraft   | (769,434)                     | (555,323)     |
|  | <b>\$ 21,795,339</b>          | \$ 26,554,771 |

*See accompanying notes.*

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (Expressed in Bermuda Dollars)

December 31, 2017

### **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 25, 2018.

#### **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) held-to-maturity financial assets. 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 financial assets at fair value through profit or loss or held-to-maturity investments as appropriate. All financial assets are recognized initially at fair value. In the case of financial assets not recorded at fair value through profit or loss, transaction costs are attributable to the acquisition of the financial asset.

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 as follows:

- Financial assets at fair value through profit or loss
- Held-to-maturity investments

#### *Financial Assets at Fair Value Through Profit or Loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term or traded for the purposes of earning investment income. 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 presented in investment income in the statement of income.

#### *Financial Assets Held-to-Maturity*

Investments with a fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity. After initial measurement, held to maturity investments are measured at amortized cost using the effective interest rate (EIR) less impairment.

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

### **2. Summary of Significant Accounting Policies (continued)**

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as investment income in the statement of income. The losses arising from impairment are recognized in the statement of income as deduction to investment income.

#### *Derecognition*

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

#### **Impairment of Financial Assets**

The Company reviews the carrying value of its financial assets, except those classified as fair value through profit and loss, at each period end for evidence of impairment and reversal of previously recognized impairment losses. These assets are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial Assets Carried at Amortized Cost*

For financial assets carried at amortized cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

### **2. Summary of Significant Accounting Policies (continued)**

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognized in income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income or loss in the statement of comprehensive income.

#### **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.

#### **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.

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

### **2. Summary of Significant Accounting Policies (continued)**

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.

#### *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.

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

### **2. Summary of Significant Accounting Policies (continued)**

#### *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.

#### *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.

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) *(Expressed in Bermuda Dollars)*

### **2. Summary of Significant Accounting Policies (continued)**

- 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.

### **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.

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

### **2. Summary of Significant Accounting Policies (continued)**

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 |
|-------------------|---------|

### **Income**

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

### **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.

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) *(Expressed in Bermuda Dollars)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **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.

#### **Taxation**

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

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)  
(Expressed in Bermuda Dollars)

**2. Summary of Significant Accounting Policies (continued)**

**New Standards, Interpretations and Amendments to Published Standards**

*New Standards, Amendments and Interpretations but not Effective for the Financial Year Beginning January 1, 2017 and not Early Adopted*

IFRS 9 *Financial Instruments* specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts, along with providing amended guidance for hedge accounting. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria.

The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 upon the standard's mandatory effective date. The effective date for IFRS 9 is for periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and is effective for years beginning on or after January 1, 2018, to be applied retrospectively or on a modified retrospective basis. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognizing revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 only impacts the Company's revenues from sources other than insurance contracts, for example service type contracts. Accordingly, the adoption of IFRS 15 may impact the revenue recognition related to the Company's service contracts and may result in additional financial statement disclosure. The Company is assessing the impact of this standard.

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

### **2. Summary of Significant Accounting Policies (continued)**

*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, 2021. 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.

### **3. Cash and Cash Equivalents**

Cash and cash equivalent balances in the amount of \$11,958,980 (2016 – \$13,134,304) are held by 3 Bermuda based financial institutions.

As at December 31, 2017 and 2016, the bank overdraft amount related to the overdrawn balance per the books and resulted primarily from un-presented cheques.

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)  
*(Expressed in Bermuda Dollars)*

#### **4. Financial Assets**

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

|                                      | <b>2017</b>          |                            |  | <b>2016</b>       |                            |  |
|--------------------------------------|----------------------|----------------------------|--|-------------------|----------------------------|--|
|                                      | Carrying<br>Value    | Cost/<br>Amortized<br>Cost |  | Carrying<br>Value | Cost/<br>Amortized<br>Cost |  |
| At fair value through profit or loss |                      |                            |  | \$ 60,961,869     | \$ 60,325,666              |  |
| Held-to-maturity                     | \$ 61,679,846        | \$ 58,117,193              |  | \$ 225,000        | \$ 225,000                 |  |
|                                      | <u>10,407,708</u>    | <u>10,407,708</u>          |  |                   |                            |  |
|                                      | <u>\$ 72,087,554</u> | <u>\$ 68,524,901</u>       |  | \$ 61,186,869     | \$ 60,550,666              |  |

#### *Held-to-Maturity Investments*

Investments held to maturity include fixed maturity debt instruments which mature as follows:

|                             | <b>2017</b>  | <b>2016</b> |
|-----------------------------|--------------|-------------|
| From one year to five years | \$ 5,505,740 | \$ 225,000  |
| From six years to ten years | \$ 4,901,968 | \$ –        |

Financial assets held-to-maturity are carried at amortized cost. The instruments comprise: a Bermuda Government debt instrument maturing in 2020 of \$225,000 (2016 – \$225,000) with a coupon rate of 5.603% (2016 – 5.603%), US Treasury debt instruments maturing between 2020 and 2036 of \$2,345,282 (2016 – \$Nil) with coupon rates ranging from 1.25% to 4.5% and Corporate debt instruments maturing between 2021 and 2027 of \$7,837,426 (2016 – \$Nil) with coupon rates between 2.5% and 3.8%. The fair value of the investments at the balance sheet date are \$10,452,357 (2016 – \$252,778).

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

### 4. Financial Assets (continued)

#### *At Fair Value Through Profit or Loss*

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

|                          | December 31, 2017    |                      | December 31, 2016    |                      |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
|                          | Fair Value           | Cost                 | Fair Value           | Cost                 |
| Managed funds            | \$ 61,591,118        | \$ 57,772,696        | \$ 57,370,070        | \$ 56,402,781        |
| Common equity securities | 88,728               | 344,497              | 3,591,799            | 3,922,885            |
| Total                    | <b>\$ 61,679,846</b> | <b>\$ 58,117,193</b> | <b>\$ 60,961,869</b> | <b>\$ 60,325,666</b> |

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.

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. Because the 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.

For managed funds the Company's largest concentration in any one investee is 21% of total investments (2016 – 15%). The security is a United States based fund investing in fixed income securities. For equity securities, the Company's largest concentration in any one investee is less than 0.5% (2016 – 3%) of total investments.

# 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, 2017:

|  | Level 1              | Level 2              | Level 3             | Total                |
|--|----------------------|----------------------|---------------------|----------------------|
| <b>Financial assets at fair value through profit or loss</b> |                      |                      |                     |                      |
| Managed funds  | \$ 7,404,404         | \$ 48,707,700        | \$ 5,479,014        | \$ 61,591,118        |
| Common equity securities                                     | 27,500               | —                    | 61,228              | 88,728               |
|  | <b>\$ 7,431,904</b>  | <b>\$ 48,707,700</b> | <b>\$ 5,540,242</b> | <b>\$ 61,679,846</b> |
| <b>Assets for which fair values are disclosed</b>            |                      |                      |                     |                      |
| Held to maturity   | <b>\$ 10,210,782</b> | <b>\$ 241,575</b>    | <b>\$ —</b>         | <b>\$ 10,452,357</b> |

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, 2016:

|  | Level 1             | Level 2              | Level 3             | Total                |
|--|---------------------|----------------------|---------------------|----------------------|
| <b>Financial assets at fair value through profit or loss</b> |                     |                      |                     |                      |
| Managed funds  | \$ 4,236,669        | \$ 48,773,282        | \$ 4,360,119        | \$ 57,370,070        |
| Common equity securities                                     | 3,572,547           | —                    | 19,252              | 3,591,799            |
|  | <b>\$ 7,809,216</b> | <b>\$ 48,773,282</b> | <b>\$ 4,379,371</b> | <b>\$ 60,961,869</b> |
| <b>Assets for which fair values are disclosed</b>            |                     |                      |                     |                      |
| Held to maturity   | \$ —                | \$ 252,778           | \$ —                | \$ 252,778           |

There were no reclassifications of investments between Level 1 and Level 2 during the year ended December 31, 2017 and December 31, 2016.

# 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 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, 2017:

|  | <b>Managed<br/>Funds</b> | <b>Common<br/>Equities</b> | <b>Total</b>        |
|--|--------------------------|----------------------------|---------------------|
| 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  | <u>\$ 5,479,014</u>      | <u>\$ 61,228</u>           | <u>\$ 5,540,242</u> |
| Total gains (losses) for the year included in income on Level 3 assets (recognized in investment income) | <u>\$ 117,079</u>        | <u>\$ (51,208)</u>         | <u>\$ 65,871</u>    |

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, 2016:

|  | <b>Managed<br/>Funds</b> | <b>Common<br/>Equities</b> | <b>Total</b>        |
|--|--------------------------|----------------------------|---------------------|
| Beginning balance at January 1, 2016   | \$ 3,530,757             | \$ 19,252                  | \$ 3,550,009        |
| Movement in unrealized gains (losses)  | 63,612                   | –                          | 63,612              |
| Purchases and issuances  | –                        | –                          | –                   |
| Sales  | 765,750                  | –                          | 765,750             |
| Ending balance at December 31, 2016  | <u>\$ 4,360,119</u>      | <u>\$ 19,252</u>           | <u>\$ 4,379,371</u> |
| Total gains (losses) for the year included in income on Level 3 assets (recognized in investment income) | <u>\$ 63,612</u>         | <u>\$ –</u>                | <u>\$ 63,612</u>    |

# 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 \$5,540,242 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:

|  | <b>2017</b>                | <b>2016</b>              |
|--|----------------------------|--------------------------|
| Investment management fees                     | \$ (372,680)               | \$ (294,943)             |
| Interest and dividend income                   | 1,019,228                  | 941,663                  |
| Amortization                                   | 3,675                      | (4,466)                  |
| Realized gains (losses) on sale of investments | 247,435                    | (1,064,349)              |
| Net unrealized gains on investments            | 2,926,448                  | 1,210,763                |
|  | <b><u>\$ 3,824,106</u></b> | <b><u>\$ 788,668</u></b> |

### 5. Insurance Balances Receivable

Insurance balances receivable are presented net of an allowance for doubtful accounts of \$895,613 (2016 – \$643,278).

# 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 expense incurred but not reported.

The outstanding claims provision comprises:

|                      | <b>2017</b>          | <b>2016</b>          |
|----------------------|----------------------|----------------------|
| Medical              | \$ 13,124,208        | \$ 12,925,962        |
| Dental               | 495,462              | 470,532              |
| Vision               | 156,710              | 128,857              |
| Long-term disability | <u>2,701,767</u>     | <u>4,212,433</u>     |
|                      | <b>\$ 16,478,147</b> | <b>\$ 17,737,784</b> |

Movements in insurance liabilities and reinsurance assets are as follows:

|                                  | <b>2017</b>          |                       | <b>2016</b>          |                      |
|----------------------------------|----------------------|-----------------------|----------------------|----------------------|
|                                  | Gross                | Reinsurance           | Net                  | Gross                |
| <b>Loss reserves</b>             |                      |                       |                      |                      |
| Notified claims                  | \$ 4,212,433         | \$ (3,776,194)        | \$ 436,239           | \$ 2,163,363         |
| Incurred but not reported        | <u>13,525,351</u>    | <u>(660,072)</u>      | <u>12,865,279</u>    | <u>11,547,555</u>    |
| Total at beginning of year       | <u>17,737,784</u>    | <u>(4,436,266)</u>    | <u>13,301,518</u>    | <u>13,710,918</u>    |
|                                  |                      |                       |                      |                      |
| <b>Movements during the year</b> |                      |                       |                      |                      |
| Claims incurred                  |                      |                       |                      |                      |
| – current year                   | 129,892,995          | (3,533,490)           | 126,359,505          | 124,086,893          |
| Claims incurred                  |                      |                       |                      |                      |
| – prior year                     | <u>(1,037,000)</u>   | <u>141,999</u>        | <u>(895,001)</u>     | <u>(524,277)</u>     |
| Total claims incurred            | <u>128,855,995</u>   | <u>(3,391,491)</u>    | <u>125,464,504</u>   | <u>123,562,616</u>   |
| Claims settled in the year       | <u>(130,115,632)</u> | <u>4,629,862</u>      | <u>(125,485,770)</u> | <u>(119,535,750)</u> |
| Total at end of year             | <u>16,478,147</u>    | <u>(3,197,895)</u>    | <u>13,280,252</u>    | <u>17,737,784</u>    |
|                                  |                      |                       |                      |                      |
| Notified claims                  | 2,701,767            | (2,419,833)           | 281,934              | 4,212,433            |
| Incurred but not reported        | <u>13,776,380</u>    | <u>(778,062)</u>      | <u>12,998,318</u>    | <u>13,525,351</u>    |
| Total at end of year             | <u>\$ 16,478,147</u> | <u>\$ (3,197,895)</u> | <u>\$ 13,280,252</u> | <u>\$ 17,737,784</u> |
|                                  |                      |                       |                      |                      |
|                                  | \$ (4,436,266)       |                       | \$ (4,436,266)       | \$ 13,301,518        |

# 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:

|                      | <b>2017</b>                  | <b>2016</b>                  |
|----------------------|------------------------------|------------------------------|
| Medical              | <b>\$ 110,587,331</b>        | \$ 102,809,777               |
| Dental               | <b>10,563,350</b>            | 9,819,665                    |
| Vision               | <b>1,789,656</b>             | 1,581,643                    |
| Long-term disability | <b>506,096</b>               | 380,157                      |
| Group life           | <b>1,333,197</b>             | 422,638                      |
| Other                | <b>5,336,002</b>             | 4,521,870                    |
|                      | <b><u>\$ 130,115,632</u></b> | <b><u>\$ 119,535,750</u></b> |

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:

|  | <b>2017</b>      | <b>2016</b>      |
|--|------------------|------------------|
| Deferred acquisition cost, beginning of year | \$ 15,657        | \$ 16,445        |
| Amortization expense                         | (1,053)          | (788)            |
| Deferred acquisition cost, end of year       | <b>\$ 14,604</b> | <b>\$ 15,657</b> |

**7. Property, Plant and Equipment**

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

| <b>Cost</b>                     | <b>January 1,<br/>2017</b> | <b>Additions</b>                | <b>Disposals</b> | <b>December 31,<br/>2017</b> |
|---------------------------------|----------------------------|---------------------------------|------------------|------------------------------|
|                                 | <b>January 1,<br/>2017</b> | <b>Depreciation<br/>Expense</b> | <b>Disposals</b> | <b>December 31,<br/>2017</b> |
| 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                       |
|                                 | <b>\$ 7,448,002</b>        | <b>\$ 360,597</b>               | <b>\$ –</b>      | <b>\$ 7,808,599</b>          |
| <b>Accumulated depreciation</b> |                            |                                 |                  |                              |
| 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                          |
|                                 | <b>\$ 6,219,163</b>        | <b>\$ 487,010</b>               | <b>\$ –</b>      | <b>\$ 6,706,173</b>          |
| <b>Net book value</b>           | <b>\$ 1,228,839</b>        |                                 |                  | <b>\$ 1,102,426</b>          |

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, 2016, are detailed below:

|                                 | <b>January 1,<br/>2016</b> | <b>Additions</b> | <b>Disposals</b> | <b>December 31,<br/>2016</b> |
|---------------------------------|----------------------------|------------------|------------------|------------------------------|
| <b>Cost</b>                     |                            |                  |                  |                              |
| Leasehold improvements          | \$ 2,862,061               | \$ —             | \$ —             | \$ 2,862,061                 |
| Computer hardware               | 2,972,701                  | 203,497          | —                | 3,176,198                    |
| Furniture and fixtures          | 712,886                    | 6,086            | —                | 718,972                      |
| Office equipment                | 690,771                    | —                | —                | 690,771                      |
|                                 | \$ 7,238,419               | \$ 209,583       | \$ —             | \$ 7,448,002                 |
| <b>Accumulated depreciation</b> |                            |                  |                  |                              |
| Leasehold improvements          | \$ 1,785,166               | \$ 286,110       | \$ —             | \$ 2,071,276                 |
| Computer hardware               | 2,582,967                  | 179,872          | —                | 2,762,839                    |
| Furniture and fixtures          | 697,023                    | 6,119            | —                | 703,142                      |
| Office equipment                | 672,450                    | 9,456            | —                | 681,906                      |
|                                 | \$ 5,737,606               | \$ 481,557       | \$ —             | \$ 6,219,163                 |
| <b>Net book value</b>           | \$ 1,500,813               |                  |                  | \$ 1,228,839                 |

**8. Intangible Assets**

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

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

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

### 8. Intangible Assets (continued)

Intangible assets comprising computer software as at December 31, 2016, are detailed below:

|                                 | <b>January 1,<br/>2016</b> | <b>Additions</b>  | <b>Disposals</b> | <b>December 31,<br/>2016</b> |
|---------------------------------|----------------------------|-------------------|------------------|------------------------------|
| <b>Cost</b>                     |                            |                   |                  |                              |
| Computer software               | \$ 2,087,988               | \$ 228,130        | \$ –             | \$ 2,316,118                 |
|                                 | <u>\$ 2,087,988</u>        | <u>\$ 228,130</u> | <u>\$ –</u>      | <u>\$ 2,316,118</u>          |
| <b>Accumulated amortization</b> |                            |                   |                  |                              |
| Computer software               | \$ 1,564,693               | \$ 164,400        | \$ –             | \$ 1,729,093                 |
|                                 | <u>\$ 1,564,693</u>        | <u>\$ 164,400</u> | <u>\$ –</u>      | <u>\$ 1,729,093</u>          |
| <b>Net book value</b>           | <u>\$ 523,295</u>          |                   |                  | <u>\$ 587,025</u>            |

Amortization expense of \$217,755 (2016 – \$164,400) 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, to set appropriate risk limits and controls and to 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, 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:

|                                    | <b>Maximum Coverage<br/>Limit</b> |
|------------------------------------|-----------------------------------|
| 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:

|                                      | <b>2017</b> | <b>2016</b> |
|--------------------------------------|-------------|-------------|
| 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, the Company is exposed 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 (2016 – \$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:

| <b>Insurance Risk Component</b>                       | <b>Relevant Risk Variable</b> |
|---|-------------------------------|
| 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.

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.

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

### 9. Risk Management and Financial Instruments (continued)

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<br>Claims +14% | Frequency of<br>Claims -14% | Severity of<br>Claims +10% | Severity of<br>Claims -10% |
|--------------------------------|-----------------------------|-----------------------------|----------------------------|----------------------------|
|                                | Increase (Decrease)         |                             |                            |                            |
| <b>At December 31, 2017</b>    |                             |                             |                            |                            |
| Impact on profit               | \$ (1,120,063)              | \$ 1,120,063                | \$ (1,006,117)             | \$ 1,207,341               |
| Impact on shareholder's equity | \$ 1,120,063                | \$ 1,120,063                | \$ (1,006,117)             | \$ 1,207,341               |

### 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, 2017, approximately \$394,618 (2016 – \$443,095) 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 (1) have been rated as A- or higher by the AM Best credit rating agency and (2) 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, 2017, 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, 2017, 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, 2017, \$13,374,682 (2016 – \$10,792,378) of amounts due from related parties were due from Gibbons Management Services Limited, representing 71% (2016 – 83%) of total amounts due from related parties. As at December 31, 2017, all amounts were considered to be collectible.

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

|                           | Insurance<br>Balances<br>Receivable | Accounts<br>Receivable and<br>Accrued Interest | Reinsurance<br>Balances<br>Receivable | Losses<br>Recoverable and | Amounts Due<br>From<br>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                                |       |
|                           | <b>\$ 5,532,356</b>                 | <b>\$ 373,496</b>                              | <b>\$ 5,312,061</b>                   | <b>\$ 18,743,598</b>      | <b>\$ 29,961,511</b>                   |       |

The following table analyses the aging of the Company's receivables as at December 31, 2016:

|                           | Insurance<br>Balances<br>Receivable | Accounts<br>Receivable and<br>Accrued Interest | Reinsurance<br>Balances<br>Receivable | Losses<br>Recoverable and | Amounts Due<br>From<br>Related Parties | Total |
|---------------------------|-------------------------------------|--|---------------------------------------|---------------------------|--|-------|
| Amounts not currently due | \$ –                                | \$ –   | \$ 4,436,266                          | \$ 13,058,890             | \$ 17,495,156                          |       |
| Up to 30 day              | 3,888,880                           | 18,247   | 427,838                               | –                         | 4,334,965                              |       |
| 31 – 60 days              | 1,301,033                           | –  | –                                     | –                         | 1,301,033                              |       |
| 61 – 90 days              | 412,187                             | –  | –                                     | –                         | 412,187                                |       |
| Over 90 days              | 822,829                             | –  | –                                     | –                         | 822,829                                |       |
|                           | <b>\$ 6,424,929</b>                 | <b>\$ 18,247</b>                               | <b>\$ 4,864,104</b>                   | <b>\$ 13,058,890</b>      | <b>\$ 24,366,170</b>                   |       |

# 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 \$746,722 (2016 – \$472,334) 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, 2017     |                      |                       | December 31, 2016     |                     |                       |
|--|-----------------------|----------------------|-----------------------|-----------------------|---------------------|-----------------------|
|  | Current               | Non-Current          | Total                 | Current               | Non-Current         | Total                 |
| <b>Financial assets</b>                  |                       |                      |                       |                       |                     |                       |
| Cash and cash equivalents                | \$ 22,564,773         | \$ –                 | \$ 22,564,773         | \$ 27,110,094         | \$ –                | \$ 27,110,094         |
| Financial assets                         | 56,139,604            | 15,947,950           | 72,087,554            | 56,582,498            | 4,604,371           | 61,186,869            |
| Reinsurance balances receivables         | 2,114,166             | –                    | 2,114,166             | 427,838               | –                   | 427,838               |
| Insurance balances receivable            | 5,532,356             | –                    | 5,532,356             | 6,424,929             | –                   | 6,424,929             |
| Funds withheld                           | 2,500                 | –                    | 2,500                 | 2,500                 | –                   | 2,500                 |
| Accounts receivable and accrued interest | 373,496               | –                    | 373,496               | 18,247                | –                   | 18,247                |
| Amounts due from related companies       | 18,743,598            | –                    | 18,743,598            | 13,058,890            | –                   | 13,058,890            |
| <b>Total</b>                             | <b>\$ 105,470,493</b> | <b>\$ 15,947,950</b> | <b>\$ 121,418,443</b> | <b>\$ 103,624,996</b> | <b>\$ 4,604,371</b> | <b>\$ 108,229,367</b> |

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)  
*(Expressed in Bermuda Dollars)*

**9. Risk Management and Financial Instruments (continued)**

|  | December 31, 2017    |                      |                      | December 31, 2016    |                     |                      |
|--|----------------------|----------------------|----------------------|----------------------|---------------------|----------------------|
|  | Current              | Non-Current          | Total                | Current              | Non-Current         | Total                |
| <b>Financial liabilities</b>           |                      |                      |                      |                      |                     |                      |
| Bank overdraft                         | \$ 769,434           | \$ —                 | \$ 769,434           | \$ 555,323           | \$ —                | \$ 555,323           |
| Outstanding losses and loss expenses   | 16,478,147           | —                    | 16,478,147           | 17,737,784           | —                   | 17,737,784           |
| Reinsurance balances payable           | 1,880,377            | —                    | 1,880,377            | 1,538,647            | —                   | 1,538,647            |
| Amounts due to related companies       | 647,317              | —                    | 647,317              | 521,805              | —                   | 521,805              |
| Accounts payable and other liabilities | 6,999,295            | —                    | 6,999,295            | 5,285,416            | —                   | 5,285,416            |
| Total                                  | \$ 26,774,570        | \$ —                 | \$ 26,774,570        | \$ 25,638,975        | \$ —                | \$ 25,638,975        |
| Liquidity margin                       | <u>\$ 78,695,923</u> | <u>\$ 15,947,950</u> | <u>\$ 94,643,873</u> | <u>\$ 77,986,021</u> | <u>\$ 4,604,371</u> | <u>\$ 82,590,392</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 \$1,670,268. 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*

|   | <b>2017</b>         | <b>2016</b>         |
|---|---------------------|---------------------|
| Authorized share capital of par value BD\$1 each:<br>2,250,000 (2016 – 2,250,000) ordinary shares | <u>\$ 2,250,000</u> | <u>\$ 2,250,000</u> |
| Issued and fully paid:<br>2,000,000 (2016 – 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, 2017, 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, 2017, the Company's ECR was \$26,708,000 (unaudited) (2016 – \$24,914,000).

# 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, 2017, the Company was required to maintain a minimum margin of solvency of \$26,708,000 (2016 – \$24,914,000). Actual statutory capital and surplus is \$97,602,893 (2016 – \$86,765,722), calculated as follows:

Statutory capital and surplus comprises:

|                                | <b>2017</b>          | <b>2016</b>   |
|--------------------------------|----------------------|---------------|
| Shareholder's equity           | <b>\$ 99,974,862</b> | \$ 88,948,160 |
| Less non-admitted assets:      |                      |               |
| Property, plant, and equipment | (1,102,426)          | (1,228,839)   |
| Intangible assets              | (768,278)            | (587,025)     |
| Prepaid expenses               | (501,265)            | (366,574)     |
| Statutory capital and surplus  | <b>\$ 97,602,893</b> | \$ 86,765,722 |

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, 2017, the Company was required to maintain relevant assets of at least \$17,872,548 (2016 – \$16,109,477). At that date, relevant assets were \$101,956,287 (2016 – \$79,048,669) 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.

|                            | <b>2017</b>   | <b>2016</b>   |
|----------------------------|---------------|---------------|
| Premiums written           | \$ 88,791,456 | \$ 78,712,628 |
| Reinsurance premiums ceded | \$ 5,997,398  | \$ 5,146,410  |
| Net premium earned         | \$ 82,794,058 | \$ 73,566,218 |
| Net claims incurred        | \$ 68,167,273 | \$ 58,774,319 |

Included in Outstanding Loss and loss expenses is \$7,086,467 (2016 – \$6,991,019) 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 \$425,097 (2016 – \$564,223) 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 \$2,052,156 (2016 – \$10,121,956) and \$714,798 (2016 – \$714,798) with a banking institutions in the Cayman Islands and Turks & Caicos Islands. The money is being held in favor of the Cayman Islands Monetary Authority and the Superintendent of Insurance of the Turks & Caicos Islands 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 (2016 – \$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.

# 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

|   | 2017                | 2016                |
|---|---------------------|---------------------|
|   | Income<br>(Expense) | Income<br>(Expense) |
| Premiums written <sup>1</sup>             | \$ 7,272,711        | \$ 8,386,251        |
| Reinsurance premiums assumed <sup>2</sup> | \$ 4,676,714        | \$ 5,481,274        |

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<sup>1</sup> 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.

<sup>2</sup> 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:

|                                      | 2017         | 2016         |
|--------------------------------------|--------------|--------------|
| Outstanding losses and loss expenses | \$ 455,583   | \$ 781,833   |
| Commission expense                   | \$ 817,572   | \$ 983,481   |
| Claims incurred                      | \$ 1,571,277 | \$ 3,070,468 |

Colonial Medical Insurance Company Limited

Notes to Financial Statements (continued)  
*(Expressed in Bermuda Dollars)*

**11. Related-Party Transactions (continued)**

|   |             |             |
|---|-------------|-------------|
| Reinsurance premiums ceded <sup>3</sup> | (519,806)   | (536,200)   |
| Commission income <sup>3</sup>          | 55,734      | 57,245      |
| Management fee income <sup>4</sup>      | 3,328,223   | 3,171,528   |
| Rent <sup>5</sup>                       | (1,275,225) | (1,200,505) |
| Investment advisory fees <sup>6</sup>   | (330,574)   | (294,943)   |

*(b) Year-end Balances*

|   | <b>2017</b>          | <b>2016</b>          |
|---|----------------------|----------------------|
| <b>Due from related parties</b>             |                      |                      |
| Gibbons Management Services Limited         | \$ 13,374,682        | \$ 10,792,378        |
| British Caymanian Insurance Company Limited | 3,963,423            | 1,706,436            |
| Colonial Group International Ltd.           | 591,537              | –                    |
| Colonial Insurance (BVI) Limited            | 773,414              | 504,911              |
| Atlantic Medical Insurance Limited          | 28,580               | –                    |
| Colonial Insurance Brokers Limited          | 11,962               | 55,165               |
|   | <b>\$ 18,743,598</b> | <b>\$ 13,058,890</b> |

|   | <b>2017</b>       | <b>2016</b>       |
|---|-------------------|-------------------|
| <b>Due to related parties</b>           |                   |                   |
| Colonial Insurance Company Limited      | \$ 633,081        | \$ 392,900        |
| Colonial Life Assurance Company Limited | 14,236            | 39,738            |
| Atlantic Medical Insurance Limited      | –                 | 89,167            |
|   | <b>\$ 647,317</b> | <b>\$ 521,805</b> |

<sup>3</sup> 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.

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

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

<sup>6</sup> 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 (2016 – \$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 \$22,948 (2016 – \$36,219) was paid on the balance due to Colonial Insurance Company Limited. Included in investment income is net interest income of \$410,512 (2016 – \$509,468) 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. Subsequent to year end NCB Financial Group Limited acquired 50.1% of Clarien Group Limited with EGL retaining a 31.98% shareholding.

At December 31, 2017, the Company had 6 (2016 – 6) positions with an aggregate carrying value of \$20,368,484 (2016 – \$21,215,434) in investment funds managed by Clarien Bank Limited.

At December 31, 2017, investments held-for-trading with a fair value of \$61,679,846 (2016 – \$60,961,869) and investments held-to-maturity with an amortized cost of \$225,000 (2016 – \$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:

|   | <b>2017</b>         | <b>2016</b>         |
|---|---------------------|---------------------|
| Short term employee benefits                                | \$ 3,495,652        | \$ 2,884,091        |
| Defined contribution pension and medical insurance expenses | 239,643             | 219,520             |
|   | <b>\$ 3,735,295</b> | <b>\$ 3,103,611</b> |

**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, 2017 are as follows:

|                   | <b><u>Land and Buildings</u></b> |
|-------------------|----------------------------------|
| Within one year   | \$ 818,862                       |
| One to five years | \$ 2,456,586                     |

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

### 13. General and Administrative Expenses

|   | <b>2017</b>   | <b>2016</b>   |
|---|---------------|---------------|
| Staff costs ( <i>refer below</i> )        | \$ 11,423,762 | \$ 10,351,956 |
| Property                                  | 1,292,225     | 1,200,505     |
| Computer expenses                         | 968,302       | 859,386       |
| Marketing                                 | 804,188       | 747,759       |
| Professional and legal fees               | 793,550       | 666,596       |
| Depreciation and amortization             | 704,765       | 645,957       |
| Corporate fees                            | 640,920       | 597,029       |
| Travel                                    | 468,465       | 532,626       |
| Finance charges                           | 562,797       | 437,180       |
| Office                                    | 324,155       | 280,879       |
| Bad debts                                 | 117,729       | 220,353       |
| Communication                             | 194,619       | 179,644       |
| Donations                                 | 64,307        | 47,154        |
| Memberships/subscriptions                 | 42,753        | 41,691        |
| Management fee income                     | (3,328,223)   | (3,171,528)   |
| Total general and administration expenses | \$ 15,074,314 | \$ 13,637,187 |

#### *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 \$200,666 (2016 – \$185,358) 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.

# Colonial Medical Insurance Company Limited

## Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

### 15. Change in Non-Cash Operating Working Capital

|   | <b>2017</b>           | <b>2016</b>         |
|---|-----------------------|---------------------|
| (Increase) decrease in:                     |                       |                     |
| Losses recoverable from reinsurers          | \$ 1,238,371          | \$ (2,117,545)      |
| Reinsurance balances receivable             | (1,686,328)           | 1,253,435           |
| Insurance balances receivable               | 892,573               | (1,626)             |
| Amounts due to from related companies (net) | (2,976,892)           | (532,807)           |
| Accounts receivable and accrued interest    | (355,249)             | 119,845             |
| Deferred acquisition costs                  | 1,053                 | 788                 |
| Prepays and other assets                    | (134,691)             | 82,623              |
| Increase (decrease) in:                     |                       |                     |
| Outstanding losses and loss expenses        | (1,259,637)           | 4,026,866           |
| Unearned premiums                           | (23,114)              | (39,370)            |
| Reinsurance balances payable                | 341,730               | (140,041)           |
| Accounts payable and other liabilities      | 1,713,879             | (989,339)           |
|   | <b>\$ (2,248,305)</b> | <b>\$ 1,662,829</b> |

### 16. Dividends

During the year, the Company declared a dividend payable to its sole shareholder of \$5,500,000. Subsequent to year end, a dividend of \$3,000,000 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 25, 2018, the date the financial statements were available to be issued. During this period, there were no subsequent events requiring disclosure or recognition in the audited financial statements.

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