

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

J.S. Johnson & Company Limited  
Year Ended December 31, 2015  
With Independent Auditors' Report

J.S. Johnson & Company Limited  
Audited Consolidated Financial Statements  
Year Ended December 31, 2015

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## Independent Auditors' Report

The Shareholders  
J.S. Johnson & Company Limited

We have audited the accompanying financial statements of J.S. Johnson & Company Limited (the Company) which comprise the consolidated statements of financial position as of December 31, 2015, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of J.S. Johnson & Company Limited as at December 31, 2015, and its financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

*Ernst & Young*

March 21, 2016

J.S. Johnson & Company Limited

Consolidated Statement of Financial Position  
(Expressed in Bahamian Dollars)

	December	
	2015	2014
<b>Assets</b>		
Cash and bank balances (Notes 6 and 25)	\$ 4,066,278	\$ 7,754,471
Term deposits (Notes 7 and 25)	9,963,416	10,240,705
Accounts receivable (Notes 4 and 25)	10,835,493	9,575,155
Due from insurance carriers (Notes 9 and 25)	122,943	67,605
Investment in securities (Notes 8 and 25)	19,648,553	16,464,093
Prepayments and other assets (Notes 10, and 25)	1,350,038	1,200,816
Prepaid reinsurance premiums (Note 14)	17,410,387	18,628,937
Reinsurance recoverables (Notes 5 and 25)	8,358,602	9,758,298
Intangible assets (Note 11)	138,130	239,814
Investment properties (Note 12)	1,585,826	1,620,768
Property, plant, and equipment (Note 13)	9,076,569	8,742,670
Total assets	<u>\$ 82,556,235</u>	<u>\$ 84,293,332</u>
<b>Liabilities</b>		
General insurance funds:		
Unearned premium reserve (Note 14)	\$ 20,702,877	\$ 21,881,684
Outstanding claims (Notes 14 and 25)	9,477,799	10,807,703
	<u>30,180,676</u>	<u>32,689,387</u>
<b>Other liabilities</b>		
Due to related parties (Notes 23 and 25)	331,326	415,530
Accounts payable (Notes 15 and 25)	3,679,373	3,432,514
Due to reinsurers (Notes 5 and 25)	3,422,086	3,935,439
Accrued expenses and other liabilities (Notes 18, 23, and 25)	1,472,228	1,994,995
Unearned commission reserve	4,849,937	4,990,985
Total liabilities	<u>43,935,626</u>	<u>47,458,850</u>

J.S. Johnson & Company Limited

Consolidated Statement of Financial Position (continued)  
(Expressed in Bahamian Dollars)

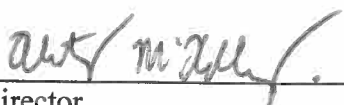
	December 31	
	2015	2014
<b>Equity</b>		
Share capital		
Authorized, issued, and fully paid:— 8,000,000 ordinary shares of \$0.01 each	\$ 80,000	\$ 80,000
Retained earnings (Note 20)	23,267,294	22,574,057
Interest in own shares (Note 22)	(84,600)	(84,600)
Other comprehensive income (Note 8)	30,340	11,295
	23,293,034	22,580,752
Non-controlling interest	15,327,575	14,253,730
Total Equity	38,620,609	36,834,482
Total Liabilities and Equity	\$ 82,556,235	\$ 84,293,332

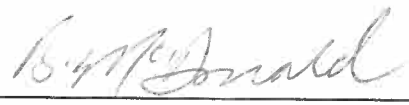
Commitment and contingencies (Note 21)

*See accompanying notes to consolidated financial statements.*

These financial statements were authorized for issue on behalf of the Board of Directors on March 21, 2016 by:

Approved by the Board:

  
Director

  
Director

# J.S. Johnson & Company Limited

## Consolidated Statement of Comprehensive Income (Expressed in Bahamian Dollars)

	Year Ended December 31	
	2015	2014
<b>Income:</b>		
Net commission and fees (Note 23)	\$ 18,109,178	\$ 17,667,982
Net premiums earned (Note 16)	4,540,878	4,543,600
Investment income (Note 17)	1,473,935	1,817,222
Reversal of impairment loss on intangible asset (Note 11)	—	43,675
Change in net unrealized gain on investment in securities (Note 8)	563,032	312,437
Profit on sale of property, plant, and equipment	16,171	6,750
Total income	24,703,194	24,391,666
<b>Expenses:</b>		
Salaries and employee benefits (Notes 19 and 23)	10,311,718	10,125,250
Net claims incurred (Note 14)	1,992,557	1,471,980
Depreciation and amortization (Notes 11, 12, and 13)	701,455	627,721
Impairment loss on investment property (Note 12)	24,164	—
Other operating expenses (Note 17)	4,124,662	4,157,265
Total expenses	17,154,556	16,382,216
<b>Net income</b>	<b>\$ 7,548,638</b>	<b>\$ 8,009,450</b>
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Unrealized gain on available for sale investments	19,045	11,295
Total comprehensive income	\$ 7,567,683	\$ 8,020,745
<b>Attributable to:</b>		
Equity holders of the company (Note 22)	\$ 5,824,602	\$ 5,925,823
Non-controlling interest	1,743,081	2,094,922
	\$ 7,567,683	\$ 8,020,745
Earnings per share for the profit attributable to the equity holders of the Company (Note 22)	\$ 0.73	\$ 0.74

See accompanying notes to consolidated financial statements

# J.S. Johnson & Company Limited

## Consolidated Statement of Changes in Equity (Expressed in Bahamian Dollars)

	Share Capital	Retained Earnings	Interest in Own Shares	Other Comprehensive Income	Total Shareholders' Equity	Non- Controlling Interest	Total Equity
Balance at December 31, 2013	\$ 80,000	\$ 21,771,848	\$ (84,600)	\$ —	\$ 21,767,248	\$ 12,642,093	\$ 34,409,341
Net income	—	5,914,528	—	—	5,914,528	2,094,922	8,009,450
Unrealized gain on available for sale securities				11,295	11,295		11,295
Distributions to owners: Dividends (Note 18)	—	(5,112,319)	—	—	(5,112,319)	(483,285)	(5,595,604)
Balance at December 31, 2014	80,000	22,574,057	(84,600)	11,295	22,580,752	14,253,730	36,834,482
Net income	—	5,805,557	—	—	5,805,557	1,743,081	7,548,638
Unrealized gain on available for sale securities	—	—	—	19,045	19,045	—	19,045
Distributions to owners: Dividends (Note 18)	—	(5,112,320)	—	—	(5,112,320)	(669,236)	(5,781,556)
Balance at December 31, 2015	\$ 80,000	\$ 23,267,294	\$ (84,600)	\$ 30,340	\$23,293,034	\$ 15,327,575	\$ 38,620,609

*See accompanying notes to consolidated financial statements.*



J.S. Johnson & Company Limited

Consolidated Statement of Cash Flows  
(Expressed in Bahamian Dollars)

	Year Ended December 31	
	2015	2014
<b>Operating activities</b>		
Net income	\$ 7,548,638	\$ 8,009,450
Adjustments for:		
Unearned premium reserve	(39,745)	173,183
Depreciation and amortization	701,455	627,721
Profit on sale of property, plant, and equipment	(16,171)	(6,750)
Impairment loss on investment property	24,164	—
Reversal of impairment loss on intangible assets	—	(43,675)
Change in net unrealized gains on investments in securities	(563,032)	(312,437)
Interest income (Note 17)	(981,994)	(999,780)
Dividend income (Note 17)	(378,214)	(314,500)
Bad debts	48,000	48,000
Cash from operations before changes in assets and liabilities	6,343,101	7,181,212
<b>(Increase) decrease in assets:</b>		
Accounts receivable	(1,308,337)	485,800
Due from insurance carriers	(55,338)	266,445
Prepayments and other assets	(149,222)	(99,439)
Prepaid reinsurance premiums	1,218,550	(514,496)
Reinsurance recoverable	1,399,696	1,916,582
<b>Increase (decrease) in liabilities:</b>		
Unearned premium reserve	(1,139,062)	168,128
Outstanding claims	(1,329,904)	(1,908,274)
Due to related parties	(84,204)	(501,834)
Accounts payable, accrued expenses and other liabilities	(275,908)	1,085,448
Due to reinsurers	(513,353)	461,517
Unearned commission reserve	(141,048)	173,859
Net cash provided by operating activities	3,964,971	8,714,948

J.S. Johnson & Company Limited

Consolidated Statement of Cash Flows (continued)  
(Expressed in Bahamian Dollars)

	<b>Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Investing activities</b>		
Net maturity/(placement) of term deposits	\$ 179,862	\$ (669,599)
Proceeds from sale of property, plant, and equipment	16,171	6,750
Purchase of intangible asset	—	(25,000)
Purchase of property, plant, and equipment (Note 13)	(922,892)	(1,005,245)
Purchase of investments in securities	(2,686,188)	(553,350)
Proceeds from principal payments	102,096	45,714
Interest received	1,061,129	929,270
Dividends received	378,214	314,500
Net cash used in investing activities	(1,871,608)	(956,960)
<b>Financing activities</b>		
Dividends paid to shareholders	(5,112,320)	(5,112,319)
Dividends paid to non-controlling interest	(669,236)	(483,285)
Net cash used in financing activities	(5,781,556)	(5,595,604)
 Net(decrease)/ increase in cash and cash equivalents	 (3,688,193)	 2,162,384
 Cash and cash equivalents, beginning of year	 7,754,471	 5,592,087
Cash and cash equivalents, end of year	\$ 4,066,278	\$ 7,754,471
 <b>Supplemental cash flow information</b>		
Premium tax paid	\$ 1,428,646	\$ 1,725,676

*See accompanying notes to consolidated financial statements.*

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (Expressed in Bahamian Dollars)

December 31, 2015

### **1. Incorporation and Principal Activity**

J.S. Johnson & Company Limited (“the Company”) and its subsidiaries, Insurance Company of The Bahamas Limited (“ICB”) and J.S. Johnson & Company (Turks & Caicos) Limited (“JSJ Turks & Caicos”) (together, the Group) carry on general insurance business. The Company and JSJ Turks & Caicos carry on business as agents and brokers in The Bahamas and the Turks & Caicos Islands, respectively. ICB is licensed to operate as a property and casualty insurance company in The Bahamas and the Turks & Caicos Islands under the Insurance Act 2005, as amended, and the Insurance Ordinance, 1989, amended December 2014, respectively.

The Company is incorporated in The Commonwealth of The Bahamas. The registered office of the Company and ICB are situated at the offices of Messrs. McKinney, Bancroft & Hughes, Mareva House, No. 4 George Street, Nassau, The Bahamas. The registered office of JSJ Turks & Caicos is situated at the offices of Twa, Marcelin & Wolf, Chancery Court, Leeward Highway, Providenciales, Turks & Caicos Islands, BWI.

The Company’s principal place of business is located at 34 Collins Avenue, Nassau, The Bahamas. ICB’s principal place of business is located at 33 Collins Avenue, Nassau, The Bahamas. JSJ Turks & Caicos’ principal place of business is located at Graceway Plaza, Leeward Highway, Providenciales, Turks & Caicos Islands, BWI.

### **2. Basis of Preparation**

#### *(a) Statement of Compliance*

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

#### *(b) Basis of Measurement*

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets and financial liabilities that have been measured at fair value.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### **2. Basis of Preparation (continued)**

The methods used to measure fair value are discussed further in the significant accounting policies below.

##### *(c) Functional and Presentation Currency*

These consolidated financial statements are presented in Bahamian dollars, which is the Company's functional currency.

##### *(d) Use of Estimates and Judgments*

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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 and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Notes 3(b), 3(c), 3(f), 3(g), 3(h), 3(i), 3(j), 11, 12, 13, 14, 25 and 26.

##### *(e) New Standards Adopted During the Year*

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- ***Amendments to IAS 19 Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. This amendment is not relevant to the Company, the Company has no defined benefit plans with contributions from employees or third parties.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 2. Basis of Preparation (continued)

- ***Annual Improvements 2010-2012 Cycle***
  - IFRS 2 Share-based Payment
  - IFRS 3 Business Combinations
  - IFRS 8 Operating Segments
  - IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
  - IAS 24 Related Party Disclosures
- ***Annual Improvements 2011-2013 Cycle***
  - IFRS 3 Business Combinations
  - IFRS 13 Fair Value Measurement
  - IAS 40 Investment Property

### 3. Summary of Significant Accounting Policies

The principal accounting policies set out below have been applied consistently by the Group and are consistent with those used in the previous year, except as outlined in Note 2(e).

#### (a) Basis of Consolidation

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Entities of which the Company holds, directly or indirectly, the majority of voting rights are fully consolidated.

Entities that are less than 50% owned, but in which the Company exercises de facto control, that is, has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities, are considered to be subsidiaries of the Company. The financial statements of such entities are fully consolidated into the Group's consolidated financial statements from the date that control commences until the date that control ceases.

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in net income or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available for sale financial asset depending on the level of influence retained.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 3. Summary of Significant Accounting Policies (continued)

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Goodwill at the acquisition date is measured as the fair value of the consideration transferred, plus the recognized amount of any non-controlling interests in the acquiree, plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less the net recognized amounts (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in net income or loss in the consolidated statement of comprehensive income. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in net income or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in net income or loss.

The consolidated financial statements include the accounts of the Company and the following entities:

<u>Name</u>	<u>Country of Incorporation</u>	<u>Ownership</u>
Insurance Company of The Bahamas Limited	The Bahamas	40%
J.S. Johnson & Company (Turks & Caicos) Limited	Turks & Caicos Islands, BWI	80%

Inter-company transactions and balances are eliminated on consolidation. Subsidiaries' accounting policies are consistent with the policies adopted by the Group.

Non-controlling interest in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interest consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 3. Summary of Significant Accounting Policies (continued)

##### (b) Insurance Contracts

###### (i) *Classification, Recognition, and Measurement*

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer insurance risks. Such contracts may also transfer financial risk. The Group considers an insurance risk to be significant where the sum insured or limit of indemnity exceeds \$250,000. The classification of contracts identifies both the insurance and reinsurance contracts entered into by the Group.

Short term insurance contracts consist of Property, Casualty, Motor, and Marine insurance contracts.

Property insurance contracts, both personal and commercial, provide compensation for loss, or damage to property. Business interruption coverage provides compensation for loss of earnings following physical damage to the insured premises.

Casualty/liability insurance contracts protect the insured against the risk of causing financial loss or injury to third parties following some act of negligence. Liabilities covered include both contractual and non-contractual. Two of the most common protections offered are “Employer’s Liability”, designed to indemnify employers who become legally liable to pay compensation to injured employees, and “Public Liability”, designed to indemnify individuals, and businesses who become legally liable to pay compensation to third parties.

Motor insurance contracts cover the driver’s liability to third parties in respect of personal injury or property damage. If comprehensive cover is purchased, the policy also covers damage to the policyholder’s vehicle.

Marine insurance contracts include the insurance of goods in transit over land or sea and also the insurance of hulls. Hull insurances typically cover both physical damage to the vessel and also the boat owner’s liability to third parties in respect of personal injury or property damage.



## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued)

*(Expressed in Bahamian Dollars)*

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

Premiums generated from insurance and inwards reinsurance contracts are recognized as revenue (gross written premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as unearned premium reserve, calculated using net retained premiums. Gross written premiums are shown before deduction of premium tax, premiums ceded to reinsurers, and commissions. Premiums received prior to the year end and processed after the year end by the agents are recognized at the time of processing.

Claims and loss adjustment expenses are charged to income as incurred based on the known or estimated liability for compensation owed to policyholders or third parties. They include direct or indirect claims settlement costs and arise from events that have occurred up to the reporting date regardless of whether or not they have been reported. Gross outstanding claims comprise the estimated cost of all claims incurred but not settled as of the reporting date whether reported or not. The Group does not discount its liabilities for outstanding claims. Liabilities for outstanding claims are estimated using: (a) the judgment of the Company's claims manager in regards to routine claims, (b) external legal opinion in connection with more complex claims, and (c) statistical analyses for claims incurred but not reported.

##### *(ii) Liability Adequacy Test*

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. Tests include reviewing original estimates of ultimate claims cost for each accident year against the current year-end estimates. These tests are carried out at the portfolio level for the classes of motor and casualty lines of business. Should any trend in reserve deficiency, at total portfolio level, become apparent, the deficiency would immediately be charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

##### *(iii) Reinsurance Contracts Held and Assumed*

The Group cedes (or assumes) reinsurance under a variety of formal treaty arrangements, with retention limits varying by the line of business. Under these treaties which are classified as reinsurance contracts held (or assumed) the Group is compensated (or compensates) in respect of one or more losses under contracts that meet the classification requirements for insurance contracts. Contracts that do not meet these classification requirements are classified as financial assets (or financial liabilities).



## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 3. Summary of Significant Accounting Policies (continued)

The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets are classified as reinsurance recoverables and comprise:

- recoverables due from reinsurers in respect of claims paid, and
- the reinsured portion of the reserves for outstanding claims allocated in accordance with the treaty arrangements for the class of business in question.

Amounts paid to the reinsurers relating to the unexpired portion of reinsured contracts are classified as prepaid reinsurance premiums.

Reinsurance liabilities are classified as due to reinsurers and are primarily premiums payable under treaty reinsurance contracts after deduction of reinsurance recoverables on proportional contracts.

Premiums to be ceded are recognized as an expense from the date the gross premiums are written and over the term of the reinsurance in the consolidated statement of comprehensive income.

Amounts shown as reinsurance recoverables, prepaid reinsurance premiums or due to reinsurers are measured consistently with the amounts associated with reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Group assesses its reinsurance assets for any indication of impairment on an ongoing basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the consolidated statement of comprehensive income. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 3 (j).

#### *(iv) Portfolio Transfer*

At the anniversary date of the reinsurance agreements and at the Company's option proportional reinsurers agree to assume the unexpired liability of all risks in force at such anniversary date. The unexpired liability is computed in accordance with the method outlined in the reinsurance agreement and accounted for when determined in the consolidated statement of comprehensive income.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 3. Summary of Significant Accounting Policies (continued)

#### *(v) Receivables and Payables Related to Insurance Contracts*

Receivables and payables are recognized when the contractual right to receive payment and contractual obligation to make payment arise, respectively. These include amounts due to and from insurance carriers and reinsurers and the receivable balances are assessed for impairment and doubtful accounts. As at December 31, 2015 and 2014, no provision was made for impairment or doubtful accounts.

#### *(vi) Fronting Arrangements*

Gross Written Premium includes the risk premium from fronting arrangements whereby the company reinsures one hundred percent of an individual risk to an insurer not licensed to transact business in The Bahamas. The reinsured amounts are included within the amount shown as “Ceded to reinsurers”, amounting to \$2,165,565 (2014: \$6,073,220).

#### **(c) Accounts Receivable**

Accounts receivable, other than receivables relating to insurance contracts, are recognized initially at fair value and subsequently measured at amortized cost less provision for impairment.

A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

#### **(d) Segment Reporting**

The Group determines and presents operating segments based on the information that is provided to the Managing Director, who is the Group’s chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any other Group entities. An operating segment’s operating results are reviewed regularly by the Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 3. Summary of Significant Accounting Policies (continued)

#### (e) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate prevailing at that date. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities at year-end exchange rates are recognized in net income or loss in the consolidated statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences, if any, relating to investments at fair value through profit or loss are included in net realized gain/loss or change in net unrealized gain/loss on investments in securities in net income or loss in the consolidated statement of comprehensive income. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents are recognized in net income or loss in the consolidated statement of comprehensive income.

#### (f) Investment Property

The Group classifies property held for capital appreciation and rental as investment property. Investment property, which comprises land and buildings, is carried at cost using the cost model and measured in accordance with IAS 16 – Property, Plant, and Equipment, and is stated at historical cost less accumulated depreciation and impairment losses. Depreciation on the buildings is recognized in net income or loss in the consolidated statement of comprehensive income on a straight line basis either at the annual rate of 2.00% or over the estimated useful life of 50 years (2014 – 50 years). No depreciation is taken on land. The carrying value of the land and buildings are also assessed annually for any impairment losses.

The fair value of investment property is determined by third-party professional appraisals, which are performed every three years. In the intervening years, the Directors determine the fair value of the investment property. The fair value of the investment property is based on market value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

#### (g) Property, Plant, and Equipment

Property, plant, and equipment, except for land, are stated at historical cost less accumulated depreciation and impairment losses. Land is stated at cost and not subject to depreciation.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 3. Summary of Significant Accounting Policies (continued)

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant, and equipment. The cost of replacing part of an item of property, plant, and 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 Group and its cost can be measured reliably. Repairs and maintenance are charged to net income or loss in the consolidated statement of comprehensive income when the expenditure is incurred.

Depreciation is recognized in the consolidated statement of comprehensive income on a straight line basis over the estimated useful lives of the items of the assets, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. In the year of acquisition, a full year's depreciation is charged to net income or loss in the consolidated statement of comprehensive income, regardless of the acquisition date.

The estimated depreciation rates for the current and corresponding period are as follows:

	Useful Lives	Depreciation Rates
Buildings	50	2%
Office furniture and equipment	6.67	15%
Computer equipment	5	20%
Motor vehicles	4 – 5	20% – 25%
Leasehold improvements	Lesser of useful life or Duration of lease	

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in other income in the consolidated statement of comprehensive income. Repairs and maintenance are charged to net income or loss in the statement of comprehensive income when the expenditure is incurred.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 3. Summary of Significant Accounting Policies (continued)

##### (h) Financial Instruments

Financial instruments comprise cash and cash equivalents, term deposits, loans and receivables, due from insurance carriers, due from/to related parties, investments in equity and debt securities, due to reinsurers, accounts payable, and accrued expenses and other liabilities.

Financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

A financial instrument is recognized when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are accounted for at trade date, that is, the date the Group commits itself to purchase or sell the asset. Financial assets are derecognized when the Group's contractual rights to the cash flows from the financial assets expire or when the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognized when the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash and term deposits held with financial institutions with original maturities of less than three months. Bank overdraft and margin loan that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

##### (i) Investments at Fair Value Through Profit or Loss

An instrument is classified as held at fair value through profit or loss if it is acquired for the purposes of selling in the near term, and which may be disposed of in response to the needs for liquidity, or changes in interest rates, exchange rates, or equity prices, or is designated as such upon initial recognition.

Financial assets classified as held at fair value through profit or loss include investments in equity securities.

Upon initial recognition, attributable transaction costs are recognized in net income or loss when incurred. Financial instruments as held at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income or loss in the consolidated statement of comprehensive income.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 3. Summary of Significant Accounting Policies (continued)

##### *(ii) Investments Held-to-Maturity*

Financial assets and liabilities with fixed dates of maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity. Financial assets classified as held-to-maturity include Government debt instruments and corporate bonds. Subsequent to initial recognition, investments held-to-maturity are measured at amortized cost using the effective interest method, less any impairment losses.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

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

##### *(iii) Available For Sale Investments*

Available for sale investments are financial assets and liabilities that are either designated in this category or are not classified as loans and receivables, held-to-maturity investments, or investments at fair value through profit or loss. Financial assets classified as available for sale investments include preferred shares and mutual funds and, subsequent to initial recognition, are measured at fair value less any impairment losses.

Changes in fair value, other than impairment losses, are recognized in other comprehensive income in the consolidated statement of comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is transferred to net income or loss in the consolidated statement of comprehensive income.

##### *(iv) Loans and Receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 3. Summary of Significant Accounting Policies (continued)

Receivables arising from insurance contracts, accounts receivable from customers, other receivables and cash and cash equivalents are classified in this category.

##### *(v) Offsetting*

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

##### *(vi) Fair Value Measurement Principles*

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either; in the principal or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible by the company.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Any equity security that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses, if any. If a reliable measure of fair value becomes available subsequently, the instrument is measured at fair value.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued)

*(Expressed in Bahamian Dollars)*

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price ( i.e., the fair value of the consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2 – Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted market prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.



# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 3. Summary of Significant Accounting Policies (continued)

#### (vii) *Amortized Cost Measurement*

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

#### (i) **Intangible Assets**

Intangible assets include customer relationships acquired from third parties and are stated at cost less accumulated amortization and impairment losses, if any. Amortization is recognized in income or loss in the consolidated statement of comprehensive income on a straight line basis over the estimated useful life of the customer relationship from the date that it is acquired. The estimated useful life of customer relationships is five years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

#### (j) **Impairment**

##### (i) *Financial assets*

A financial asset is 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.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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.

All impairment losses are recognized in net income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through net income or loss in the consolidated statement of comprehensive income.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 3. Summary of Significant Accounting Policies (continued)

Impairment losses on available for sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to net income or loss. The cumulative loss that is removed from other comprehensive income and recognized in net income or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in net income or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in net income or loss, then the impairment loss is reversed, with the amount of the reversal recognized in net income or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income.

#### *(ii) Non-Financial Assets*

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in net income or loss in the consolidated statement of comprehensive income. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is 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.

#### **(k) Income and Expense Recognition**

Premiums are recognized as revenue over the periods covered by the related policies after allowing for premiums ceded.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 3. Summary of Significant Accounting Policies (continued)

Commission income from reinsurers is received on premiums ceded and is recognized over the periods covered by the related policies.

Commission income on agency business is recognized at the time when premiums are billed to customers as the Group has no further service obligations associated with these commissions.

Other revenues and expenses of the Group are recognized on an accrual basis, except as follows:

- i. Dividend income – recognized when the Group's right to receive payment has been established.
- ii. Treaty profit commission income – recognized in the year in which the treaty profits are crystallized.
- iii. Loyalty commission income and profit commission expense – recognized when the Group's right to receive or obligation to make payment has been established.
- iv. Fronting fees – recognized when premiums are billed to customers as the Group has no further service obligations associated with these fees.
- v. Commission expense – recognized when the obligation to pay the commissions has been established.

#### (l) Premium Tax

Premium tax is incurred at a rate of 3.00% of gross written premiums written in The Commonwealth of The Bahamas and 2.50% of gross written premiums in the Turks & Caicos Islands, BWI. Premium tax is recognized when the Company's obligation to make payment has been established.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 3. Summary of Significant Accounting Policies (continued)

##### **(m) Employee Benefits**

###### *(i) Defined Contribution Pension Plan*

The Group has a defined contribution pension plan for eligible employees whereby the Group pays contributions to a privately administered pension plan. The Group has no further payment obligations once the contributions have been paid. The plan requires participants to contribute 5% of their eligible earnings and such amounts are matched by the Group. The Group's contributions to the defined contribution pension plan are charged to income or loss in the year to which they relate.

###### *(ii) Short-Term Benefits*

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided in net income or loss.

A provision is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### **(n) Operating Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to net income or loss using a straight-line method over the period of the lease.

##### **(o) Related Parties**

Related parties include affiliates of Aon Corporation, major shareholders, directors and key management personnel who have the authority and responsibility for planning, directing and controlling the activities of the Group (see Note 23 for further details).

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 3. Summary of Significant Accounting Policies (continued)

##### (p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and, it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

##### (q) Treasury Share Capital (Interest In Own Shares)

Treasury share capital represents the Group's own equity instruments, which are acquired and are deducted from equity and accounted for at cost. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

##### (r) Earnings Per Share

The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

##### (s) Dividends

Dividends proposed or declared after the reporting date are not recognized at the reporting date.

##### (t) New Standards, Interpretations, and Amendments to Published Standards that are Not Yet Effective

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's accounting periods but which the Group has not early adopted are as follows:

##### **Standards issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

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

##### **(t) New Standards, Interpretations, and Amendments to Published Standards that are Not Yet Effective (continued)**

###### **IFRS 9 Financial Instruments**

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

###### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted.

###### **Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests**

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

## **J.S. Johnson & Company Limited**

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

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

##### **(t) New Standards, Interpretations, and Amendments to Published Standards that are Not Yet Effective (continued)**

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

##### **Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

##### **Amendments to IAS 27: Equity Method in Separate Financial Statements**

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

## **J.S. Johnson & Company Limited**

### **Notes to Consolidated Financial Statements (continued)**

*(Expressed in Bahamian Dollars)*

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

##### **(t) New Standards, Interpretations, and Amendments to Published Standards that are Not Yet Effective (continued)**

###### **Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

###### **Annual Improvements 2012-2014 Cycle**

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits
- IAS 34 Interim Financial Reporting
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception



## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 3. Summary of Significant Accounting Policies (continued)

##### (t) New Standards, Interpretations, and Amendments to Published Standards that are Not Yet Effective (continued)

The Group is currently assessing the impact of the new and revised standards, however, at this time, management does not anticipate any material impact on the results of its operations from the implementation of these new standards when they become effective.

#### 4. Accounts Receivable

Accounts receivable are stated at amortized cost less provision for doubtful accounts. Interest is charged on accounts that are financed at a rate of 10% (2014 – 10%) per annum on the total balance financed for periods of three months or six months. The Company reserves the right and from time to time may negotiate lower interest rates and longer periods for commercial customers. Collateral is not held against any of the outstanding balances; however the Company has the right to cancel the financed policy for non-payment. As at December 31, 2015, the rates of interest on the premium finance receivables range from 5% to 10% per annum (2014 – 5% to 10%) and are all financed for periods within three months.

As at December 31 accounts receivable consist of:

	2015	2014
Trade	\$ 10,781,715	\$ 8,925,331
Premium finance	478,012	1,026,058
	11,259,727	9,951,389
Provision for doubtful accounts	(424,234)	(376,234)
	<u>\$ 10,835,493</u>	<u>\$ 9,575,155</u>

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 4. Accounts Receivable (continued)

The aging analysis of accounts receivable as at December 31 is as follows:

#### 2015

	0– 6 Months	6 – 9 Months	9 – 12 Months	More than 12 Months	Past due and Impaired	Total
Trade	\$ 8,105,033	\$ 1,847,073	\$ 145,654	\$ 259,721	\$ 424,234	\$ 10,781,715
Premium finance	476,946	1,066	–	–	–	478,012
Total	<u>\$ 8,581,979</u>	<u>\$ 1,848,139</u>	<u>\$ 145,654</u>	<u>\$ 259,721</u>	<u>\$ 424,234</u>	<u>\$ 11,259,727</u>

#### 2014

	0– 6 Months	6 – 9 Months	9 – 12 Months	More than 12 Months	Past due and Impaired	Total
Trade	\$ 6,435,903	\$ 1,741,128	\$ 243,772	\$ 128,294	\$ 376,234	\$ 8,925,331
Premium finance	1,024,928	1,130	–	–	–	1,026,058
Total	<u>\$ 7,460,831</u>	<u>\$ 1,742,258</u>	<u>\$ 243,772</u>	<u>\$ 128,294</u>	<u>\$ 376,234</u>	<u>\$ 9,951,389</u>

Based on the Company's current aging procedure, all trade balances over five months are considered to be past due but not impaired. All trade balances that have been outstanding for more than one year and have had no activity within the past 12 months are considered to be past due and impaired. Cancellation or extension of the terms of the credit is instituted on a case by case basis. Specific provisions are made against trade balances based on the above aging procedure.

For premium financed receivables, in the event of default of payment by the customer on any of the agreed installments, the balance automatically and immediately becomes due and payable in full. The Company may in its sole discretion reinstate the finance agreement if the overdue installment is paid in full within the grace period. Failure to pay the overdue installments within the grace period will result in the cancellation of the underlying policy. The Company has the sole right to amend the policy after the grace period. As at December 31, 2015, \$120,009 (2014 – \$294,314) related to policies that were in default of payment of the agreed installments and are considered to be past due but not impaired.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 4. Accounts Receivable (continued)

The movement in the provision for doubtful accounts as at December 31 is as follows:

	2015	2014
Balance as of January 1	\$ 376,234	\$ 328,892
Write-off against provision	-	(658)
Provision for the year	48,000	48,000
Balance as at December 31	<u>\$ 424,234</u>	<u>\$ 376,234</u>

### 5. Underwriting Policies and Reinsurance Agreements

The Group follows the policy of underwriting and reinsuring all contracts of insurance, which limit the retained liability of the Group. The reinsurance of contracts does not, however, relieve the Group of its primary obligation to the policyholders. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, the Group would also be liable for the reinsured amount. The Group's credit risk management procedures are detailed in Note 25.

Aon Limited, whose registered office is in London, England, a related party of the Company, is the Group's reinsurance broker and acts as the intermediary between the Group and the reinsurers. Reinsurance contracts between the Group and its reinsurers are renewable annually in accordance with the terms of the individual contracts.

Reinsurance recoverables consist of:

	2015	2014
Recoverables under excess of loss reinsurance for claims paid and outstanding	\$ 368,335	\$ 616,661
Recoverables under proportional contracts for outstanding claims (Note 14)	7,990,267	9,141,637
	<u>\$ 8,358,602</u>	<u>\$ 9,758,298</u>

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 5. Underwriting Policies and Reinsurance Agreements (continued)

Amounts due to reinsurers of \$3,422,086 (2014 – \$3,935,439) represent premiums to be ceded to the reinsurers as at December 31, 2015, less reinsurance recoverables on proportional contracts.

### 6. Cash and Bank Balances

The Group earned interest at varying rates up to 0.5% (2014 – varying rates up to 0.5%) per annum on accounts denominated in Bahamian dollars. Interest earned on demand deposits amounted to \$37,224 (2014 – \$21,350).

### 7. Term Deposits

Term deposits with banks include accrued interest totaling \$145,411 (2014 – \$242,838). The term deposits are held more than three months from the date of acquisition and have the following maturities and interest rates:

	Interest Rates 2015	2015	Interest Rates 2014	2014
Three months – one year	0.4112%-3.25%	\$ 5,476,050	0.13%-4.00%	\$ 9,224,403
Over one year	2.75%-4.25%	4,487,366	4.25%	1,016,302
		<u>\$ 9,963,416</u>		<u>\$ 10,240,705</u>

To meet the requirement under the Insurance Act 2005 in The Bahamas, as outlined in Note 27, ICB renewed its term deposit of \$1,150,282 (2014 – \$1,124,964) with maturity date of December 21, 2016. The term deposit is held with a recognized financial institution in The Bahamas.

ICB is also required under the Insurance Regulations in Turks and Caicos to meet certain capital requirements as outlined in Note 27, and maintained a restricted deposit of \$505,705 (2014 – \$504,589), with a maturity date of December 6, 2016. The deposit is held with a recognized financial institution in Turks and Caicos.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 8. Investments in Securities

Investments in securities are classified as follows:

	2015	2014
Securities at fair value through profit or loss	\$ 4,052,340	\$ 3,489,308
Held-to-maturity	10,705,373	9,891,490
Available for sale	4,890,840	3,083,295
As of end of year	<u>\$ 19,648,553</u>	<u>\$ 16,464,093</u>

#### *Securities at Fair Value Through Profit or Loss*

Securities at fair value through profit or loss principally comprise marketable equity securities, which are listed on The Bahamas International Securities Exchange, and are stated at fair value using quoted bid prices.

Movements during the year were as follows:

	2015	2014
As at beginning of year	\$ 3,489,308	\$ 3,123,521
Additions	-	53,350
Change in net unrealized gains during the year	563,032	312,437
As of end of year	<u>\$ 4,052,340</u>	<u>\$ 3,489,308</u>

As of December 31, 2015, the cost of securities at fair value through profit or loss was \$2,223,863 (2014 – \$2,223,863).

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 8. Investments in Securities (continued)

#### *Held-to-Maturity Securities*

Held-to-maturity securities consist of the following:

	Interest Rates	Maturity	Amortized Cost 2015
The Bridge Authority Bond	6.25%	2024	\$ 130,250
Bahamas Government Registered Stocks	4.89% to 5.37%	2019 – 2037	5,831,675
Clifton Heritage Authority	5.50%	2035	282,714
Bahamas Electricity Corporation Bond	6.40%	2021	500,792
Fidelity Bank (Bahamas) Ltd.	7.00%	2017	507,000
Fidelity Bank (Bahamas) Ltd	6.00%	2018	100,674
Nassau Airport Development: Company – senior secured note	8.50%	2031	473,686
College of The Bahamas	7.00%	2026	392,857
Public Hospital Authority Ser A	6.00%	2033	961,696
Bahamas Govt Stock Tranche 1	6.25%	2044	501,370
Bahamas Govt Stock Tranche 2	4.50%	2022	1,022,659
			<u>\$ 10,705,373</u>

	Interest Rates	Maturity	Amortized Cost 2014
The Bridge Authority Bond	6.25%	2024	\$ 130,250
Bahamas Government Registered Stocks	4.89% to 5.37%	2015 – 2037	5,937,058
Clifton Heritage Authority	5.50%	2035	283,139
Bahamas Electricity Corporation	6.40%	2021	500,792
Fidelity Bank (Bahamas) Ltd.	7.00%	2017	507,000
Fidelity Bank (Bahamas) Ltd	6.00%	2018	100,542
Nassau Airport Development: Company – senior secured note	8.50%	2031	487,730
College of The Bahamas	7.00%	2026	428,572
Public Hospital Authority Ser A	6.00%	2033	1,015,123
Bahamas Govt Stock Tranche 1	6.25%	2044	501,284
			<u>\$ 9,891,490</u>

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued)

(Expressed in Bahamian Dollars)

### 8. Investments in Securities (continued)

Included in amortized costs for held-to-maturity investments is accrued interest totaling \$152,210 (2014 – \$133,919).

In accordance with the Note Purchase Agreement dated March 20, 2009 for Nassau Airport Development Company – Senior Secured Note, the issuer has exercised its rights under the Agreement to prepay the principal in a number of installments until the maturity date in 2031. During 2015, ICB received \$13,750 (2014 – \$10,000) towards the principal of the Secured Note.

In accordance with the Note Purchase Agreement dated June 24, 2011 for The College of The Bahamas, the issuer has exercised its rights under the Agreement to prepay the principal in a number of installments until the maturity date in 2026. During 2015, the Company received \$35,714 (2014 – \$35,714) towards the principal of the Secured Note.

In accordance with the Note Purchase Agreement dated November 13, 2013, for Public Hospital Authority, the issuer has exercised its rights under the Agreement to prepay the principal in a number of installments until the maturity date in 2033. Starting in 2015, the Company received \$52,632 towards the principal of the Secured Note.

#### Available For Sale Securities

Available for sale securities consist of the following:

	No. of Shares	2015 Fair Value	No. of Shares	2014 Fair Value
Commonwealth Bank Ltd. 7% (perpetuity)	10,000	\$ 1,000,000	10,000	\$ 1,000,000
Bank of The Bahamas 6.75% (perpetuity)	500	500,000	500	500,000
Cable Bahamas Ltd. Series Four 8% (2019)	-	-	50,000	500,000
Cable Bahamas Ltd. Series Six 5.75% (2019)	539	539,000	-	-
Cable Bahamas Ltd. Series Nine 6.25% (2019)	1,249	1,249,500	-	-
APD Limited Series A 5.5%	1,000	500,000	1,000	500,000
Grand Bahama Power Company Limited 7.25%	322,000	322,000	322,000	322,000
Prime Income Fund Ser Four	100,000	509,700	-	-
High Yield Income Fund	25,000	270,640	25,000	261,295
		<u>\$4,890,840</u>		<u>\$3,083,295</u>

Included in prepayments and other assets is \$87,655 (2014 – \$31,604) relating to dividends receivable (Note 10) at December 31, 2015.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 8. Investments in Securities (continued)

##### *Fair Value Hierarchy*

Securities at fair value through profit or loss and available for sale securities are categorized as Level 2 as at December 31, 2015 and 2014. There has been no transfer of financial instruments between Level 1 and Level 2 during the year ended December 31, 2015 and 2014.

#### 9. Due from Insurance Carriers

As of December 31, 2015, balances totaling \$122,943 (2014 – \$67,605) comprise funds due from insurance carriers relating to cancellations and for policies that were processed subsequent to the year end.

#### 10. Prepayments and Other Assets

	2015	2014
Staff loans and advances (i)	\$ 528,830	\$ 500,965
Prepayments and security deposits	89,406	77,641
Capital projects – deposits (ii)	129,028	161,285
Commissions receivable	219,500	163,478
Other assets ( <i>Note 8</i> )	383,274	297,447
	<u>\$ 1,350,038</u>	<u>\$ 1,200,816</u>

- (i) Staff loans are secured by the employee's pension fund and are granted based on an employee's tenure with the Company. The maturity dates normally extend up to 24 months of issuance.
- (ii) This balance represents payments made for architect fees related to the planned building extension project, for which the expected date of commencement has not yet been determined. During 2015, the Company began amortizing this balance over a five year period.



# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 11. Intangible Assets

	2015	2014
Cost:		
At January 1	\$ 665,308	\$ 640,308
Acquisitions	-	25,000
At December 31	<u>\$ 665,308</u>	<u>\$ 665,308</u>
Accumulative amortization:		
At January 1	\$ 392,002	\$ 264,552
Charge for the year	101,684	127,450
At December 31	<u>\$ 493,686</u>	<u>\$ 392,002</u>
Impairment:		
At January 1	\$ 33,492	\$ 77,167
Reversal of impairment during the year	-	(43,675)
At December 31	<u>\$ 33,492</u>	<u>\$ 33,492</u>
Net carrying value	<u>\$ 138,130</u>	<u>\$ 239,814</u>

Intangible assets relate to the purchase of three portfolios of businesses (“business”) consisting of customer relationships with insurance policies in the Turks and Caicos Islands and a recently acquired portfolio in Exuma, Bahamas. In 2011, the Company paid \$383,600 for one of the portfolios of business and an impairment loss of \$77,167 was incurred in 2012 and is included in the consolidated statement of comprehensive income. In 2014, a reversal of \$43,675 impairment loss was made as this portfolio still carried a value for the Company at the end of December 2014. This portfolio is now fully amortized as of December 31, 2015.

The second portfolio was acquired for \$256,708 in accordance with a Purchase and Sales Agreement, which represented commissions collected up to April 30, 2013.

The third portfolio was purchased on August 1, 2014. As of December 31, 2015, \$25,000 has been paid and will be subjected to additional fees upon completion of the contract in 2016.

Amortization charged in 2015 of \$101,684 (2014 – \$127,450) is included in depreciation and amortization in the consolidated statement of comprehensive income.

There have been no changes in the estimates and assumptions that were initially used to assess the fair value of the intangible assets.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 12. Investment Properties

Investment properties are accounted for using the cost model and are as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost:			
Balance as at January 1, 2015	\$ 1,714,819	\$ 378,809	\$ 2,093,628
Balance as at December 31, 2015	<u>\$ 1,714,819</u>	<u>\$ 378,809</u>	<u>\$ 2,093,628</u>
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Accumulated depreciation:			
Balance as at January 1, 2015	\$ –	\$ 83,648	\$ 83,648
Charge for the year	–	10,778	10,778
Balance as at December 31, 2015	<u>\$ –</u>	<u>\$ 94,426</u>	<u>\$ 94,426</u>
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Impairment:			
Balance as at January 1, 2015	\$ 322,046	\$ 67,166	\$ 389,212
and December 31, 2015		24,164	24,164
Charge for the year		–	–
Balance as at December 31, 2015	<u>\$ 322,046</u>	<u>\$ 91,330</u>	<u>\$ 413,376</u>
Net Carrying Value as at			
December 31, 2015	<u>\$ 1,392,773</u>	<u>\$ 193,053</u>	<u>\$ 1,585,826</u>
Net Carrying Value as at			
December 31, 2014	<u>\$ 1,392,773</u>	<u>\$ 227,995</u>	<u>\$ 1,620,768</u>

As at December 31, 2015, the Company's investment properties are comprised of three parcels of land, one of which is a vacant lot with a carrying value of \$536,917 (2014 - \$536,917).

The second investment property is represented by land and a building, which have carrying values of \$480,000 (2014 - \$480,000), and \$125,154 (2014 - \$133,687), respectively.

The third investment property is another land and building, which have carrying values of \$375,856 (2014 - \$375,856) for land and \$67,897 (2014 - \$94,306) for building.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 12. Investment Properties (continued)

Investment properties are being assessed annually for any indication of impairment, one of the factors being considered is the estimated fair value. During 2011, an impairment loss was recorded for the second investment property land and building. While impairment loss of \$24,164 (2014: nil) was recorded in 2015 for the third investment property building. The Company has a policy in place to perform appraisals every three years for the purpose of facilitating impairment assessment only as the Company uses the cost method. The latest independent appraisals were performed for the years ended 31 December 2015 and 2014, respectively. No other impairment losses were recognized in 2015 and 2014.

Included in depreciation in the statement of comprehensive income is the depreciation charge on the building of \$10,778 (2014 - \$10,780).

### 13. Property, Plant, and Equipment

	Land	Building	Furniture, Equipment & Motor Vehicles	Leasehold Improvements	Computer Hardware & Software	Total
<b>Cost:</b>						
Balance as of January 1, 2015	\$ 2,340,044	\$ 6,946,341	\$ 1,675,700	\$ 720,736	\$ 2,162,046	\$ 13,844,867
Additions	—	—	217,731	622,337	82,824	922,892
Disposals	—	—	(37,400)	—	—	(37,400)
<b>Balance as of December 31, 2015</b>	<b>\$ 2,340,044</b>	<b>\$ 6,946,341</b>	<b>\$ 1,856,031</b>	<b>\$ 1,343,073</b>	<b>\$ 2,244,870</b>	<b>\$ 14,730,359</b>
<b>Accumulated depreciation:</b>						
Balance as of January 1, 2015	—	1,876,947	1,231,619	325,687	1,667,944	5,102,197
Depreciation charge for the year	—	149,099	153,126	90,257	196,511	588,993
Disposals	—	—	(37,400)	—	—	(37,400)
<b>Balance as of December 31, 2015</b>	<b>\$ —</b>	<b>\$ 2,026,046</b>	<b>\$ 1,347,345</b>	<b>\$ 415,944</b>	<b>\$ 1,864,455</b>	<b>\$ 5,653,790</b>
<b>Net carrying value:</b>						
December 31, 2015	\$ 2,340,044	\$ 4,920,295	\$ 508,686	\$ 927,129	\$ 380,415	\$ 9,076,569
December 31, 2014	\$ 2,340,044	\$ 5,069,394	\$ 444,081	\$ 395,049	\$ 494,102	\$ 8,742,670

### 14. Outstanding Claims and Net Claims Incurred

Included in the consolidated statement of comprehensive income is net claims incurred as follows:

	2015	2014
Claims incurred	\$ 11,386,572	\$ 9,832,025
Less: recoverable from reinsurers	(9,394,015)	(8,360,045)
	<b>\$ 1,992,557</b>	<b>\$ 1,471,980</b>

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### **14. Outstanding Claims and Net Claims Incurred (continued)**

##### *Assumptions, change in assumptions and sensitivity*

##### **(i) Process Used to Decide on Assumptions**

The reserving process commences at the moment an insured reports a claim and there is prima facie evidence that the Group is liable under the policy. An initial reserve is established at that point based on the best information available. Assuming liability is subsequently confirmed, the reserve is revised whenever more detailed information becomes available concerning the nature of the injury or physical damage involved. The setting of reserves is the responsibility of the Group's claims manager who will use external legal or other expert advice where appropriate. Where the initial reserve exceeds the claims manager's settling threshold, the adequacy of the reserve will also be discussed with the management of the Group. An established reserve is expected to be sufficient to meet the final cost of a claim whenever it is finally determined.

A provision for incurred but not reported ("IBNR") claims has been established for each class of business and is monitored for accuracy at each year end. In determining the accuracy of the provision, management reviews the historical cost of IBNR claims and amends the provision, where necessary, taking into account statistical trends and changes in the shape and size of the portfolio.

All claims reserves are established on a gross basis and the Group accounts to proportional reinsurers for their share through quarterly returns. Claims recoveries against Excess of Loss reinsurers are made on a case by case basis on proof of payment being established.

##### **(ii) Sensitivity Analysis – Claims Development**

The development of long tail insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. Accurate claims reserving is crucial to the long term health of the Group as it allows for more accurate pricing of products and also generates the necessary level of confidence on the part of both reinsurers and shareholders. Management uses a variety of statistical tools, including "Loss Triangulations" developed annually on an accident year basis to monitor the development of the Group's long tail liabilities.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 14. Outstanding Claims and Net Claims Incurred (continued)

The following tables show the development of the Group's claims costs by Accident year over the period of 2010 to 2015:

#### Insurance Claims Other Than Catastrophe – Gross:

Accident Year	2010	2011	2012	2013	2014	2015	Total
Original estimate of ultimate claims cost at end of accident year	\$ 12,492,855	\$ 25,592,731	\$ 11,986,068	\$ 14,439,443	\$ 10,929,613	\$ 12,532,624	\$ 87,973,334
Current estimate of cumulative claims	\$ 13,106,840	\$ 21,587,567	\$ 11,953,353	\$ 13,860,792	\$ 11,573,739	\$ 12,532,624	\$ 84,614,915
Cumulative payments to date	(12,896,820)	(21,202,588)	(11,393,152)	(13,164,970)	(10,392,161)	(8,902,035)	(77,951,726)
Liability recognized in the consolidated statement of financial position	\$ 210,020	\$ 384,979	\$ 560,201	\$ 695,822	\$ 1,181,578	\$ 3,630,589	\$ 6,663,189
Liability in respects of years prior to 2010							2,814,610
Gross claims outstanding included in the consolidated statement of financial position							\$ 9,477,799

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### Insurance Claims Other Than Catastrophe – Net Retention:

Accident Year	2010	2011	2012	2013	2014	2015	Total
Original estimate of ultimate cost at end of accident year	\$ 2,718,254	\$ 3,659,091	\$2,312,978	\$ 2,359,634	\$1,738,553	\$2,065,023	\$ 14,853,533
Current estimate of cumulative claims	\$ 2,416,744	\$ 3,393,865	\$ 2,253,615	\$ 2,311,576	\$ 1,853,769	\$ 2,065,023	\$ 14,294,592
Cumulative payments to date	(2,384,938)	(3,336,118)	(2,168,883)	(2,206,936)	(1,675,690)	(1,481,814)	(13,254,379)
Liability recognized in the consolidated statement of financial position	\$ 31,806	\$ 57,747	\$ 84,732	\$ 104,640	\$ 178,079	\$ 583,209	\$ 1,040,213
Liability in respects of years prior to 2010							78,984
Net claims outstanding included in the consolidated statement of financial position							\$ 1,119,197

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 14. Outstanding Claims and Net Claims Incurred (continued)

#### (iii) Movements in Outstanding Claims

##### *Outstanding Claims*

As at December 31, 2015, outstanding claims of \$9,477,799 (2014 – \$10,807,703) are shown gross of reinsurance recoverables of \$7,990,267 (2014 – \$9,141,637) as disclosed in Note 5.

Included in gross outstanding claims is a provision of \$935,000 (2014 – \$825,000) for claims incurred but not reported as of the year end.

Year Ended December 31	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claim at January 1, consists of:						
Notified claims	\$ 9,982,703	\$(8,453,637)	\$1,529,066	\$ 11,865,977	\$(9,974,056)	\$1,891,921
Incurred but not reported	825,000	(688,000)	137,000	850,000	(708,000)	142,000
<b>Total claims outstanding at beginning of the year</b>	<b>\$ 10,807,703</b>	<b>\$(9,141,637)</b>	<b>\$ 1,666,066</b>	<b>\$ 12,715,977</b>	<b>\$(10,682,056)</b>	<b>\$ 2,033,921</b>
Cash paid for claims settled in the year	(12,810,526)	10,639,436	(2,171,090)	(11,752,349)	9,912,514	(1,839,835)
Increase in liabilities arising in current year claims	13,508,752	(9,249,096)	4,259,656	12,931,686	(9,579,773)	3,351,913
arising from prior years claims	(2,138,130)	(144,920)	(2,283,050)	(3,062,611)	1,187,678	(1,874,933)
movement in incurred but not reported	110,000	(94,050)	15,950	(25,000)	20,000	(5,000)
<b>Total claims outstanding at end of the year</b>	<b>\$ 9,477,799</b>	<b>\$ (7,990,267)</b>	<b>\$ 1,487,532</b>	<b>\$ 10,807,703</b>	<b>\$ (9,141,637)</b>	<b>\$ 1,666,066</b>
Outstanding claim at December 31, consist of:						
Notified claims	8,542,799	(7,208,217)	1,334,582	9,982,703	(8,453,637)	1,529,066
Incurred but not reported	935,000	(782,050)	152,950	825,000	(688,000)	137,000
<b>Total claims outstanding at end of the year</b>	<b>\$ 9,477,799</b>	<b>\$ (7,990,267)</b>	<b>\$ 1,487,532</b>	<b>\$ 10,807,703</b>	<b>\$ (9,141,637)</b>	<b>\$ 1,666,066</b>

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 14. Outstanding Claims and Net Claims Incurred (continued)

#### (iv) Unearned Premium Reserve

Year Ended December 31	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At beginning of the year	21,881,684	(18,628,939)	3,252,745	21,540,372	(18,114,440)	3,425,932
Net increase in the year	(1,178,807)	1,218,552	39,745	341,312	(514,497)	(173,185)
<b>Total claims outstanding at end of the year</b>	<b>\$ 20,702,877</b>	<b>\$ (17,410,387)</b>	<b>\$ 3,292,490</b>	<b>\$ 21,881,684</b>	<b>\$ (18,628,937)</b>	<b>\$ 3,252,747</b>

Included in net premiums earned in the consolidated statement of comprehensive income is the net decrease in unearned premium reserve of \$39,745 (2014 – net increase of \$173,185).

These provisions represent the liability for short-term insurance contracts for which the Group's obligations are not expired at year-end.

### 15. Accounts Payable

Included in accounts payable is \$1,256,088 (2014 – \$974,223) representing customer accounts with credit balances. These credit balances comprise funds received from customers for policies that were processed subsequent to the year-end or amounts due to customers as returned premiums for cancelled or amended policies.

### 16. Net Premiums Earned

	2015	2014
Gross written premiums	\$ 45,243,384	\$ 51,503,653
Premium tax	(1,284,047)	(1,353,068)
	43,959,337	50,150,585
Ceded to reinsurers	(37,101,547)	(43,293,875)
Excess of loss reinsurance	(2,277,167)	(2,486,295)
Net retained premiums	4,580,623	4,370,415
Decrease in unearned premium reserve (Note 14)	(39,745)	173,185
<b>Net premium earned</b>	<b>\$ 4,540,878</b>	<b>\$ 4,543,600</b>



# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 17. Income and expenses

Investment income consists of:	<b>2015</b>	<b>2014</b>
Interest income ( <i>Notes 6 and 7</i> )	\$ 981,994	\$ 999,780
Dividend income ( <i>Note 8</i> )	378,214	314,501
Other income	109,940	502,941
	<u>\$ 1,470,148</u>	<u>\$ 1,817,222</u>
Other operating expenses consist of:	<b>2015</b>	<b>2014</b>
Office expenses	\$ 1,398,900	\$ 1,373,006
General expenses	1,040,625	1,071,644
Premise costs	975,875	1,014,896
Computer related expenses	387,820	360,601
Travel and entertainment	321,442	337,118
	<u>\$ 4,124,662</u>	<u>\$ 4,157,265</u>

### 18. Dividends

During the year, the Company declared dividends of \$0.64 per share (2014 – \$0.64 per share) totaling \$5,112,320 (2014 – \$5,112,319) in respect of the final quarter of 2014 and the first three quarters of 2015. Included in accrued expenses and other liabilities in the consolidated statement of financial position are dividends payable of \$nil (2014 – \$512,000).

### 19. Pension Plan

The Group's employees are members of a defined contribution plan covering all eligible employees. This plan provides for benefits to be paid upon retirement. Employees are required to contribute an amount equal to 5% of their eligible earnings, which is matched by the Group. The amount charged to salaries and employee benefits in the consolidated statement of comprehensive income during the year for pension costs was \$415,714 (2014 – \$427,471).

### 20. Retained Earnings

ICB has made an appropriation to a general reserve for unforeseeable risks and future losses. The general reserve can only be distributed following approval by the Board of Directors of ICB. Included in retained earnings is \$800,000 (2014 – \$800,000) representing the Company's 40% share of this reserve.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 21. Commitments and Contingencies

##### *Lease Commitments*

The Group leases certain premises under non-cancellable operating leases. Future minimum rental commitments are as follows:

	2015	2014
Not later than one year	\$ 137,620	\$ 172,353
More than one year but not later than five years	224,515	353,988
	<u>\$ 362,135</u>	<u>\$ 526,341</u>

The Group also leases certain premises on a month-to-month basis, which have not been included in the future minimum rental commitments.

##### *Contingencies*

In the normal course of its business, the Group is involved in various legal proceedings arising out of and incidental to its operations. Management of the Group does not anticipate that the losses, if any, incurred as a result of these legal proceedings will materially affect the financial position of the Group.

#### 22. Earnings Per Share

Basic and diluted earnings per share are calculated by dividing the net income attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 22. Earnings Per Share (continued)

	2015	2014
Net income attributable to equity holders of the Company	\$ 5,824,602	\$ 5,925,823
Weighted average number of ordinary shares in issue	8,000,000	8,000,000
Less: Interest in own shares	(30,000)	(30,000)
	<u>7,970,000</u>	<u>7,970,000</u>
	<u>\$ 0.73</u>	<u>\$ 0.74</u>

ICB holds 30,000 (2014 – 30,000) shares at a cost of \$84,600 (2014 – \$84,600) in the Company's own shares, which have been excluded from the weighted average number of ordinary shares in issue in the calculation of the earnings per share.

### 23. Related-Party Transactions

Related parties comprise: i) major shareholders, directors and key management personnel of the Group; ii) entities in which the parties in (i) have control or significant influence; and iii) entities that have control or significant influence of the parties in (i).

Aon UK Holdings Intermediaries Ltd. (formerly Bain Hogg Management Ltd.), a company incorporated in the United Kingdom, and a subsidiary of Aon Corporation ("Aon"), is the Company's principal shareholder with a shareholding of 40% (2014 – 40%) of the Company's outstanding shares. Aon, through its subsidiaries, serves as the Group's reinsurance broker. In these consolidated financial statements, an affiliate is defined as a subsidiary, or associate of Aon.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 23. Related-Party Transactions (continued)

The consolidated financial statements include the following balances and transactions with related parties:

	2015	2014
<b>Assets/(Liabilities)</b>		
Due to related parties	\$ (331,326)	\$ (415,530)
Dividends payable	nil	(512,000)
<b>Transactions</b>		
Net commissions and net premiums earned	6,751,677	6,702,300
Key management compensation:		
Salaries and other short-term employee benefits, including directors fees	2,369,853	2,200,841
Post employee benefits	55,400	53,850
Dividends paid	2,560,000	2,048,000

### 24. Segment Information

The Group is organized into two business segments, which are described below. Each segment offers different services, and is managed separately. For each business segment, the Group's Managing Director reviews internal management reports on, at least, a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Insurance agents & brokers, where the Group sells and administers insurance policies on behalf of those insurance companies it represents. The Group bears no business risk associated with the insurance policies.
- General insurance underwriting where the Group assumes its portion of the business risk associated with the insurance policies.

All transactions between the business segments are conducted on normal commercial terms and conditions.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 24. Segment Information (continued)

The segment results for the year ended December 31, 2015, are as follows:

	Agents & Brokers	Underwriting	Total
Net commissions & fees	\$ 18,468,949	\$ (359,771)	\$ 18,109,178
Net premiums earned (Note 16)	—	4,540,878	4,540,878
Interest income (Note 17)	122,019	859,975	981,994
Dividend income (Note 17)	—	378,214	378,214
Other income (Note 17)	(10,812)	124,539	113,727
Profit on sale of property, plant and equipment	—	16,171	16,171
Change in net unrealized gains on investments in securities	—	563,032	563,032
	<u>\$ 18,580,156</u>	<u>\$ 6,123,038</u>	<u>\$ 24,703,194</u>

	Agents & Brokers	Underwriting	Total
Insurance expenses	\$ —	\$ 1,992,557	\$ 1,992,557
Depreciation and amortization	654,289	47,166	701,455
Revaluation of Investment Property	24,164	—	24,164
Other expenses	13,271,165	1,165,215	14,436,380
	<u>\$ 13,949,618</u>	<u>\$ 3,204,938</u>	<u>\$ 17,154,556</u>
Net income	<u>\$ 4,630,538</u>	<u>\$ 2,918,100</u>	<u>\$ 7,548,638</u>

The segment results for the year ended December 31, 2014 are as follows:

	Agents & Brokers	Underwriting	Total
Net commissions & fees	\$ 17,839,554	\$ (171,572)	\$ 17,667,982
Net premiums earned (Note 16)	—	4,543,600	4,543,600
Interest income (Note 17)	139,788	859,992	999,780
Reversal of impairment loss on intangible asset	43,675	—	43,675
Dividend income (Note 17)	—	314,500	314,500
Other income (Note 17)	328,858	174,084	502,942
Profit on sale of property, plant and equipment	6,750	—	6,750
Change in net unrealized gains on investments in securities	—	312,437	312,437
	<u>\$ 18,358,625</u>	<u>\$ 6,033,041</u>	<u>\$ 24,391,666</u>

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 24. Segment Information (continued)

	<b>Agents &amp; Brokers</b>	<b>Underwriting</b>	<b>Total</b>
Insurance expenses	\$ —	\$ 1,471,980	\$ 1,471,980
Depreciation and amortization	595,261	32,460	627,721
Other expenses	13,219,269	1,063,246	14,282,515
	<u>\$ 13,814,530</u>	<u>\$ 2,567,686</u>	<u>\$ 16,382,216</u>
Net income	<u>\$ 4,544,095</u>	<u>\$ 3,465,355</u>	<u>\$ 8,009,450</u>

The segment assets and liabilities at December 31, 2015, for the year then ended are as follows:

	<b>Agents &amp; Brokers</b>	<b>Underwriting</b>	<b>Total</b>
Total assets	\$ 24,443,840	\$ 58,112,395	\$ 82,556,235
Total liabilities	\$ 10,408,915	\$ 33,526,711	\$ 43,935,626

The segment assets and liabilities at December 31, 2014, for the year then ended are as follows:

	<b>Agents &amp; Brokers</b>	<b>Underwriting</b>	<b>Total</b>
Total assets	\$ 24,232,610	\$ 60,060,722	\$ 84,293,332
Total liabilities	\$ 10,953,099	\$ 36,505,751	\$ 47,458,850

### 25. Risk Management

The Group is exposed to insurance risk and financial risk through its insurance assets and insurance liabilities, financial assets and financial liabilities. The insurance risk covers such things as the vagaries of the weather, the unpredictability of serious injury losses and fortuitous events such as outbreaks of fire. The main components of the financial risk are credit risk, liquidity risk and interest-rate risk. The Group's financial performance is affected by its capacity to understand and effectively manage these risks. The Group's challenge is not only to measure and monitor these risks but also to manage them as profit opportunities. A critical goal of the Group is to ensure that its financial assets are always more than sufficient to fund the obligations arising from its insurance contracts. Close attention is also paid to cash management policies.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### **25. Risk Management (continued)**

The following notes expand on the nature of the aforementioned risks and the manner in which the Group manages them.

##### **(a) Insurance Risk**

Insurance risk is the risk that the insured event might occur. At the individual policy level and also at the portfolio level, there is uncertainty in terms of both frequency of occurrence and severity of loss. For any given portfolio of insurance contracts, where the theory of probability is applied to pricing and loss reserving, the principal risk that the Group faces is that claims and other costs might exceed premiums earned. This could occur because the frequency or severity of claims is greater than estimated or that estimated original policy rates prove not to be sustainable or a combination of both. Experience shows that the greater the commonality of risk within a class of business, the smaller will be the relative variability in the expected outcome. In addition, a more diversified portfolio is less vulnerable to deterioration in the loss experience in any particular class of business. The Group has developed its underwriting strategy to produce a diversified portfolio of insurance risks. Within each of the individual classes of business it has sought to achieve, wherever possible, a sufficiently large population of risks to reduce the variability of the expected outcome.

At the macro level, the Group suffers from a lack of diversification in the sense that it only insures the non-life risks of individuals located in The Bahamas and Turks and Caicos; therefore, there is a concentration of insurance risk within the industry sector and territory in which the Group operates.

##### ***Casualty Insurance Risks***

###### **(i) *Frequency and severity of claims***

The frequency and severity of claims can be affected by several factors. Claims frequency can be influenced by changes in the size, composition and quality of a portfolio. Changes in social/economic conditions can also severely impact claims frequency. Claim severity is impacted by such things as general inflation. In the case of liability claims, the most significant factor is the increasing level of awards for personal injury. Claims involving serious long term injury can take five years or more to settle.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 25. Risk Management (continued)

The Group manages these risks by means of its well developed underwriting and reinsurance strategies and also by adopting a proactive approach to claims handling. The underwriting strategy attempts to ensure that the portfolio remains biased towards high quality risks. Underwriting guidelines are in place to enforce appropriate risk selection criteria. The reinsurance arrangements include both proportional and catastrophe excess of loss coverage.

The effect of such reinsurance arrangements is to limit the total net insurance loss that the Group can suffer in any one year.

##### (ii) *Sources of uncertainty in the estimation of future claim payments*

Claims on casualty contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occur during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and an element of the claims provision relates to IBNR claims and unexpired risks. Given the uncertainty in establishing claims provisions, it is likely in many cases that the final cost of a claim will vary significantly from the initial reserve. In calculating the estimated cost of outstanding claims (both reported or not), the Group uses various industry standard loss estimation techniques and the experience of its staff in settling claims of similar types.

#### ***Property Insurance Contracts***

##### (i) *Frequency and severity of claims*

For property insurance contracts, climatic changes are giving rise to more frequent severe extreme weather events (e.g., hurricanes, flooding, etc.) and their consequences. The Group has the right to re-price each individual risk on renewal. It also has the ability to impose or increase deductibles. Contracts are priced on the basis of the commercial replacement value of the properties and contents insured. The sum insured represents the maximum amount payable under a policy. The cost of repairing or rebuilding properties, the cost of providing indemnity for damaged or stolen contents and time taken to restart business operations (business interruption insurances) are the key factors that influence the value of claims under these policies. The most likely cause of major loss under the property portfolio arises from a hurricane event or other serious weather related event. The Group has reinsurance coverage in place to limit the impact of such losses in any one year.



## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued)

*(Expressed in Bahamian Dollars)*

#### **25. Risk Management (continued)**

The Group underwrites property insurance in The Bahamas and Turks and Caicos.

##### *(ii) Sources of uncertainty in the estimation of future claim payments*

The development of large losses/catastrophes is analyzed separately. Property claims can be estimated with greater reliability due to the shorter settlement period for these claims resulting in lesser amounts of IBNR held at year end.

#### **(b) Financial Risks**

##### ***Credit Risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

In the normal course of business, the Group seeks to limit its exposure to losses that may arise from any single occurrence. Reinsurance is primarily placed using a combination of proportional and excess of loss treaties. Obtaining reinsurance does not, however, relieve the Group of its primary obligations to the policyholders; therefore the Group is exposed to the risk that the reinsurers may be unable to fulfill their obligations under the contracts. The Group seeks to mitigate this risk by placing its reinsurance coverage with large multi-national companies and syndicates. The Group, with the assistance of its reinsurance broker, also evaluates the financial condition of its reinsurers and monitors the credit risk of the reinsurers on an ongoing basis to minimize its exposure to significant losses from insurer insolvency. The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 25. Risk Management (continued)

The Group's credit risk exposure emanates from reinsurers in the form of prepaid premiums held or claims recoveries still to be made/paid under the various proportional and excess of loss treaties and is disclosed in total on the consolidated statement of financial position. It is the Group's policy that no single counterparty exposure with specific reinsurers should exceed 25% of the total reinsurance assets at any given time. In addition, the Group's proportional treaties contain a "Reinsurer Participation Review Clause", which provides the Group with the option of canceling any individual reinsurer's participation whose financial strength rating (as determined by Standard & Poor and/or A.M. Best) falls below A- or equivalent and to call for the return of prepaid premiums and loss reserves. The Group is required to serve notice of its intention within thirty days of the date of downgrade.

The Group monitors its credit risk exposure relating to accounts receivable on a daily basis. Management separately reviews all trade receivables (provided mainly to commercial businesses) that are in excess of \$100,000 on a monthly basis for any indication of impairment. As at December 31, 2015, the total of trade receivables in excess of this amount was \$5,391,094 (2014 – \$5,063,118). Historically, the Company has not experienced significant credit losses on the trade receivables. On the premium financed receivables the Company may, at its discretion, cancel the policies being financed after a 14-day grace period from the date of the missed contractual payment.

The following procedures are also in place to mitigate the Group's exposure to credit risk:

- places cash with credit-worthy banks;
- monitors the payment history of its customers before continuing to do business with them;and
- invests in debt securities of The Bahamas Government, Government-backed companies and financially sound companies.

The carrying amounts of the financial assets, excluding reinsurance balances, on the consolidated statement of financial position represents the current risk exposure.

# J.S. Johnson & Company Limited

## Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

### 25. Risk Management (continued)

#### Liquidity Risk

The objective of liquidity management is to ensure the availability of sufficient funds to honor all of the Group's financial commitments including claims. The Group maintains a level of liquid assets, which mature or could be sold immediately to meet cash requirements for normal operating purposes.

The tables included in Note 7 for term deposits and Note 8 for investments in securities show the expected recovery or settlement of financial instruments held from the dates of acquisition. Cash and bank balances as disclosed in Note 6 have original maturities of less than three months.

The following table summarizes the expected recovery or settlement of financial assets held (within 12 months from the reporting date) and the maturity profile of the Group's liabilities relating to financial instruments and insurance contracts:

Year Ended December 31	2015			2014		
	Current	Non-current	Total	Current	Non-current	Total
<b>Financial assets</b>						
Cash and bank balances	\$ 4,066,278	\$ —	\$ 4,066,278	\$ 7,754,471	\$ —	\$ 7,754,471
Term deposits	5,476,052	4,487,364	9,963,416	9,224,403	1,016,302	10,240,705
Accounts receivable	10,575,772	259,721	10,835,493	9,446,861	128,294	9,575,155
Due from insurance carriers	122,943	—	122,943	67,605	—	67,605
Investments in securities:						
fair value through profit or loss	4,052,340	—	4,052,340	3,489,308	—	3,489,308
held-to-maturity	—	10,705,373	10,705,373	—	9,891,490	9,891,490
available for sale	—	4,890,840	4,890,840	—	3,083,295	3,083,295
Other assets	1,260,632	—	1,260,632	1,123,174	—	1,123,174
Reinsurance recoverables	—	8,358,602	8,358,602	—	9,758,298	9,758,298
<b>Total</b>	<b>\$ 25,554,017</b>	<b>\$ 28,701,900</b>	<b>\$ 54,255,917</b>	<b>\$ 31,105,822</b>	<b>\$ 23,877,679</b>	<b>\$ 54,983,501</b>
<b>Financial liabilities</b>						
Outstanding claims	—	9,477,799	9,477,799	—	10,807,703	10,807,703
Due to related-parties	331,326	—	331,326	415,530	—	415,530
Accounts payable	3,679,373	—	3,679,373	3,432,514	—	3,432,514
Due to reinsurers	3,422,086	—	3,422,086	3,935,439	—	3,935,439
Accrued expenses and other liabilities	1,472,228	—	1,472,228	1,994,995	—	1,994,995
<b>Total</b>	<b>\$ 8,905,013</b>	<b>\$ 9,477,799</b>	<b>\$ 18,382,812</b>	<b>\$ 9,778,478</b>	<b>\$ 10,807,703</b>	<b>\$ 20,586,181</b>
<b>Liquidity gap</b>	<b>\$ 16,649,004</b>	<b>\$ 19,224,101</b>	<b>\$ 35,873,105</b>	<b>\$ 21,327,344</b>	<b>\$ 13,069,976</b>	<b>\$ 34,397,320</b>

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### 25. Risk Management (continued)

##### *Market Risk*

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

##### *Interest-Rate Risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group mitigates this risk by investing in interest-bearing assets with floating interest rates, or investing for short time periods. The rates of interest on financial instruments are disclosed in Notes 4, 6, 7 and 8 in the consolidated financial statements. All other financial assets and financial liabilities are non-interest bearing.

At December 31, 2015, an increase of 25 basis points in interest rates with all other variables remaining constant, would have increased the net income of the Company by approximately \$63,899 (2014 – \$58,010). A decrease of 25 basis points would have an opposite effect with all other variables remaining constant.

##### *Price Risk*

Price risk is the risk that the value of the financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all financial instruments traded in the market.

As the Group's investments in securities at fair value through profit or loss are carried at fair value with fair value changes recognized in net income or loss in the consolidated statement of comprehensive income, all changes in market conditions will directly affect operating income.

The Group is exposed to price risks arising from equity investments. Price risk is mitigated by the Group by investing in a diversified portfolio of instruments.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### **26. Fair Value of Financial Instruments**

Most of the Group's financial assets and liabilities are measured at cost or amortized cost, except for financial instruments at fair value through profit or loss and available for sale financial instruments which are measured at fair value as of the reporting date or are carried at values which approximate fair value. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision.

The Group measures fair values of financial assets using the fair value hierarchy as disclosed in Note 8.

Except as stated elsewhere in the notes, the carrying amounts of the Group's financial assets and liabilities approximate their fair values due to one or both of the following reasons:

- a) immediate or short-term maturity; or
- b) carrying amount approximates or equals fair value.

#### **27. Capital Management**

The Group's capital management policies are based on the following requirements:

Externally imposed capital requirements are set by The Insurance Commission of the Bahamas ("the Commission") and by the Financial Services Commission in Turks and Caicos Islands. These requirements are put in place to ensure sufficient solvency margins.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued) (Expressed in Bahamian Dollars)

#### **27. Capital Management (continued)**

The Company and ICB are registered under the Insurance Act 2005 (“the Act”) and the Company and ICB have met the required minimum paid up and unencumbered capital of \$50,000 and \$2,000,000 respectively. ICB is also required to establish and maintain a statutory deposit in respect of its insurance business in The Bahamas, such deposit to be held in trust pursuant to Section 43(2) of the Act and regulation 62 of the Insurance (General) Regulations, 2010 (“the Regulations”). ICB established a Statutory Deposit Trust (“the Trust”) in the sum of \$1,000,000 included in the term deposit (Note 7) in the consolidated statement of financial position with a recognized financial institution appointed as trustees of the Trust and the Insurance Commission of The Bahamas (“the Commission”) as the protectors of the Trust.

Solvency ratios are established on the basis of risk assessment for each particular entity. ICB is required to meet a minimum margin of solvency. The Act defines solvency as the inability of any Company to pay its debts if, at any time, the value of its admissible assets does not exceed its liabilities by such amount as the Commission may prescribe. Of the value of admissible assets, at least 75% must be in the form of qualifying assets, as defined in Section 70 of the Regulations. As at December 31, 2015, ICB exceeded the minimum margin of solvency required under the Act.

As at December 31, 2015, the Group has complied with the regulatory imposed capital requirement, met the required restricted deposit and exceeded the minimum margin of solvency required under the Act.

ICB is registered as a Foreign Ordinary Company in accordance with the Insurance Ordinance (Ordinance) 1989 in TCI and as such ICB’s annual return, pursuant to section 4 of the Ordinance, includes the filing of the solvency margins on the consolidated business and TCI domestic business. ICB is required to maintain a minimum solvency margin relating to an excess of permitted assets over its liabilities. In addition, ICB is required to maintain a restricted deposit, as approved by the Financial Services Commission in TCI, with an approved financial institution in TCI, and as such \$500,000 is included in term deposits (Note 7) in the consolidated statement of financial position.

As at December 31, 2015, ICB has met the required restricted deposit and its solvency requirement in accordance with the Ordinance.

## J.S. Johnson & Company Limited

### Notes to Consolidated Financial Statements (continued)

*(Expressed in Bahamian Dollars)*

#### **27. Capital Management (continued)**

The Group's policy is to maintain a strong capital base to sustain future development of the business and limit the need to borrow funds. Dividends are paid after the Group ensures that it has sufficient cash on demand to meet operational expenses. There has been no change in the Group's management of capital during the year.

#### **28. Subsequent Events**

Subsequent to December 31, 2015, the Company declared a quarterly dividend of \$0.16 per share as of record date February 19, 2016.