

**CONSOLIDATED FINANCIAL STATEMENTS**

**Colonial Group International Ltd.**  
**Year Ended December 31, 2017**  
**With Independent Auditors' Report**

Ernst & Young Ltd.



**Colonial Group International Ltd.**

**Consolidated Financial Statements**

**Year Ended December 31, 2017**

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## Independent Auditor's Report

The Shareholder  
Colonial Group International Ltd.

### **Report on the Audit of the Consolidated Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of Colonial Group International Ltd. and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### **Basis for Opinion**

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

## **Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements**

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

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

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

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

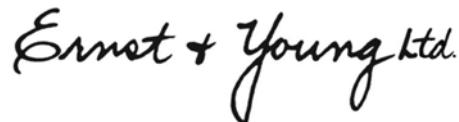
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Hamilton, Bermuda  
May 16, 2018

Colonial Group International Ltd.

Consolidated Statement of Financial Position  
*(Expressed in Bermuda Dollars)*

	December 31	
	2017	2016
<b>Assets</b>		
Cash and cash equivalents ( <i>Note 3</i> )	\$ 76,685,139	\$ 80,102,340
Financial assets ( <i>Notes 4, 12 and 14</i> )	223,562,816	192,929,829
Accounts receivable and accrued interest	10,784,700	5,529,941
Amounts due from related companies ( <i>Note 14</i> )	24,258,455	27,019,581
Insurance balances receivable ( <i>Note 5</i> )	29,305,147	29,828,697
Reinsurance balances receivable	9,636,326	4,161,116
Losses recoverable from reinsurers ( <i>Notes 6 and 7</i> )	77,616,289	21,495,280
Prepaid reinsurance premiums	18,592,488	19,910,507
Prepays and other assets	2,582,387	4,097,490
Provision for future policy benefits ( <i>Note 7</i> )	2,494,408	—
Deferred acquisition costs ( <i>Note 7</i> )	3,706,532	6,435,886
Property, plant and equipment ( <i>Note 10</i> )	15,717,395	14,184,996
Intangible assets ( <i>Note 11</i> )	5,387,499	5,167,245
Goodwill ( <i>Note 9</i> )	6,518,300	6,518,300
Total general fund assets	<u>506,847,881</u>	417,381,208
Segregated fund assets ( <i>Note 15</i> )	<u>798,634,079</u>	681,270,072
<b>Total assets</b>	<b><u>\$ 1,305,481,960</u></b>	<b><u>\$ 1,098,651,280</u></b>
<b>Liabilities</b>		
Bank overdraft ( <i>Note 3</i> )	\$ 1,853,782	\$ 1,416,219
Funds held on behalf of clients ( <i>Note 8</i> )	4,246,690	4,286,754
Contributions payable to segregated funds	1,098,052	2,694,133
Amounts due to related companies ( <i>Note 14</i> )	213,176	178,241
Reinsurance balances payable – non-life	10,095,217	10,354,659
Outstanding losses and loss expenses ( <i>Note 6</i> )	131,259,185	57,122,546
Policyholder benefits payable ( <i>Note 7</i> )	4,747,834	4,091,272
Provision for future policy benefits ( <i>Note 7</i> )	—	4,367,076
Accounts payable and other liabilities	15,085,526	12,014,407
Reinsurance balances payable – life ( <i>Note 7</i> )	7,065,206	3,085,844
Unearned premiums	40,211,260	41,701,089
Deferred commission income	5,041,240	5,143,017
Total general fund liabilities	<u>220,917,168</u>	146,455,257
Segregated fund liabilities ( <i>Note 15</i> )	<u>798,634,079</u>	681,270,072
<b>Total liabilities</b>	<b><u>\$ 1,019,551,247</u></b>	<b><u>\$ 827,725,329</u></b>

Colonial Group International Ltd.

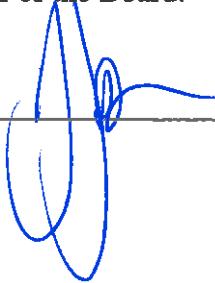
Consolidated Statement of Financial Position (continued)  
*(Expressed in Bermuda Dollars)*

	December 31	
	2017	2016
<b>Shareholder's equity</b>		
Share capital ( <i>Note 13</i> )	\$ 1,512,000	1,512,000
Share premium ( <i>Note 13</i> )	2,500,000	2,500,000
Contributed surplus ( <i>Note 13</i> )	9,804,469	9,804,469
Retained earnings	258,464,182	242,458,748
Other comprehensive income	206,640	—
Total equity attributable to the equity holder of the group	<u>272,487,291</u>	<u>256,275,217</u>
Non-controlling interest ( <i>Note 13</i> )	<u>13,443,422</u>	<u>14,650,734</u>
<b>Total equity</b>	<b><u>285,930,713</u></b>	<b><u>270,925,951</u></b>
<b>Total liabilities and equity</b>	<b><u>\$ 1,305,481,960</u></b>	<b><u>\$ 1,098,651,280</u></b>

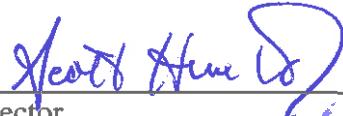
*See accompanying notes to consolidated financial statements.*

On behalf of the Board:

Director



Director



Colonial Group International Ltd.

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

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Premiums written and assumed:		
General business	\$ 360,937,709	\$ 345,407,729
Life business	5,598,618	6,578,369
Change in unearned premiums	1,489,829	689,171
Premiums earned	<u>368,026,156</u>	<u>352,675,269</u>
Reinsurance premiums ceded	(68,473,655)	(66,819,355)
Change in prepaid reinsurance premiums	(1,318,019)	(1,106,945)
Premiums ceded	<u>(69,791,674)</u>	<u>(67,926,300)</u>
Net premiums earned	<u>298,234,482</u>	<u>284,748,969</u>
Policy service fees on investment contracts	463,346	665,200
Service fee income	13,950,362	14,115,948
Other income	412,523	300,091
Commission earned on reinsurance	13,172,446	9,976,313
Commission expense	(9,805,783)	(11,531,669)
Other underwriting expenses	(12,779,811)	(8,558,325)
Amortized deferred acquisition expense	(2,913,194)	(605,802)
Net premiums earned, fees and commissions	<u>300,734,371</u>	<u>289,110,725</u>
Claims paid <i>(Note 6)</i>	(276,566,222)	(211,821,944)
Change in outstanding loss provisions <i>(Note 6)</i>	(74,136,639)	(11,685,143)
Claims recovered and recoverable from reinsurers <i>(Note 6)</i>	133,444,058	27,838,893
Net claims incurred – Non-life	<u>(217,258,803)</u>	<u>(195,668,194)</u>
Policyholder benefits paid	(2,448,941)	(1,703,987)
Change in provision for future benefits <i>(Note 7)</i>	6,861,484	(808,054)
Loss recoveries	897,423	391,770
Change in reinsurance liabilities <i>(Note 7)</i>	(3,979,362)	(664,804)
Net claims recovered (incurred) – Life	<u>1,330,604</u>	<u>(2,785,075)</u>
Net underwriting income	<u>84,806,172</u>	<u>90,657,456</u>
Investment income <i>(Note 4)</i>	11,923,612	5,479,825
General and administrative expenses <i>(Note 17)</i>	(72,723,328)	(68,980,237)
Net income for the year	<u>\$ 24,006,456</u>	<u>\$ 27,157,044</u>

Colonial Group International Ltd.

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

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Other comprehensive income:		
Unrealized gain (loss) on financial assets Available-for-sale (AFS)	\$ 206,640	\$ —
Other comprehensive income	\$ 206,640	\$ —
Total comprehensive income for the year	<u>\$ 24,213,096</u>	<u>\$ 27,157,044</u>
Attributable to:		
Owners of the Group	\$ 23,212,074	\$ 26,042,965
Non-controlling interests	<u>1,001,022</u>	<u>1,114,079</u>
	<u><b>\$ 24,213,096</b></u>	<u><b>\$ 27,157,044</b></u>

*See accompanying notes to consolidated financial statements.*

Colonial Group International Ltd.

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

	Attributable to the Equity Holder of the Group						Non-Controlling Interest	Total Equity
	Share Capital	Share Premium	Contributed Surplus	Retained Earnings	Comprehensive Income	Other		
Balance at December 31, 2015	\$ 1,512,000	\$ 2,500,000	\$ 9,804,469	\$ 223,415,783	\$ —	\$ 237,232,252	\$ 14,411,655	\$ 251,643,907
Net income for the year	—	—	—	26,042,965	—	26,042,965	1,114,079	27,157,044
Dividends (Note 19)	—	—	—	(7,000,000)	—	(7,000,000)	(875,000)	(7,875,000)
Balance at December 31, 2016	1,512,000	2,500,000	9,804,469	242,458,748	—	256,275,217	14,650,734	270,925,951
Dividends (Note 19)	—	—	—	(7,000,000)	—	(7,000,000)	(2,208,334)	(9,208,334)
Net income for the year	—	—	—	23,005,434	206,640	23,212,074	1,001,022	24,213,096
Balance at December 31, 2017	<b>\$ 1,512,000</b>	<b>\$ 2,500,000</b>	<b>\$ 9,804,469</b>	<b>\$ 258,464,182</b>	<b>\$ 206,640</b>	<b>\$ 272,487,291</b>	<b>\$ 13,443,422</b>	<b>\$ 285,930,713</b>

*See accompanying notes to consolidated financial statements.*

Colonial Group International Ltd.

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

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating activities</b>		
Net income for the year	\$ 24,213,096	\$ 27,157,044
Adjustments for:		
Impairment of goodwill	—	—
Depreciation and amortization ( <i>Notes 10 and 11</i> )	4,043,588	4,093,161
Gain on disposal of assets	(516)	(16,014)
Net unrealized (gains) losses on financial assets held at fair value through profit and loss	(6,878,770)	(2,927,203)
Net unrealized (gains) losses on financial assets as available for sale	(206,640)	—
Realized losses on sale of financial assets	(847,383)	1,918,103
Bond amortization	(22,069)	177,183
Operating cash flow before changes in non-cash operating working capital	<u>20,301,306</u>	30,402,274
Change in non-cash operating working capital ( <i>Note 18</i> )	<u>10,730,053</u>	10,383,966
Cash flows provided by operating activities	<u>31,031,359</u>	40,786,240
<b>Investing activities</b>		
Proceeds from sale of financial assets	78,484,801	85,119,349
Purchase of financial assets	(101,162,926)	(101,066,091)
Purchase of intangible assets (software) ( <i>Note 11</i> )	(1,648,327)	(1,105,573)
Purchase of property, plant and equipment ( <i>Note 10</i> )	(4,159,597)	(1,822,256)
Proceeds from sale of property, plant and equipment	12,199	27,907
Repayments from related companies	2,796,061	2,381,107
Cash used by investing activities	<u>(25,677,789)</u>	(16,465,557)
<b>Financing activities</b>		
Dividends paid to owners ( <i>Note 19</i> )	(7,000,000)	(7,000,000)
Dividends paid to minority interest	<u>(2,208,334)</u>	(875,000)
Cash used by financing activities	<u>(9,208,334)</u>	(7,875,000)
Net increase in cash and cash equivalents	(3,854,764)	16,445,683
Cash and cash equivalents at beginning of year	<u>78,686,121</u>	62,240,438
Cash and cash equivalents at end of year	<u>\$ 74,831,357</u>	\$ 78,686,121
Represented by:		
Cash and cash equivalents	\$ 76,685,139	\$ 80,102,340
Bank overdraft	<u>(1,853,782)</u>	(1,416,219)
	<u>\$ 74,831,357</u>	\$ 78,686,121

*See accompanying notes to consolidated financial statements.*

# Colonial Group International Ltd.

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

December 31, 2017

### 1. General

Colonial Group International Ltd. (the Company) was incorporated in Bermuda as a holding company and has its head office at the Jardine House, 33-35 Reid Street, Hamilton HM 12, Bermuda. The Company is a wholly owned subsidiary of Edmund Gibbons Limited (the Parent Company).

The Company and its subsidiaries (together forming the Group) operate in Bermuda, the Bahamas, the Cayman Islands, the British Virgin Islands, the Turks and Caicos Islands and Barbados underwriting life, health and property and casualty insurance. The Group also issues a diversified portfolio of investment contracts to provide its customers with asset management solutions for their savings and retirement assets.

The consolidated financial statements of the Group include:

Company	Domicile	Principal Activities	Ownership Percentage
Colonial Insurance Company Limited (CICL)	Bermuda	Property and casualty insurance: motor, home and commercial property, marine, general liability	100%
Colonial Medical Insurance Company Limited (CMICL)	Bermuda	Group and individual medical and group life insurance	100%
Colonial Life Assurance Company Limited (CLACL)	Bermuda	Individual life and annuities, accidental death. CLACL also writes unit linked investment policies and personal pension plans	100%
Atlantic Medical Insurance Limited (AMIL)	Bahamas	Group and individual medical and life insurance	100%
Security & General Insurance Company Limited (S&GL)	Bahamas	Property and casualty insurance: motor, home and commercial property, marine, general liability	70%

Colonial Group International Ltd.

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

**1. General (continued)**

<b>Company</b>	<b>Domicile</b>	<b>Principal Activities</b>	<b>Ownership Percentage</b>
British Caymanian Holdings Limited (BCHL) <sup>1</sup>	Cayman Islands	Property and casualty insurance: motor, home and commercial property, marine, general liability	75%
Colonial Private Trustee Limited (CPTL)	Bermuda	Trustee of assets of the pension plans administered by CPS	100%
Colonial Pension Services Limited (CPSL) <sup>2</sup>	Bermuda	Pension plans administration and investment business	100%
Colonial Insurance (BVI) Limited (BVIL)	British Virgin Islands	Property and casualty insurance: motor, home and commercial property, marine, general liability. Group and individual medical	*50%
Colonial Re Ltd. (CRL)	Bermuda	Property catastrophe reinsurance	100%
Nassau Insurance Brokers and Agents Limited (NIBAL)	Bahamas	Insurance broker of S&G	*40%
CGI Property (Bahamas) Limited	Bahamas	Land development	100%
Colonial Insurance Brokers Limited (CIBL)	Bermuda	Insurance broker of S&G and CMIC	100%

<sup>1</sup> BCHL acts as a holding company for shareholders' ownerships in British Caymanian Insurance Company Limited (BritCay Insurance) and British Caymanian Insurance Agencies (BritCay Agencies), both are Cayman Islands registered companies and are direct wholly owned subsidiaries.

<sup>2</sup> CPSL has a wholly owned subsidiary Colonial Pension Services (Bahamas) Limited (CPSBL) incorporated under the laws of the Bahamas as Atlantic Pension Services Ltd. (APS) to manage pension funds and provide related advisory services in the Bahamas. The name was changed to Colonial Pension Services (Bahamas) Limited on June 14, 2005.

\* The Group considers that it controls BVIL and NIBAL entities even through the Group does not own more than 50% of the voting rights. This is because the management of BVIL's and NIBAL's operations and decision making power is held by the Group.

Colonial Group International Ltd.

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

## **2. Summary of Significant Accounting Policies**

### **Statement of Compliance**

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

The consolidated financial statements, including all notes, were authorized for issue by the Board of Directors on May 16, 2018.

### **Basis of Measurement**

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

### **Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at December 31, 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Colonial Group International Ltd.

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

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions and dividends, are eliminated in full.

**Functional and Presentation Currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Bermuda dollars, which is the Group's presentation currency.

**Transactions in Foreign Currencies**

Monetary assets and liabilities denominated in currencies other than the functional currency of the Group or its subsidiaries are translated into the functional currency using the rate of exchange prevailing at the balance sheet date. Income and expenses are translated at rates of exchange in effect on the transaction dates. Foreign exchange gains and losses are expensed in the consolidated statement of comprehensive income.

Colonial Group International Ltd.

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

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

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain and loss. Translation differences on non-monetary financial assets classified as available for sale are included in other comprehensive income.

**Translation to the Presentation Currency**

The financial statements of foreign operations are translated from their respective functional currency to Bermuda dollars, the Group's presentation currency. Assets and liabilities are translated at rates of exchange at the balance sheet date, and income and expenses are translated using the average rates of exchange. The accumulated gains and losses arising from translation of functional currencies to the presentation currency are included in other comprehensive income in the consolidated statement of comprehensive income.

The Bahamas and British Virgin Islands operation's functional currency is in Bahamian dollar and United States dollar, respectively, both currencies are on par with Bermuda dollars. The exchange rate between the Cayman Islands and Bermuda dollars has remained unchanged since the acquisition of the Cayman Islands operation in 2006. As a result there are no unrealized translation gains and losses to be reported.

**Use of Estimates and Judgments**

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

Colonial Group International Ltd.

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

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in the Notes 4, 6, 7 and 12.

**Fair Value Measurement**

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

**Cash and Cash Equivalents**

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

Colonial Group International Ltd.

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

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

**Financial Assets**

The Group has the following financial assets: (i) financial assets at fair value through profit or loss, (ii) held-to-maturity financial assets, and (iii) available-for-sale financial assets. Management determines the classification at initial recognition and is dependent on the nature of the assets and the purpose for which the assets were acquired.

*Initial Recognition and Measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

*Subsequent Measurement*

For purposes of subsequent measurement, financial assets are classified as follows:

- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Available-for-sale financial assets

Colonial Group International Ltd.

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

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

*Financial Assets at Fair Value Through Profit or Loss*

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

*Financial Assets Held-to-Maturity*

Investments with a fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity. After initial measurement, held to maturity investments are measured at amortized cost using the effective interest rate (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as investment income in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in the consolidated statement of comprehensive income as deduction to investment income.

*Financial Assets Available-for-Sale (AFS)*

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

Colonial Group International Ltd.

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

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

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in consolidated statement of comprehensive income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statement of comprehensive income. Interest earned whilst holding AFS financial assets is reported as investment income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

*Derecognition*

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

Colonial Group International Ltd.

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

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

**Impairment of Financial Assets**

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

*Financial Assets Carried at Amortized Cost*

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

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

Colonial Group International Ltd.

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

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

*Available-for-Sale Financial Assets*

When there is objective evidence that a financial asset classified as AFS is impaired, the loss in accumulated other comprehensive income is reclassified to investment income in the consolidated statements of comprehensive income. Following impairment loss recognition, a debt security continues to be carried at fair value with changes in fair value recorded in other comprehensive income, and it is assessed annually for further impairment loss or reversal. Subsequent losses on an impaired equity security or other invested asset, including losses relating to foreign currency changes, are reclassified from other comprehensive income to income in subsequent reporting periods until the asset is derecognized. Once an impairment loss on a debt security classified as AFS is recorded to income, any reversal of impairment loss through income occurs only when the recovery in fair value is objectively related to an event occurring after the impairment was recognized. Impairment losses on an equity security or other invested asset classified as AFS are not reversed through income.

**Impairment of Non-Financial Assets**

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated.

Colonial Group International Ltd.

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

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

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

Impairment losses are recognized in the consolidated statement of comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**Insurance and Investment Contracts**

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

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

Colonial Group International Ltd.

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

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

*Premiums*

The Group's insurance premiums from health, short-duration life and property and casualty insurance contracts are earned pro rata over the term of the applicable risk period specified in the insurance policy. The Group's insurance policies cover losses occurring or claims made during the term of the policy. Generally, the Group receives a fixed premium which is identified in the policy and is recorded on the inception date of the contract and earned evenly over the policy term.

Premiums from long-term life insurance contracts are recognized as revenue when they become payable by contract holder.

Net premiums represent gross premiums, net of the share ceded to reinsurers for insuring part of the risk. Unearned premiums represent the portion of premiums written applicable to the unexpired terms of policies in force.

*Unit-Linked Long Term Insurance Contracts*

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an internal investment fund set by the Group with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Insurance premiums for these contracts are recognized directly as liabilities. These liabilities are increased by change in the unit price and are decreased by policy administration fees, mortality and surrender charges and any withdrawals.

The liability for these contracts includes any amounts necessary to compensate the Group for services to be performed over future periods. The mortality charges deducted in each period from the contract holders as a group are considered adequate to cover the expected total death benefit claims in excess of the contract account balances in each period; no additional liability established for these claims.

Colonial Group International Ltd.

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

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

Revenue from these contracts consists of fees deducted for mortality, policy administration and surrender charges. Interest or charges in the unit price credited to the account balances and excess benefit claims incurred in the period are charged as expense in the consolidated statement of comprehensive income.

*Investment Contracts*

Investment contract liabilities are recognized when contracts are entered into and premiums are charged. These liabilities are initially recognized at fair value, this being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition investment, contract liabilities are measured at fair value through profit or loss.

Fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit prices at the reporting date are valued on a basis consistent with their measurement basis in the Group's consolidated statement of financial position. See note on Segregated Funds.

The liability is derecognized when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value of the contract cannot be less than the surrender value.

*Receivables and Payables Related to Insurance Contracts and Investment Contracts*

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

Included in the insurance balances receivable, loans to policyholders inclusive of accrued interest. These loans are fully secured by the cash surrender values on the policies on which the respective loans are issued.

Colonial Group International Ltd.

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

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

*Deferred Acquisition Costs*

Deferred acquisition costs represent the cost of acquiring new business, consisting of commission expenses, policy issuance and other costs, which are directly related to the production of new business. Deferred acquisition costs on investment contracts are amortized over the expected average lives of the contracts as a constant percentage of the present value of estimated gross profits arising principally from investment results, mortality and expenses margins and surrender charges, based on historical and anticipated future experience. Deferred acquisition costs on investment contracts are reviewed for recoverability from future income, including investment income, and amounts which are deemed unrecoverable are expensed in the period in which the determination is made. Acquisition costs on insurance business are deferred and amortized to income over the period in which the premiums are earned.

*Reinsurance Contracts Held*

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

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

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

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

Colonial Group International Ltd.

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

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

*Outstanding Losses and Loss Expenses*

Unpaid losses and loss expenses in the consolidated statement of financial position include (i) reserves for reported unpaid losses, (ii) losses and loss expenses incurred but not reported (referred to as IBNR reserves) and (iii) provision for future policy benefits.

(i) Reserves for reported unpaid losses

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

(ii) IBNR reserves

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

(iii) Provision for future policy benefits

The Group estimates the present value of future policy benefits related to long duration contracts using assumptions for investment yields, mortality, and expenses, including a provision for adverse deviation. The Group appointed actuaries are responsible for determining the amount of life and annuity policy reserve in accordance with standards established by the Canadian Institute of Actuaries. Insurance contract liabilities, net of reinsurance assets, have been determined using CALM (Canadian Asset Liability Method) as permitted by IFRS 4 *Insurance Contracts*.

# Colonial Group International Ltd.

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

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

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

#### *Insurance Benefits*

Insurance benefits are recorded as expense when they are incurred. These insurance benefits include death benefits, annuity benefits, surrenders and interest paid on policy dividends held on deposit. Insurance benefits which are outstanding and unpaid at year-end are included in policyholder benefits payable.

#### **Property, Plant and Equipment**

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

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

Computer hardware	5 years
Furniture and office equipment	5 – 10 years
Leasehold improvements	10 years
Property	50 years
Motor vehicles	5 years

## Colonial Group International Ltd.

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

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

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

##### **Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the acquisition cost over the fair value of the Group's proportionate share of net identifiable assets and liabilities of an acquired business at the acquisition date. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment on an annual basis. Any impairment is recognized immediately as an expense.

##### **Identifiable Intangible Assets**

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

Computer software	5 years
Portfolio acquisition costs	10 – 20 years

##### **Segregated Funds**

Segregated funds arise as a result of the CPSL and CPSBL entering into contractual arrangements to administer pension schemes and CLACL issuing investment contracts.

Segregated funds are products for which the Group issues a contract where the benefit amount is directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in the Group and its subsidiaries' name and the segregated fund contract holder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risks and rewards of the fund's investment performance.

## Colonial Group International Ltd.

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

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

Segregated funds' net assets are recorded at fair value and primarily include investments in mutual funds, debt securities, equities, short-term investments and cash and cash equivalents. The segregated assets are not available to creditors of the Group and the holders of the pension contracts and unit-linked life and investment contracts have no recourse to the Group's assets. Segregated funds net liabilities are measured based on the value of the segregated fund net assets.

The methodology applied to determine the fair value of investments held in segregated funds is consistent with that applied to direct investments held by the Group, as described above in the note Financial Assets. The segregated fund assets and liabilities are presented in separate lines in the consolidated statement of financial position.

Investment returns on segregated fund assets belong to policyholders and pension planholders and the Group does not bear the risk associated with these assets. Accordingly, investment income earned by segregated funds and expenses incurred by segregated funds are offset and are not separately presented in the consolidated statement of comprehensive income. Fee income earned by the Group for managing the segregated funds is included in service fee income in the consolidated statement of comprehensive income.

#### **Fees and Commission Income**

Fees and commission income primarily represent fees earned from the management of the Group's segregated funds, administrative services income and reinsurance commission income. Fees and commission income are recorded on an accrual basis when services are rendered.

#### **Investment Income**

Interest on cash and debt securities is recorded on an accrual basis. Dividend income is recognized when the right to receive it is established. For loans and receivables reported at amortized cost, interest income is calculated using the effective interest rate method and is reported in the consolidated statement of comprehensive income. Rental income from investment properties is reported in the consolidated statement of comprehensive income linearly according to the term of the lease.

**Colonial Group International Ltd.**

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

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

**Leases**

Those leases whereby all of the significant risks and rewards of ownership are transferred to the Group are classified as finance leases. At the commencement of the lease term, finance leases are recognized as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. The minimum lease payments are apportioned between finance charges and repayments of the outstanding liability, finance charges being charged to each period of the lease term so as to produce a constant rate of interest on the outstanding balance of the liability.

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

**Defined Contribution Plan**

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

**Taxation**

Under the laws of Bermuda, the Cayman Islands, the Bahamas and the British Virgin Islands there are presently no income, withholding or capital gains taxes payable by the Group and its subsidiaries.

Colonial Group International Ltd.

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

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

**Change in Comparative Figures**

The opening retained earnings for 2016 has been restated to reflect the correction of an error in the provision for future policy benefits in CLACL. The error was the result of the inclusion of incorrect data in the actuary's lapse studies for prior years. An adjustment of \$1,573,685 has been made to increase the 2016 provision for future policy benefits and increase the opening accumulated deficit included in the statement of financial position.

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

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

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

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

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

## Colonial Group International Ltd.

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

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

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

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

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

Cash and cash equivalent balances in the amount of \$19,133,400 (2016 – \$28,972,456) are held by three Bermuda based financial institutions, \$10,361,699 (2016 – \$14,818,848) are held by three banks in the Bahamas, \$14,463,601 (2016 – \$27,829,304) are held at seven banks in the Cayman Islands and \$1,811,530 (2016 – \$2,000) are held at three banks in Barbados.

Included within cash and cash equivalents are restricted deposits of \$2,097,406 (2016 – \$12,155,727), \$1,225,650 (2016 – \$1,220,093) and \$73,405 (2016 – \$73,402) with financial institutions in the Cayman Islands, Turks & Caicos Islands and British Virgin Islands respectively. The money is being held in favor of the Cayman Islands Monetary Authority and the Superintendent of Insurance of the Turks & Caicos Islands as part of that country’s regulatory requirement. These amounts are not to be reduced or removed without the prior written consent of the Cayman Islands Monetary Authority and the Superintendent of Insurance in the Turks & Caicos Islands. \$628,141 (2016 – \$628,141) has been deposited with the Insurance Commission of Barbados as a licensing requirement.

Colonial Group International Ltd.

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

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

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

	<b>2017</b>		<b>2016</b>	
	Carrying Value	Cost/ Amortized Cost	Carrying Value	Cost/ Amortized Cost
At fair value through profit or loss				
Available for sale	\$ 143,496,232	\$ 136,163,869	\$ 131,702,666	\$ 131,246,523
Held-to-maturity	<b>48,118,033</b>	<b>47,911,392</b>	<b>47,993,064</b>	<b>47,993,064</b>
	<b>31,948,551</b>	<b>31,948,551</b>	<b>13,234,099</b>	<b>13,234,099</b>
	<b><u>\$ 223,562,816</u></b>	<b><u>\$ 216,023,812</u></b>	<b><u>\$ 192,929,829</u></b>	<b><u>\$ 192,473,686</u></b>

*Available for Sale Investments*

Available for sale investments consist of the following fixed maturity securities:

	<b>2017</b>	<b>2016</b>
Bahamas Government Registered Stock	\$ 37,232,188	\$ 36,553,629
Bahamas Government Securities	<b>8,792,000</b>	<b>9,592,000</b>
Bahamas Treasury Stock	<b>2,093,845</b>	<b>1,847,435</b>
	<b><u>\$ 48,118,033</u></b>	<b><u>\$ 47,993,064</u></b>

Included in the accounts receivable and accrued interest in the statement of financial position is accrued interest totaling \$655,793 (2016 – \$628,357) on available for sale investments.

As at December 31, 2017, the Group had \$3,000,000 (2016 – \$3,456,000) of Bahamas Government Registered Stock with a maturity dates of 2026 and 2027 (2016 – 2026 and 2027) in trust by Butterfield Bank to meet requirements of the Insurance Act 2005 (Bahamas), and as such this amount is not available for general corporate use.

Colonial Group International Ltd.

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

**4. Financial Assets (continued)**

*Held-to-Maturity Investments*

Investments held-to-maturity include fixed maturity short-term deposits which are held for more than three months from the date of acquisition and have the following maturities and interest rates:

	<b>Interest Rates</b>	<b>Interest Rates</b>	
	<b>2017</b>	<b>2017</b>	
	<b>2016</b>	<b>2016</b>	
Three months – one year	<b>0.18% – 6.0%</b>	<b>\$ 11,088,434</b>	0.18% – 2.50%    \$ 11,716,962

The fair value of these investments at the statement of financial position date is \$11,088,434 (2016 – \$11,716,962).

Investments held to maturity also include fixed maturity debt instruments and preferred shares which mature as follows:

	<b>2017</b>	<b>2016</b>
From one year through five years	<b>\$ 8,178,007</b>	\$ 1,517,137
From five years through ten years	<b>12,682,110</b>	–
	<b>\$ 20,860,117</b>	\$ 1,517,137

These investments are carried at amortized cost. The fair value of these investments at the statement of financial position date is \$21,156,703 (2016 – \$1,670,152).

Colonial Group International Ltd.

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

**4. Financial Assets (continued)**

*At Fair Value Through Profit or Loss*

	<b>2017</b>		<b>2016</b>	
	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>
Managed funds	<b>\$ 139,548,118</b>	<b>\$ 130,806,758</b>	\$ 121,786,378	\$ 119,791,525
Common equity securities	491,763	1,900,726	8,642,181	10,184,055
US Government bonds	1,799,460	1,799,494	—	—
Fixed maturity securities	1,656,891	1,656,891	1,274,107	1,270,943
	<b>\$ 143,496,232</b>	<b>\$ 136,163,869</b>	\$ 131,702,666	\$ 131,246,523

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

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

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

Colonial Group International Ltd.

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

**4. Financial Assets (continued)**

The maturity profile of fixed maturity securities, categorized as fair value through profit or loss, at their carrying value as at the balance sheet date is as follows:

	<b>2017</b>	<b>2016</b>
Due less than one year	\$ 1,656,891	\$ 1,274,107
	<b>\$ 1,656,891</b>	<b>\$ 1,274,107</b>

For all securities regardless of category, the Group's largest concentrations in any one investee or related group of investees is 19.51% (2016 – 5.23%) of total investments in a Bermuda based fund investing in fixed income securities and 21.51% (2016 – 24.88%) of total investments in Bahamas Government Registered Stock. No other individual security represents more than 8.47% of total investments (2016 – 9.82%).

*Fair Value Measurement*

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

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

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

Colonial Group International Ltd.

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

**4. Financial Assets (continued)**

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

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets or liabilities measured at fair value</b>				
Managed funds	\$ 14,496,977	\$ 113,706,443	\$ 11,344,698	\$ 139,548,118
US Government bonds	1,799,460	–	–	1,799,460
Common equity securities	113,006	11,387	367,370	491,763
Fixed Maturity Securities	–	1,656,891	–	1,656,891
<b>Total</b>	<b>\$ 16,409,443</b>	<b>\$ 115,374,721</b>	<b>\$ 11,712,068</b>	<b>\$ 143,496,232</b>
Fixed maturity available for sale investments	\$ –	\$ 48,118,033	\$ –	\$ 48,118,033
Segregated fund assets <i>(Note 15)</i>	<u>\$ 17,554,011</u>	<u>\$ 781,079,018</u>	<u>\$ 1,050</u>	<u>\$ 798,634,079</u>
<b>Assets for which fair values are disclosed</b>				
Held to maturity	\$ 19,546,199	\$ 12,655,306	\$ –	\$ 32,201,505

Colonial Group International Ltd.

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

**4. Financial Assets (continued)**

The following table presents the Group's fair value hierarchy for those assets or liabilities measured at fair value and for which fair values are disclosed as of December 31, 2016:

<b>Assets or liabilities measured at fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Managed funds	\$ 6,763,554	\$ 105,513,005	\$ 9,509,819	\$ 121,786,378
Corporate bonds	–	1,274,107	–	1,274,107
Common equity securities	8,550,803	14,982	76,396	8,642,181
<b>Total</b>	<b>\$ 15,314,357</b>	<b>\$ 106,802,094</b>	<b>\$ 9,586,215</b>	<b>\$ 131,702,666</b>
Fixed maturity available for sale investments	\$ –	\$ 47,993,064	\$ –	\$ 47,993,064
Segregated fund assets <i>(Note 15)</i>	<b>\$ 15,236,667</b>	<b>\$ 666,012,276</b>	<b>\$ 21,129</b>	<b>\$ 681,270,072</b>
<b>Assets for which fair values are disclosed</b>				
Held to maturity	\$ –	\$ 13,387,114	\$ –	\$ 13,387,114

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

Colonial Group International Ltd.

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

**4. Financial Assets (continued)**

*(a) Financial Assets in Level 1*

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

*(b) Financial Assets in Level 2*

The fair value of investments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates.

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

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

Colonial Group International Ltd.

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

**4. Financial Assets (continued)**

*(c) Financial Assets in Level 3*

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

	<b>Managed Funds</b>	<b>Common Equity Fees</b>	<b>Preference Shares</b>	<b>Segregated Assets</b>	<b>Total</b>
Beginning balance at January 1, 2017	\$ 9,509,819	\$ 76,396	\$ —	\$ 21,129	\$ 9,607,344
Movement in unrealized gains (losses)	228,878	(304,593)	—	—	(75,715)
Realized gains (losses)	15,050	—	—	—	15,050
Purchases and issuances	2,680,250	—	—	—	2,680,250
Sales	(493,732)	—	—	(20,079)	(513,811)
Settlements	—	—	—	—	—
Transfers	(595,567)	595,567	—	—	—
Ending balance at December 31, 2017	<u>\$ 11,344,698</u>	<u>\$ 367,370</u>	<u>\$ —</u>	<u>\$ 1,050</u>	<u>\$ 11,713,118</u>
Total gains (losses) for the year included in income on Level 3 assets (recognized in investment income)	<u>\$ 243,928</u>	<u>\$ (304,593)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (60,665)</u>

Colonial Group International Ltd.

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

**4. Financial Assets (continued)**

The following table provides a summary of the changes in fair value of the Group's Level 3 financial assets (and liabilities) for the year ended December 31, 2016:

	Managed Funds	Common Equity Fees	Preference Shares	Segregated Assets	Total
Beginning balance at January 1, 2016	\$ 8,078,302	\$ 83,550	\$ —	\$ 4,371,080	\$ 12,532,932
Movement in unrealized gains (losses)	47,152	(7,154)	—	—	39,998
Purchases and issuances	1,384,365	—	—	—	1,384,365
Sales	—	—	—	—	—
Settlements	—	—	—	—	—
Release of Obligations	—	—	—	(4,349,951)	(4,349,951)
Ending balance at December 31, 2016	<u>\$ 9,509,819</u>	<u>\$ 76,396</u>	<u>\$ —</u>	<u>\$ 21,129</u>	<u>\$ 9,607,344</u>
Total gains (losses) for the year included in income on Level 3 assets (recognized in investment income)	<u>\$ 47,152</u>	<u>\$ (7,154)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 39,998</u>

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

The Level 3 financial assets of \$11,713,118 (2016 – \$9,607,344) are primarily composed of funds valued on a Net Asset Value (NAV) basis. The most significant input in the valuation is the NAV of the underlying fund. Generally, an increase in the NAV of each underlying fund will have an equal increase in the fair value of the financial assets.

Colonial Group International Ltd.

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

**4. Financial Assets (continued)**

*Investment Income*

Investment income comprises the following:

	<b>2017</b>	<b>2016</b>
Dividend and interest income	\$ 5,029,779	\$ 5,348,741
Realized gains (losses) on sale of investments	847,383	(1,918,103)
Net unrealized gains on investments	6,878,770	2,927,203
Bond accretion (amortization)	22,069	(177,183)
Management fees	(942,653)	(865,054)
Other miscellaneous	—	97,390
Net foreign exchange gain	88,264	66,831
	<b>\$ 11,923,612</b>	<b>\$ 5,479,825</b>

**5. Insurance Balances Receivable**

Included in insurance balances receivable are policyholder loans of \$1,635,785 (2016 – \$1,752,830). Insurance balances receivable are presented net of a provision for doubtful accounts of \$3,252,197 (2016 – \$2,882,193).

**6. Outstanding Losses and Loss Expense Reserves**

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

The outstanding claims provision comprises non-life business:

	<b>2017</b>	<b>2016</b>
Property and casualty	\$ 103,993,918	\$ 29,579,003
Medical, dental and vision	22,553,098	20,780,722
Long term disability	4,712,169	6,762,821
	<b>\$ 131,259,185</b>	<b>\$ 57,122,546</b>

Colonial Group International Ltd.

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

**6. Outstanding Losses and Loss Expense Reserves (continued)**

Movements in non-life insurance liabilities and reinsurance assets are as follows:

	<b>2017</b>			<b>2016</b>		
	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>
<b>Loss reserves</b>						
Notified claims	\$ 32,715,737	\$ 20,374,965	\$ 12,340,772	\$ 22,751,164	\$ 11,390,981	\$ 11,360,183
Incurred but not reported	24,406,809	1,120,315	23,286,494	22,686,239	632,037	22,054,202
Total at beginning of year	<u>57,122,546</u>	<u>21,495,280</u>	<u>35,627,266</u>	<u>45,437,403</u>	<u>12,023,018</u>	<u>33,414,385</u>
<b>Movements during the year</b>						
Claims incurred						
– current year	344,565,670	132,097,538	212,468,132	221,538,949	25,642,718	195,896,231
Claims incurred						
– prior year	6,137,191	1,346,520	4,790,671	1,968,138	2,196,175	(228,037)
Total claims incurred	<u>350,702,861</u>	<u>133,444,058</u>	<u>217,258,803</u>	<u>223,507,087</u>	<u>27,838,893</u>	<u>195,668,194</u>
Claims settled in the year	(276,566,222)	(77,323,049)	(199,243,173)	(211,821,944)	(18,366,631)	(193,455,313)
Total at end of year	<u>131,259,185</u>	<u>77,616,289</u>	<u>53,642,896</u>	<u>57,122,546</u>	<u>21,495,280</u>	<u>35,627,266</u>
Notified claims						
– current year	104,993,463	76,216,928	28,776,535	32,715,737	20,374,965	12,340,772
Incurred but not reported						
– prior year	26,265,722	1,399,361	24,866,361	24,406,809	1,120,315	23,286,494
Total at end of year	<u>\$ 131,259,185</u>	<u>\$ 77,616,289</u>	<u>\$ 53,642,896</u>	<u>\$ 57,122,546</u>	<u>\$ 21,495,280</u>	<u>\$ 35,627,266</u>

## Colonial Group International Ltd.

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

#### **6. Outstanding Loss and Loss Expense Reserves (continued)**

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Group's estimate of net retained total claims outstanding for each accident year has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount included within property and casualty reserves in the consolidated statement of financial position. The insurance liabilities for property claims have been excluded from the table below as such claim payments are typically resolved quickly and, accordingly, have a relatively insignificant IBNR reserve.

Reporting year/period ended:	Jan 31, 2009	Dec 31, 2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims costs:											
At end of reporting year/period	13,921,371	12,635,793	12,840,913	11,488,935	11,041,449	10,926,852	10,958,859	11,415,223	13,026,345	12,073,792	\$ 120,329,534
One year later	14,393,468	12,911,498	13,913,828	12,278,834	12,260,690	11,919,313	12,308,144	12,255,016	14,456,073	—	—
Two years later	13,507,685	13,008,143	14,281,385	12,766,879	12,247,669	11,826,173	12,885,663	12,411,028	—	—	—
Three years later	13,916,674	12,872,170	14,661,674	12,937,613	12,359,880	11,776,879	13,645,750	—	—	—	—
Four years later	13,970,822	12,853,244	14,657,140	12,970,263	12,331,153	11,957,557	—	—	—	—	—
Five years later	14,047,104	12,865,998	14,706,471	12,732,374	12,212,217	—	—	—	—	—	—
Six years later	13,935,756	12,838,280	14,802,041	12,749,440	—	—	—	—	—	—	—
Seven years later	13,878,091	12,783,537	14,899,987	—	—	—	—	—	—	—	—
Eight years later	13,920,746	12,783,537	—	—	—	—	—	—	—	—	—
Nine years later	14,051,142	—	—	—	—	—	—	—	—	—	—
Ten years later	—	—	—	—	—	—	—	—	—	—	—
Current estimate of cumulative claims	14,051,142	12,783,537	14,899,987	12,749,440	12,212,217	11,957,557	13,645,750	12,411,028	14,456,073	12,073,792	131,240,523
Cumulative payments to date	13,810,800	12,774,071	14,721,862	12,570,674	12,116,096	11,388,110	11,896,364	11,174,854	12,081,944	7,964,471	120,499,246
Liability recognized in the consolidated statement of financial position	240,342	9,466	178,125	178,766	96,121	569,447	1,749,386	1,236,174	2,374,129	4,109,321	10,741,277
Net Reserve, prior years											10,922
Add: applicable reinsurance											7,619,838
Total casualty loss reserves at December 31, 2017											<b>\$ 18,372,037</b>

Colonial Group International Ltd.

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

**7. Provision for Future Policy Benefits and Policyholder Benefits Payable**

Composition of the provision for future policy benefits and policyholder benefits payable is as follows:

	<b>2017</b>	<b>2016</b>
Participating:		
Individual life	\$ 7,629,360	\$ 7,951,105
Non-participating:		
Individual and group life	(2,586,637)	438,932
Universal life	(10,542,610)	(8,712,014)
Annuities	3,005,479	3,115,368
Total provision for future policy benefits	<u>(2,494,408)</u>	2,793,391
Add: Policyholder benefits payable	<u>4,747,834</u>	4,091,272
Impact of Restatement ( <i>Note 2</i> )	<u>–</u>	1,573,685
	<b>\$ 2,253,426</b>	<b>\$ 8,458,348</b>

*Policyholder Benefits Payable*

Policyholder benefits payable is comprised of policyholder dividends on deposit and other insurance benefits payable on reported claims and surrenders.

Dividends on deposit represent provision for the policyholders' share of earnings on participating business. The Group suspended dividends with effect from January 1, 2009, due to the significant fall in the equity markets during 2008.

As of December 31, 2017, dividends on deposit of \$2,337,375 (2016 – \$2,438,127) and accrued deposit interest of \$497,815 (2016 – \$465,571) are included in policyholder benefits payable. For the year ended December 31, 2017, interest on dividends on deposit of \$69,453 (2016 – \$35,984) is included in policyholder benefits paid in the consolidated statement of comprehensive income.

Colonial Group International Ltd.

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

**7. Provision for Future Policy Benefits and Policyholder Benefits Payable (continued)**

*Provision for Future Policy Benefits*

Changes in provision for future policy benefits during the year are as follows:

	Gross	2017 Ceded	Net	Gross	2016 Ceded	Net
Provision for future policy benefits, beginning of year	\$ 4,367,076	\$ 3,085,844	\$ 7,452,920	\$ 1,985,337	\$ 2,421,040	\$ 4,406,377
Change in reserves for existing business on non-investment plans and impact of (increase) decrease in net asset value of segregated funds	(1,882,573)	442,625	(1,439,948)	975,100	(34,948)	940,152
Change in assumptions or methodology	(3,579,265)	3,204,881	(374,384)	(394,033)	627,697	233,664
Reserve for new business	(1,399,646)	331,856	(1,067,790)	226,987	72,055	299,042
Impact of restatement (Note 2)	—	—	—	1,573,685	—	1,573,685
(Decrease) increase in actuarial liabilities	(6,861,484)	3,979,362	(2,882,122)	2,381,739	664,804	3,046,543
Provision for future policy benefits, end of year	<u>\$ (2,494,408)</u>	<u>\$ 7,065,206</u>	<u>\$ 4,570,798</u>	<u>\$ 4,367,076</u>	<u>\$ 3,085,844</u>	<u>\$ 7,452,920</u>

The Group estimates the present value of future policy benefits related to long duration contracts using assumptions for investment yields, mortality, and expenses, including a provision for adverse deviation. The Group's appointed actuary is responsible for determining the amount of life and annuity policy reserve in accordance with standards established by the Canadian Institute of Actuaries. Insurance contract liabilities, net of reinsurance assets, have been determined using CALM as permitted by IFRS 4 *Insurance Contracts*.

Colonial Group International Ltd.

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

**7. Provision for Future Policy Benefits and Policyholder Benefits Payable (continued)**

Certain life insurance and annuity contracts provide the holder with a guarantee that the benefit received upon death will be no less than a minimum prescribed amount. The contracts are accounted for in accordance with the authoritative guidance on Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Separate Accounts, which requires that the best estimate of future experience be combined with actual experience to determine the benefit ratio used to calculate the policy benefit reserve.

The Group examines the assumptions used in determining the provision for future policy benefits and policyholder benefits payable on an ongoing basis to ensure they appropriately reflect emerging experience and changes in risk profile.

The Group uses best estimate assumptions for expected future experience. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision. Additional provisions are included in provision for future policy benefits to provide for possible adverse deviations from management's best estimates. If the assumption is more susceptible to change or if there is uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in provision for future policy benefits.

With the passage of time and resulting reduction in estimation risk, excess provisions are released into income. In recognition of the long-term nature of provision for future policy benefits, the margin for possible deviations generally increases for contingencies further in the future. The best estimate assumptions and margins for adverse deviations are reviewed annually, and revisions are made as deemed necessary and prudent.

**Assumptions and Sensitivities**

*Mortality*

Mortality refers to the rates at which death occurs for defined groups of people. Insurance mortality assumptions are based on industry experience and mortality tables, since the Group's own experience is insufficient to be statistically credible. In general, assumed mortality rates for life insurance contracts do not reflect any future expected improvement.

Colonial Group International Ltd.

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

**7. Provision for Future Policy Benefits and Policyholder Benefits Payable (continued)**

For life insurance products not involving segregated funds, a higher mortality would have an adverse effect on the Group's results of operations. For those products, a 10% increase in the best estimate assumption would decrease net income and shareholder's equity by approximately \$620,978 (2016 – \$818,723). For life insurance products involving segregated funds, the reserve equals the segregated fund balance, and therefore a higher mortality assumption would have no immediate impact on the consolidated statement of financial position.

*Investment Return and Interest Rate*

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

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

The effect of an immediate 1% increase in interest rates would be to decrease the present value of these net projected cash flows by approximately \$2,563,633 (2016 – \$2,153,235). The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash flows by approximately \$4,298,249 (2016 – \$3,400,168).

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

Colonial Group International Ltd.

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

**7. Provision for Future Policy Benefits and Policyholder Benefits Payable (continued)**

*Policy Termination Rates (Lapse Rates)*

Policyholders may allow their policies to terminate prior to the end of the contractual coverage period by choosing not to continue paying premiums or by exercising one of the non-forfeiture options in the contract. Assumptions for termination experience on life insurance are based on industry experience. Termination rates may vary by product/plan, age at issue, method of premium payment and policy duration. For universal life policies it is also necessary to set assumptions about premium cessation occurring prior to termination of the policy. A 10% adverse change in the best estimate of policy termination would decrease net income by \$912,270 (2016 – \$815,161).

*Operating Expenses and Inflation*

Policy liabilities include an estimate for future policy-related expenses. These include the costs of premium collection, claims adjudication and processing, actuarial calculations, preparation and mailing of policy statements and related indirect expenses and overheads. Expense assumptions are mainly based on recent Group experience using an internal expense allocation methodology. Future expense assumptions reflect inflation. The sensitivity of actuarial liabilities to a 10% decrease in unit expenses Group-wide would result in a decrease in net income of \$1,315,944 (2016 – \$1,266,563).

Colonial Group International Ltd.

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

**7. Provision for Future Policy Benefits and Policyholder Benefits Payable (continued)**

The composition of the assets supporting the positive liabilities of provision for future policy benefits as of December 31, 2017 is as follows:

	Cash and Cash Equivalents	Financial Assets	Insurance and Reinsurance Balances	Amounts Due From Related Companies	Total
<b>Participating:</b>					
Individual life	\$ 1,472,586	\$ 6,156,774	\$ —	\$ —	\$ 7,629,360
<b>Non-participating:</b>					
Individual and group life	—	—	—	—	—
Universal life	—	—	—	—	—
Annuities	—	3,005,479	—	—	3,005,479
Provision for future policy benefits	1,472,586	9,162,253	—	—	10,634,839
Policy benefits payable	—	2,522,637	2,225,197	—	4,747,834
Positive provision for future policy benefits	\$ 1,472,586	\$ 11,684,890	\$ 2,225,197	\$ —	\$ 15,382,673
Negative provision for future policy benefits				(13,129,247)	
				\$ 2,253,426	

Colonial Group International Ltd.

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

**7. Provision for Future Policy Benefits and Policyholder Benefits Payable (continued)**

The composition of the assets supporting the positive liabilities of provision for future policy benefits as of December 31, 2016 is as follows:

	Cash and Cash Equivalents	Financial Assets	Insurance and Reinsurance Balances	Amounts Due From Related Companies	Total
Participating:					
Individual life	\$ 5,371,895	\$ 2,579,210	\$ —	\$ —	\$ 7,951,105
Non-participating:					
Individual and group life	—	—	—	—	—
Universal life	—	—	—	—	—
Annuities	—	3,115,368	—	—	3,115,368
Provision for future policy benefits	5,371,895	5,694,578	—	—	11,066,473
Policy benefits payable	—	1,526,282	2,564,990	—	4,091,272
Positive provision for future policy benefits	\$ 5,371,895	\$ 7,220,860	\$ 2,564,990	\$ —	\$ 15,157,745
Negative provision for future policy benefits					(8,273,082)
Impact of restatement <i>(Note 2)</i>					1,573,685
					\$ 8,458,348

Colonial Group International Ltd.

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

**7. Provision for Future Policy Benefits and Policyholder Benefits Payable (continued)**

*Deferred Acquisition Costs*

The following reflects the amounts of acquisition costs deferred and amortized as of and for the year ended:

	<b>2017</b>	<b>2016</b>
Deferred acquisition costs, beginning of year	\$ 6,435,886	\$ 6,855,377
Expenses capitalized	6,824,564	6,780,672
Amortization expense	(9,553,918)	(7,200,163)
Deferred acquisition costs, end of year	<u>\$ 3,706,532</u>	<u>\$ 6,435,886</u>

**8. Funds Held on Behalf of Clients**

Funds held on behalf of clients include funds held under a self-insurance program administered by AMIL in the amount of \$1,632,673 (2016 – \$1,588,977). AMIL collect premiums and pay claims on behalf of the self-insurance programs, but do not assume any insurance risk. AMIL receives administrative fees for services provided, and records amounts received, net of amounts reimbursed for loss payments, as funds held on behalf of clients. In addition, AMIL held cash of \$678,445 (2016 – \$641,277) representing client premiums paid in advance.

CPSL and CPTL held cash of \$729,678 (2016 – \$1,053,043) and \$1,149,964 (2016 – \$962,903), respectively, on behalf of clients and unallocated contributions. Cash held on behalf of clients represents a net amount owed to clients for cash held by the Group for funds in transit between unitholders and the segregated funds. Cash held on behalf of clients consists of contributions and redemptions payable, less contributions and redemptions receivable.

Colonial Group International Ltd.

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

**9. Goodwill**

Goodwill has been allocated to one cash-generating unit BCHL and represents the excess cost over identifiable net assets acquired. The carrying amount of goodwill allocated to BCHL is shown below:

	<b>BCHL</b>
<b>2017</b>	<b>\$ 6,518,300</b>
2016	\$ 6,518,300

When testing for impairment, the recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. A Group-specific risk-adjusted discount rate of 5% (2016 – 5%) is used. The projected cash flows are determined by budgets based on past performances and management expectations for market developments.

With regard to the assessment of value in use for the cash-generating units, management recognizes the significant challenges in the property & casualty sector. Following hurricanes IRMA and Maria in September/October 2017 premium rates across the Caribbean have stabilized and there are signs of some hardening. Management have moderated their expectation for the property casualty sector in general and the Cayman Islands market in particular.

The medical portfolio in the Cayman Islands has experienced increases in utilization at the same time as significant increases in costs were noted. Management has conservatively estimated that these conditions could reasonably continue over the near term (12 – 18 months) before trends return to normalized patterns.

Notwithstanding the changes in business trends noted above, Management remains confident that the carrying value of the goodwill is supported by the value of the CGU.

Impairment losses of \$Nil have been recognized in 2017 (2016 – \$Nil), as a result of the impairment reviews for the cash-generating unit.

Colonial Group International Ltd.

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

**10. Property, Plant and Equipment**

Property, plant and equipment as at December 31, 2017, comprise the following:

	<b>2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>2017</b>
<b>Cost</b>				
Land	\$ 684,866	\$ 1,117,948	\$ —	\$ 1,802,814
Property	8,633,321	—	—	8,633,321
Leasehold improvements	12,145,812	1,288,669	—	13,434,481
Computer hardware	9,585,035	899,992	—	10,485,027
Furniture and office equipment	7,936,058	748,729	(14,020)	8,670,767
Motor vehicles	212,826	104,259	—	317,085
	<b>\$ 39,197,918</b>	<b>\$ 4,159,597</b>	<b>\$ (14,020)</b>	<b>\$ 43,343,495</b>
<b>Accumulated depreciation</b>				
Land	\$ —	\$ —	\$ —	\$ —
Property	2,920,926	172,681	—	3,093,607
Leasehold improvements	8,104,558	1,131,395	5,654	9,241,607
Computer hardware	7,207,483	919,717	(5,654)	8,121,546
Furniture and office equipment	6,685,336	353,281	(2,337)	7,036,280
Motor vehicles	94,619	38,441	—	133,060
	<b>\$ 25,012,922</b>	<b>\$ 2,615,515</b>	<b>\$ (2,337)</b>	<b>\$ 27,626,100</b>
<b>Net book value</b>				
	<b>\$ 14,184,996</b>			<b>\$ 15,717,395</b>

Colonial Group International Ltd.

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

**10. Property, Plant and Equipment (continued)**

Property, plant and equipment as at December 31, 2016, comprise the following:

	<b>2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>2016</b>
<b>Cost</b>				
Land	\$ 684,866	\$ —	\$ —	\$ 684,866
Property	8,633,321	—	—	8,633,321
Leasehold improvements	12,044,125	104,443	(2,756)	12,145,812
Computer hardware	11,009,766	1,317,447	(2,742,178)	9,585,035
Furniture and office equipment	8,115,090	375,367	(554,399)	7,936,058
Motor vehicles	242,753	25,000	(54,927)	212,826
	<u>\$ 40,729,921</u>	<u>\$ 1,822,257</u>	<u>\$ (3,354,260)</u>	<u>\$ 39,197,918</u>

	<b>2015</b>	<b>Depreciation Expense</b>	<b>Disposals</b>	<b>2016</b>
<b>Accumulated depreciation</b>				
Land	\$ —	\$ —	\$ —	\$ —
Property	2,748,260	571,795	(399,129)	2,920,926
Leasehold improvements	7,051,181	1,056,133	(2,756)	8,104,558
Computer hardware	9,072,254	872,567	(2,737,338)	7,207,483
Furniture and office equipment	6,530,695	320,651	(166,010)	6,685,336
Motor vehicles	92,515	39,241	(37,137)	94,619
	<u>\$ 25,494,905</u>	<u>\$ 2,860,387</u>	<u>\$ (3,342,370)</u>	<u>\$ 25,012,922</u>
<b>Net book value</b>	<u><u>\$ 15,235,016</u></u>			<u><u>\$ 14,184,996</u></u>

Colonial Group International Ltd.

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

## **11. Intangible Assets**

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

	<b>2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>2017</b>
<b>Cost</b>				
Computer software	\$ 9,315,516	\$ 1,648,327	\$ —	\$ 10,963,843
Portfolio acquisition cost	5,838,274	—	(3,150,000)	2,688,274
	<u>\$ 15,153,790</u>	<u>\$ 1,648,327</u>	<u>\$ (3,150,000)</u>	<u>\$ 13,652,117</u>
<b>Accumulated depreciation</b>				
Computer software	\$ 6,074,658	\$ 1,155,197	\$ —	\$ 7,229,855
Portfolio acquisition cost	3,911,887	272,876	(3,150,000)	1,034,763
	<u>\$ 9,986,545</u>	<u>\$ 1,428,073</u>	<u>\$ (3,150,000)</u>	<u>\$ 8,264,618</u>
<b>Net book value</b>				
	<u><u>\$ 5,167,245</u></u>			<u><u>\$ 5,387,499</u></u>

Colonial Group International Ltd.

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

**11. Intangible Assets (continued)**

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

	<b>2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>2016</b>
<b>Cost</b>				
Computer software	\$ 8,434,152	\$ 1,105,570	\$ (224,206)	\$ 9,315,516
Portfolio acquisition cost	5,838,274	—	—	5,838,274
	<b>\$ 14,272,426</b>	<b>\$ 1,105,570</b>	<b>\$ (224,206)</b>	<b>\$ 15,153,790</b>
<b>Accumulated depreciation</b>				
Computer software	\$ 5,339,460	\$ 959,404	\$ (224,206)	\$ 6,074,658
Portfolio acquisition cost	3,638,516	273,371	—	3,911,887
	<b>\$ 8,977,976</b>	<b>\$ 1,232,775</b>	<b>\$ (224,206)</b>	<b>\$ 9,986,545</b>
<b>Net book value</b>				
	<b>\$ 5,294,450</b>			<b>\$ 5,167,245</b>

Due to a change in circumstances affecting a portfolio that had previously been classified as an Indefinite Life Intangible Asset, management determined that commencing January 1, 2015, the portfolio should be reclassified to Finite Life Intangible Assets. At the time of reclassification, management assessed the portfolio for impairment and concluded that the present value of the expected future cash flows arising from the portfolio exceeded the carrying value of the portfolio.

From January 1, 2015, management commenced amortizing the portfolio over a 10 year expected life and undertook to assess the carrying value for signs of impairment on an annual basis.

Colonial Group International Ltd.

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

## **12. Risk Management and Financial Instruments**

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established an Investment Committee, Risk Oversight Committee and Audit Committee, which along with the President of the Group are responsible for developing and monitoring the Group's risk management policies. The committees and President report regularly to the Board of Directors on their activities.

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

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

Colonial Group International Ltd.

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

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

The principles used by the Group in managing its insurance risks are set out below.

**Insurance Risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Group insures the risks of individuals located in Bermuda, British Virgin Islands, Barbados, Bahamas, the Cayman Islands, and Turks and Caicos Islands and internationally, therefore there is a diversification of geographic risk. There is a concentration of industry risk which is managed through its underwriting strategy and reinsurance arrangements. The Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

The Group predominantly funds its net insurance liabilities (net of reinsurance recoveries) through its cash and in the normal course of its operations. In the event of a catastrophe, the net insurance liabilities may require to be funded through the disposal of the Group's portfolio of investments.

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from insurance contracts in force at the consolidated statement of financial position date (both incurred claims and future claims arising from the unexpired risks at the consolidated statement of financial position date).

Colonial Group International Ltd.

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

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

The mean durations are:

	<b>2017</b>	<b>2016</b>
Net short-term insurance liabilities – medical	<b>2 months</b>	2 months
Net short-term insurance liabilities – property risk	<b>3 months to 1 year</b>	3 months to 1 year
Net short-term insurance liabilities – casualty risk	<b>3 months to 2-3 years</b>	3 months to 2–3 years

**General Insurance**

The Group provides property, casualty and health insurance coverage in Bermuda, Cayman, the Bahamas, the British Virgin Islands and the Turks & Caicos Islands for motor vehicle, motor cycle, property, marine, general liability, medical, dental, vision, long term disability, short term disability, group life and accidental death and dismemberment risks. During 2017, the group commenced selling health insurance products in Barbados.

The Group provides property and casualty coverage with the following per risk treaty limits:

	<b>Treaty Limit Per Risk (BDAs\$)</b>			
	<b>Bermuda</b>	<b>Bahamas</b>	<b>Cayman</b>	<b>BVI</b>
Property	12.5m	10m	7.3m	2m
Motor liability	5m	0.5m	24.4m	5m
General liability	5m	0.5m	24.4m	5m
Marine hull liability	300k	500k	300k	300k

Group provides health coverage with the following maximum limits:

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

Colonial Group International Ltd.

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

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

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

Insurance contract risk is the risk that a loss arises from the following reasons:

- fluctuation in the timing, frequency and severity of claims relative to expectations;
- inadequate reinsurance protection; and
- large unexpected losses arising from a single event such as a catastrophe.

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

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

*Risk Related to the Timing, Frequency and Severity of Claims*

The occurrence of claims being unforeseeable, the Group is exposed to the risk that the number and the severity of claims would exceed the estimates.

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

Colonial Group International Ltd.

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

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

*Reinsurance Protection*

In the normal course of business, the Group limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. Reinsurance ceded does not discharge the Group's liability as the primary insurer. 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 reinsures its property risks under property surplus and quota share treaties specific to each jurisdiction. For larger individual property risks the Group provides coverage by way of prearranged facilities and facultative reinsurance. The Group also purchases property catastrophe reinsurance for each jurisdiction in excess of \$5,000,000 (2016 – \$3,500,000) up to a maximum recovery of \$120,000,000 (2016 – \$106,500).

The Group's motor and general liability exposure is limited to \$500,000 per claim through the purchase of excess of loss reinsurance which covers the maximum limits insured on any one risk in all jurisdictions.

The Group purchases an excess of loss reinsurance treaty which specifically limits marine losses to \$75,000 per risk and per occurrence.

For Medical risks the Group follows the policy of underwriting and reinsuring all contracts of insurance, which limit the retained liability of the Group to a maximum amount of \$350,000 on any one individual medical loss per year.

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

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

Colonial Group International Ltd.

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

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

*Catastrophe Risk*

Catastrophe risk is the risk of occurrence of a large number of claims arising from a single event such as an earthquake, hurricane or tsunami. Catastrophes can have a significant impact on the underwriting income of an insurer.

The Group has limited its exposure to catastrophe risk by imposing maximum claim amounts on certain contracts, as well as by using reinsurance arrangements. The Group buys a combination of proportional and non-proportional reinsurance to manage catastrophe exposure. Retentions and limits for ceded reinsurance vary by product line and jurisdiction. The Group purchased catastrophic excess of loss life reinsurance for losses in excess of \$250,000 per occurrence limited to \$5,000,000 each occurrence. This reinsurance provides cover for the loss of six lives or more that are involved in any one loss.

*Exposure to Insurance Risk*

The principal assumption underlying the unpaid claim estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence: changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Additionally, in 2017 the Group was hit by Hurricane Irma in BVI and TCI and in 2016 by Hurricane Matthew in Bahamas and Hurricane Nicole in Bermuda. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

## Colonial Group International Ltd.

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

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

The non-life insurance claim liabilities are sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

The claims liabilities' sensitivity to certain of these key assumptions is outlined below for P&C entities and for the medical business under CMI and AMI, as there are various ratios of sensitivity used for this analysis. It is not possible to quantify the sensitivity to certain assumptions such as legislative changes or uncertainty in the estimation process. The analysis is performed for possible movements in the assumptions with all other assumptions held constant, showing the impact on net income. Movements in these assumptions may be non-linear and may be correlated with one another.

Sensitivity Factor	Description of Sensitivity Factor Applied			
Average number of claims (frequency)	The impact of a change in number of claims by 10%			
Average claim costs (severity)	The impact of a change in average claim cost by 10%			
	Number of Claims +10%	Number of Claims -10%	Claim Costs +10%	Claim Costs -10%
	Increase (Decrease) (\$000)			
P&C entities				
At December 31, 2017				
Impact on profit*	\$ (1,817)	\$ 1,817	\$ (1,817)	\$ 1,817
Impact on shareholder's equity*	\$ (1,817)	\$ 1,817	\$ (1,817)	\$ 1,817
Net of reinsurance				

Colonial Group International Ltd.

Notes to Consolidated Financial Statements (continued)  
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**12. Risk Management and Financial Instruments (continued)**

	Frequency of Claims +14%	Frequency of Claims -14%	Severity of Claims +10%	Severity of Claims -10%
	Increase/(Decrease) (\$000)			
<b>Colonial Medical Insurance At December 31, 2017</b>				
Impact on profit	\$ (1,120)	\$ 1,120	\$ (1,006)	\$ 1,207
Impact on shareholder's equity	\$ (1,120)	\$ 1,120	\$ (1,006)	\$ 1,207

	Frequency of Claims +18%	Frequency of Claims -18%	Severity of Claims +12%	Severity of Claims -15%
	Increase (Decrease) (\$000)			
<b>Atlantic Medical Insurance At December 31, 2017</b>				
Impact on profit	\$ (939)	\$ 939	\$ (787)	\$ 984
Impact on shareholder's equity	\$ (939)	\$ 939	\$ (787)	\$ 984

**Long Term Insurance**

The Group provides life insurance and accidental death benefits coverage as well as investment and savings products in Bermuda, Cayman, British Virgin Islands and internationally. Life insurance contracts offered by the Group include: whole life, term assurance, single premium immediate annuity and variable life.

Whole life and term assurance are conventional regular premium products when lump sum benefits are payable on death.

All life insurance policies include the option to purchase contribution protection benefits that provide for payment of contributions on behalf of policyholders in periods of total disability.

Colonial Group International Ltd.

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

## **12. Risk Management and Financial Instruments (continued)**

The main risks that the Group is exposed to are as follows:

- Mortality risk – risk of loss arising due to policyholder death experience being different than expected
- Longevity risk – risk of loss arising due to the annuitant living longer than expected
- Investment return risk – risk of loss arising from actual returns being different than expected
- Expense risk – risk of loss arising from expense experience being different than expected
- Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected

These risks do not vary significantly in relation to the location of the risk insured by the Group, type of risk insured or by industry.

Please refer to Note 7 for the concentration of life insurance and investment contract liabilities by type of contract.

### *Mortality Risk*

Mortality risk is the risk that future experience could be worse than the assumptions used in the pricing and valuation of products. Mortality risk can arise in the normal course of business through random fluctuation in realized experience, through catastrophes, or in association with other risk factors such as product development and pricing or model risk.

The Group maintains underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits, which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies. The impact of a 10% change in the mortality assumption is disclosed in Note 7.

Colonial Group International Ltd.

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

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

*Longevity Risk*

Longevity risk is the potential for economic loss, accounting loss or volatility in earnings arising from uncertain adverse changes in rates of mortality improvement relative to the assumptions used in the pricing and valuation of products. This risk can manifest itself slowly over time as socioeconomic conditions improve and medical advances continue. It could also manifest itself more quickly, for example, due to medical breakthroughs that significantly extend life expectancy. Longevity risk affects contracts where benefits are based upon the likelihood of survival (for example, annuities, pensions and pure endowments). The impact of a 10% change in the mortality assumption is disclosed in Note 7.

*Investment Return Rate*

The Group's policy of closely matching asset cash flows with those of the corresponding liabilities is designed to mitigate the Group's exposure to future changes in interest rates. The interest rate risk positions are monitored on an ongoing basis. Under CALM, the reinvestment rate is developed using interest rate scenario testing and reflects the interest rate risk positions.

Equities, bonds and other long-duration assets are used to support liabilities where investment return experience is passed back to policyholders through dividends or credited investment return adjustments. Equities, bonds and other long-duration assets are also used to support long-dated obligations in the Group's annuity and pension businesses and for long-dated insurance obligations on contracts where the investment return risk is borne by the Group.

The impact of a 1% change in the investment return rate assumption is disclosed in Note 7.

*Expense Risk*

Expense risk is the risk that future expenses are higher than the assumptions used in the pricing and valuation of products. This risk can arise from general economic conditions, unexpected increases in inflation, slower than anticipated growth or reduction in productivity leading to increase in unit expenses. Expense risk occurs in products where the Group cannot or will not pass increased costs onto the customer and will manifest itself in the form of a liability increase or a reduction in expected future profits.

Colonial Group International Ltd.

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

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

The Group closely monitors expenses through an annual budgeting process and ongoing monitoring of any expense gaps between unit expenses assumed in pricing and actual expenses. The impact of a 10% change in the unit expenses assumption is disclosed in Note 7.

*Policyholder Decision Risk*

Policies are terminated through lapses and surrenders, where lapses represent the termination of policies due to nonpayment of premiums and surrenders represent the voluntary termination of policies by policyholders. Premium persistency represents the level of ongoing deposits on contracts where there is policyholder discretion as to the amount and timing of deposits.

The Group seeks to design products that minimize financial exposure to lapse, surrender and other policyholder decision risk. The Group monitors lapse, surrender and other policyholder decision experience. The impact of a 10% change in the policy termination rates assumption is disclosed in Note 7.

*Long Term Reinsurance Protection*

– *Life Risks*

Reinsurance agreements are in place for individual life business. The Group does not assure any individual life risks in excess of the reinsurers' limits. The individual life business is reinsured on claims in excess of \$100,000 domestically and \$100,000 internationally with the reinsurers' limit being \$3,000,000. However the Group's reinsurer has made exceptions on individual considerations and has accepted higher limits.

– *Accidental Death Benefit*

The reinsurer can participate in risks up to \$1,000,000 of accidental death benefit (ADB) per life with all carriers. The Group does not assure any individual ADB risks in excess of the reinsurer's limits. The Group does not retain any exposure to ADB risks.

Colonial Group International Ltd.

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

## **12. Risk Management and Financial Instruments (continued)**

### **Financial Risk**

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

- credit risk
- liquidity risk
- market risk

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

### **Credit Risk**

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

#### *Cash and Investments*

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

#### *Insurance Balances Receivable*

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

Colonial Group International Ltd.

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

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

As at December 31, 2017, approximately \$4,993,296 (2016 – \$2,802,747) of premiums receivable due to the Group were from three major groups. Management is of the opinion that this concentration does not have a significant impact on the Group.

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

*Reinsurance Balances Receivable*

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

The Group reviews the creditworthiness of reinsurers on an annual basis and only enters and maintains contracts with reinsurers that (1) have been rated as A- or higher by the AM Best credit rating agency and (2) have in excess of \$500 million in capital and surplus. Current financial statements of the reinsurers are reviewed annually. Based on the individual reinsurance agreements, the Group may have the right to offset amounts due to reinsurers against any amounts due from reinsurers.

Amounts due from reinsurers are assessed regularly for any indication of impairment. At December 31, 2017, losses recoverable from reinsurers were due from reinsurers who all have an A.M. Best rating of at least A. Management considers that there is no significant credit risk associated with any of the Group's reinsurers.

Colonial Group International Ltd.

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

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

*Related-Party Receivables*

Amounts due from related parties are assessed and monitored for any indication of impairment. At December 31, 2017, the majority of amounts due from related parties were due from Gibbons Management Services Limited. At December 31, 2017, all amounts are considered collectible.

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

	Accounts				Losses	
	Receivable and Accrued Interest	Insurance Balances Receivable	Reinsurance Balances Receivable	Recoverable From Reinsurers	From Related Companies	Total
Amounts not currently due or up to 30 days	\$ 10,447,910	\$ 21,622,015	\$ 9,213,908	\$ 77,616,289	\$ 24,258,455	\$ 143,158,577
31 – 60 days	96,306	4,280,122	22,314	–	–	4,398,742
61 – 90 days	85,336	1,614,716	318,287	–	–	2,018,339
Over 90 days	155,148	1,788,294	81,817	–	–	2,025,259
	<b>\$ 10,784,700</b>	<b>\$ 29,305,147</b>	<b>\$ 9,636,326</b>	<b>\$ 77,616,289</b>	<b>\$ 24,258,455</b>	<b>\$ 151,600,917</b>

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

	Accounts				Losses	
	Receivable and Accrued Interest	Insurance Balances Receivable	Reinsurance Balances Receivable	Recoverable From Reinsurers	From Related Companies	Total
Amounts not currently due or up to 30 days	\$ 5,088,904	\$ 22,188,027	\$ 3,784,329	\$ 21,495,280	\$ 20,472,581	\$ 73,029,121
31 – 60 days	138,063	4,723,360	161,308	–	–	5,022,731
61 – 90 days	107,572	1,332,083	4,309	–	–	1,443,964
Over 90 days	195,402	1,585,227	211,170	–	6,547,000	8,538,799
	<b>\$ 5,529,941</b>	<b>\$ 29,828,697</b>	<b>\$ 4,161,116</b>	<b>\$ 21,495,280</b>	<b>\$ 27,019,581</b>	<b>\$ 88,034,615</b>

Included in insurance balances receivable are amounts past due of \$1,173,438 (2016 – \$5,394,562) that are not considered to be impaired.

**Colonial Group International Ltd.**

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

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

**Liquidity Risk**

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

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

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
<b>Financial assets</b>						
Cash and cash equivalents	\$ 76,685,139	\$ –	\$ 76,685,139	\$ 80,102,340	\$ –	\$ 80,102,340
Financial assets	145,069,183	78,493,633	223,562,816	141,871,467	51,058,362	192,929,829
Accounts receivable and accrued interest	10,784,700	–	10,784,700	5,529,941	–	5,529,941
Insurance balances receivable	29,305,147	–	29,305,147	29,828,697	–	29,828,697
Reinsurance balances receivable	9,636,326	–	9,636,326	3,997,854	163,262	4,161,116
Losses recoverable from reinsurers	77,616,289	–	77,616,289	21,495,280	–	21,495,280
Provision for future policy benefits	–	2,494,408	2,494,408	–	–	–
Amounts due from related companies	17,832,265	6,426,190	24,258,455	20,472,581	6,547,000	27,019,581
	<b>\$ 366,929,049</b>	<b>\$ 87,414,231</b>	<b>\$ 454,343,280</b>	<b>\$ 303,298,160</b>	<b>\$ 57,768,624</b>	<b>\$ 361,066,784</b>

**Colonial Group International Ltd.**

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

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

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
<b>Financial liabilities</b>						
Bank overdraft	\$ 1,853,782	\$ —	\$ 1,853,782	\$ 1,416,219	\$ —	\$ 1,416,219
Outstanding losses and loss expenses	131,259,185	—	131,259,185	57,122,546	—	57,122,546
Reinsurance balances payable	10,095,217	—	10,095,217	10,354,659	—	10,354,659
Accounts payable and other liabilities	15,085,526	—	15,085,526	12,014,407	—	12,014,407
Provision for future policy benefits (restated)	—	—	—	4,367,076	—	4,367,076
Policyholder benefits payable	4,747,834	—	4,747,834	4,091,272	—	4,091,272
Funds held on behalf of clients	4,246,690	—	4,246,690	4,286,754	—	4,286,754
Amounts due to related companies	213,176	—	213,176	178,241	—	178,241
<b>Total</b>	<b>\$ 167,501,410</b>	<b>\$ —</b>	<b>\$ 167,501,410</b>	<b>\$ 93,831,174</b>	<b>\$ —</b>	<b>\$ 93,831,174</b>
Liquidity margin	\$ 199,427,639	\$ 87,414,231	\$ 286,841,870	\$ 209,466,986	\$ 57,768,624	\$ 267,235,610

**Market Risk**

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

Although the Group is not directly exposed to market risk on the net assets held in segregated funds arising from investment contracts issued, the valuation and recoverability of deferred acquisition costs associated with investment contracts may be adversely affected by changes in value of the segregated funds.

*Interest-Rate Risk*

The Group invests in fixed interest debt securities and managed funds, the fair values of which are affected by changes in interest rates. The coupon rates and maturity dates associated with the fixed interest debt securities held by the Group is disclosed in Note 4. Details of interest rate risk on related party balances are disclosed in Note 14.

Colonial Group International Ltd.

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

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

As administrator of the segregated funds, the Group earns a fee based on the value of the segregated assets. Fluctuation in the valuation of segregated funds impact the fee earned by the Group.

*Foreign Currency Risk*

The Group's exposure to foreign exchange risk arises from some of its subsidiaries which report in currencies other than the Bermuda or US dollar. These subsidiaries are BCHL which reports in the Cayman Islands dollar, and, S&GL, NIBAL and AMIL which report in the Bahamas dollar. The Group is exposed to risks that the exchange rate of the Bermuda/US dollar relative to the Cayman Islands or Bahamas dollar may change in a manner which will have an adverse effect on the reported amounts of assets and liabilities, profit and related cash flows. This risk is mitigated as both the Cayman Islands and Bahamas dollar are pegged to the US dollar. As a result exposure to these currencies is insignificant for the year ended December 31, 2017.

All risks associated with the increase or decrease in value of the segregated funds due to fluctuation in foreign currency are borne by the policyholders of CLACL and pension plan holders of CPSL and CPSBL.

*Equity Price Risk*

The Group is subject to equity price risk due to daily changes in the market value of securities in its fund and equity portfolios. Equity price risk is actively managed in order to mitigate anticipated unfavorable market movements where this lies outside the risk appetite of the Group's Investment Committee. Diversified portfolios of assets are held in order to reduce exposure to individual equities. At the balance sheet date management estimates that a 10% increase in prices for common equities and equity based managed funds held, with all other variables held constant, would increase net income by approximately \$4,044,710 (2016 – \$3,207,715). A 10% decrease in equity prices would have a corresponding decrease in net income.

As administrator of the segregated fund, fluctuation in the valuation of the funds due to equity price changes impact the fee earned by the Group.

Colonial Group International Ltd.

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

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

### *Limitations of Sensitivity Analysis*

The sensitivity information included in this note and Note 7 demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions such as instances when risk free interest rates fall towards zero.

## 13. Capital Management and Statutory Requirements

The Group's capital base is structured to exceed regulatory targets and desired capital ratios, maintain strong credit ratings and provide flexibility to take advantage of growth opportunities and provide an adequate return to shareholders. Capital is managed on a consolidated basis under principles that consider all the risks associated with the business. It is also managed at the business unit level under the principles appropriate to the jurisdiction in which it operates. The Board of Directors is responsible for devising the Group's capital plan with management responsible for the implementation of the plan. The policy is designed to provide an appropriate level of risk management over capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength or to allow the Group to take advantage of opportunities for expansion.

The Group's capital base consists of common shares, share premium, contributed surplus, retained earnings and non-controlling interest.

### *Common Shares*

	<b>2017</b>	<b>2016</b>
Authorized share capital:		
3,012,000 common shares of par value \$1 each	<b>\$ 3,012,000</b>	<b>\$ 3,012,000</b>
Issued and fully paid:		
1,512,000 common shares of par value \$1 each	<b>\$ 1,512,000</b>	<b>\$ 1,512,000</b>

Colonial Group International Ltd.

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

**13. Capital Management and Statutory Requirements (continued)**

The group is authorized to issue 20,000,000 redeemable preferred shares.

*Share Premium*

Share premium represents the par value of the 2,500,000 common shares of CICL which were contributed to the Group as part of the corporate restructuring on January 30, 1996.

*Contributed Surplus*

A reassessment of assumptions used in valuing a business acquisition in 1995 resulted in \$2,447,355 being recorded as contributed surplus.

During 2009, the Group received a cash contribution of \$7,000,000 from the parent company.

In the periods 2010 through 2012 the Group received capital contributions totaling \$357,114 by way of subsidized interest rates awarded to staff by an affiliate bank which was settled by the Group's parent. Thereafter the expense has been charged to group companies.

*Non-Controlling Interests*

Non-controlling interest of \$9,458,377 (2016 – \$10,148,811) has been recorded in respect of the 25% non-controlling holding in BCHL, \$1,419,151 (2016 – \$2,053,453) in respect of the 30% non-controlling interest in S&GL, and \$2,029,369 (2016 – \$2,034,018) in respect of the 50% non-controlling holding in BVIL.

## Colonial Group International Ltd.

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

#### **13. Capital Management and Statutory Requirements (continued)**

As of December 31, 2017, the Group has recorded non-controlling interest of \$536,525 (2016 – \$414,452), in respect of the 60% non-controlling holding of NIBAL.

##### *Statutory Requirements*

Management monitors the adequacy of the Group and its operating subsidiaries' capital from the perspective of relevant legislation in the jurisdictions in which it operates.

The Group's subsidiaries are required to maintain certain minimum levels of capital and surplus stipulated within each subsidiary's jurisdiction. At the balance sheet date the Group's subsidiaries had exceeded these requirements as noted below:

	2017		2016	
	Minimum Required	Actual	Minimum Required	Actual
CICL	\$ 15,093,000	\$ 19,562,687	\$ 2,530,000	\$ 19,565,209
CMICL	26,708,000	97,602,893	24,914,000	86,765,722
CLACL	3,363,000	15,484,714	500,000	15,488,308
CRL	8,306,000	12,351,883	1,000,000	9,972,423

Each year the Group is required to file with the Bermuda Monetary Authority (the BMA), a capital and solvency return for the Group. The prescribed form of capital and solvency return comprises the insurer's Bermuda Solvency Capital Requirement model (Group BSCR), a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities.

The Group BSCR includes a standardized formula to measure the risk associated with an insurer's assets, liabilities and premiums. The BMA requires insurers to maintain their capital at a target level which is 120% of the amount calculated in accordance with the Group BSCR (the Enhanced Capital Requirement or ECR).

At the time of issuing these consolidated financial statements, the Group's ECR for 2017 has not been finalised. The Group believes that the minimum requirement was exceeded.

Colonial Group International Ltd.

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

#### 14. Related-Party Transactions

The following transactions were carried out with related parties:

##### (a) Income and Expenses

The Group's subsidiaries insure the commercial and health risks of several related companies. These risks are written at standard commercial rates and are subject to the normal reinsurance protections of the Group. The premiums written for related companies are approximately \$11,209,517 for the year ended December 31, 2017 (2016 – \$12,739,537). Of this, \$512,895 (2016 – \$724,197) is included in insurance balances receivable at the statement of financial position date.

The following expenses, included in general and administrative expenses, are payable to related parties:

	<b>2017</b>	<b>2016</b>
Accountancy services	\$ 286,719	\$ 200,892
Rent	3,800,701	3,820,214
Pension costs	1,412,968	1,392,048

##### (b) Year-end Balances

	<b>2017</b>	<b>2016</b>
<b>Due from related parties</b>		
Gibbons Management Services Limited	\$ 23,658,327	\$ 26,693,113
Colonial Master Retirement Trust (CMT)	43,358	188,104
Colonial Master Deed (CMD)	556,770	138,364
	<b>\$ 24,258,455</b>	<b>\$ 27,019,581</b>

	<b>2017</b>	<b>2016</b>
<b>Due to related parties</b>		
Colonial Master Deed	\$ 133,359	\$ 123,991
Colonial Master Retirement Trust	79,817	54,250
	<b>\$ 213,176</b>	<b>\$ 178,241</b>

Colonial Group International Ltd.

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

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

The amounts due to and from companies related through common control are due on demand. No provisions are held against amounts due from related parties (2016 – \$Nil). The balance due from Gibbons Management Services Limited bears interest at rates varying from 3% to 5.75% per annum. The balances due from CMT and CMD are repayable on demand and are non-interest bearing. Included in investment income is net interest income of \$1,275,175 (2016 – \$1,415,246) received from GMSL. Balances with all other related parties are non-interest bearing.

*(a) Investments*

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

As at December 31, 2017, the Group has cash on deposit with Clarien of \$19,087,371 (2016 – \$8,083,255).

At December 31, 2017, the Company had 6 (2016 – 6) positions with an aggregate carrying value of \$42,557,969 (2016 – \$46,243,118) in investment funds managed by Clarien Bank Limited.

At December 31, 2017, investments held-for-trading with a fair value of \$128,302,348 (2016 – \$125,162,549) and investments held-to-maturity with an amortized cost of \$1,501,265 (2016 – \$1,532,649) were held and managed by Clarien Bank Limited. The transactions with Clarien Bank Limited occur on standard commercial terms.

The Group paid investment fees of \$758,104 (2016 – \$694,587) to Clarien at 0.5% of total net asset value of the investment portfolio for the year ended December 31, 2017.

Colonial Group International Ltd.

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

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

*(b) Key Management Compensation*

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

	<b>2017</b>	<b>2016</b>
Short term employee benefits	\$ 8,496,541	\$ 7,426,042
Defined contribution pension and medical insurance expenses	620,989	595,577
	<b>\$ 9,117,530</b>	<b>\$ 8,021,619</b>

**15. Segregated Funds**

Segregated funds comprise holdings in mutual funds and cash held on behalf of pension plan clients, investors and holders of investment contracts.

	<b>2017</b>	<b>2016</b>
The assets are held in the trust as follows:		
Colonial Private Trustee Limited – CPTL	\$ 51,037,074	\$ 46,237,441
Colonial Master Deed – Cayman Islands – CMD	270,945,251	223,077,480
Colonial Master Retirement Trust – CMRT	214,571,970	183,768,321
Colonial Individual Master Retirement Trust – CIMRT	61,595,855	45,119,130
Colonial Bahamas Fund	115,392,891	109,257,204
Privately Held Funds – Bahamas	8,179,821	7,386,389
Colonial Life Unit Trust	76,911,217	66,424,107
	<b>\$ 798,634,079</b>	<b>\$ 681,270,072</b>

The assets held in trust by CPTL, CMRT, CMD and CIMRT are in respect of pension plans administered by CPSL in Bermuda and Cayman.

The assets held in trust by Colonial Bahamas Fund and private funds in Bahamas are in respect of pension plans administered by CPSBL in the Bahamas.

Colonial Group International Ltd.

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

**15. Segregated Funds (continued)**

Colonial Life Unit Trust is registered as an exempted trust in the Cayman Islands. The Fund is organized as a Multi Fund Unit Trust, providing for creation of any number of classes of units. The assets are held on behalf of holders of investment contracts issued by CLAC.

The underlying investments of the segregated funds consist exclusively of managed funds and cash with the exception of funds administered by CPSBL. The carrying value is as follows:

	<b>2017</b>	<b>2016</b>
Managed funds	<b>\$ 622,977,041</b>	\$ 512,109,771
Fixed maturity securities	76,274,964	74,416,817
Common equity securities	14,393,416	12,976,029
Preferred shares	20,758,611	21,577,358
Cash and accruals	64,230,047	60,190,097
Total segregated fund assets at end of year	<b>\$ 798,634,079</b>	\$ 681,270,072

Changes in net assets during the year are as follows:

	<b>2017</b>	<b>2016</b>
Net assets at beginning of period	<b>\$ 681,270,072</b>	\$ 662,421,736
Increase during the period		
Amounts received from unit holders	106,520,237	94,789,440
Net increase in market value of investments	90,810,015	30,663,353
	<b>197,330,252</b>	125,452,793
Decrease during the period		
Amounts withdrawn by unit holders	78,483,991	81,163,328
Net decrease in market value of investments	—	—
Amounts withdrawn for life premiums	1,357,095	1,291,097
Surrender values reverting to the Group	125,159	136,070
Release of Obligations	—	24,013,962
	<b>79,966,245</b>	106,604,457
Net assets at end of period	<b>\$ 798,634,079</b>	\$ 681,270,072

Colonial Group International Ltd.

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

**15. Segregated Funds (continued)**

As a result of administering the above pension assets, the Group earned investment management fees in the amount of \$10,395,212 (2016 – \$9,337,705).

**16. Minimum Lease Commitments**

Minimum annual lease commitments as of December 31, 2017, are as follows:

	<u>Land and Buildings</u>
Within 1 year	\$ 3,351,222
One to five years	<u>9,295,875</u>
	<u>\$ 12,647,097</u>

**17. General and Administrative**

	<u>2017</u>	<u>2016</u>
Staff	\$ 39,783,816	\$ 37,660,208
Property	6,529,242	6,164,768
Professional	5,576,134	5,479,717
Computer	4,765,416	4,647,366
Depreciation and amortization	4,033,429	4,126,862
Marketing	3,130,464	2,894,006
Travel	1,858,030	2,204,678
Office	1,395,938	1,541,371
Corporate fees	1,067,726	989,305
Communications	1,046,223	902,581
Provision for bad and doubtful debts	602,243	509,281
Donations	237,785	119,893
Memberships and subscriptions	152,694	164,996
Other expenses including finance charges	2,544,188	1,575,205
Total general and administration expenses	<u>\$ 72,723,328</u>	<u>\$ 68,980,237</u>

Colonial Group International Ltd.

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

**18. Change in Non-Cash Operating Working Capital**

	<b>2017</b>	<b>2016</b>
(Increase) decrease in:		
Accounts receivable and accrued interest	\$ (5,254,759)	\$ 2,144,533
Insurance and reinsurance balances receivable	(4,951,660)	3,801,612
Prepaid reinsurance premiums	1,318,019	1,106,945
Losses recoverable from reinsurers	(56,121,009)	(9,472,262)
Deferred acquisition costs	2,729,354	419,491
Prepays and other assets	1,515,103	(281,029)
Increase (decrease) in:		
Outstanding losses and loss expenses	74,136,639	11,685,144
Provision for future policy benefits and policyholder benefits payable	(6,204,922)	1,371,442
Reinsurance balances payable – life	3,979,362	664,804
Unearned premiums	(1,489,829)	(636,107)
Deferred commission income	(101,777)	91,378
Reinsurance balances payable – non-life	(259,442)	1,376,610
Funds held on behalf of clients	(40,064)	(1,534,227)
Contributions payable to segregated funds	(1,596,081)	1,316,433
Accounts payable and other liabilities	3,071,119	(1,670,801)
	<b>\$ 10,730,053</b>	<b>\$ 10,383,966</b>

**19. Dividends**

During the year, the Group declared a dividend payable to its sole shareholder of \$7,000,000 (2016 – \$7,000,000). Subsequent to year-end, a dividend in the amount of \$5,000,000 was declared.

Colonial Group International Ltd.

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

**20. Subsequent Events**

During 2017 the Group entered negotiations with another insurer with the intent of strengthening representation in the southern and eastern Caribbean regions. On May 7, 2018 the group signed a letter of intent with the target entity to acquire 40% of its shareholders' equity immediately on obtaining the necessary regulatory approvals with the option to acquire a further 35% in 3 years' time. On completion, this acquisition will deliver 7 additional licenses to offer insurance products in these regions. The directors expect the acquisition to be accretive within 3 years of the businesses being fully integrated. As of May 16, the date the financial statements were available to be issued, the Group is assessing the accounting treatment for this transaction.

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