

**LAURENTIDE INSURANCE AND MORTGAGE COMPANY  
LIMITED 2011 AUDITED FINANCIAL STATEMENTS**

# INDEPENDENT AUDITORS' REPORT

# Deloitte®

To the Shareholders of  
Laurentide Insurance and Mortgage Company Limited:

Deloitte & Touche  
Chartered Accountants  
and Management Consultants  
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We have audited the financial statements of Laurentide Insurance and Mortgage Company Limited (the "Company") which comprise the statement of financial position as at December 31, 2011, and the related statements of comprehensive income, changes in equity, cash flows and life assurance fund for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

## **Auditors' responsibility**

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

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements present fairly, in all material respects the financial position of Laurentide Insurance and Mortgage Company Limited as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



March 1, 2012  
2nd Terrace West, Centreville  
Nassau, Bahamas

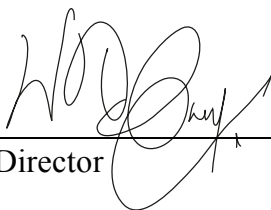
A member firm of  
Deloitte Touche Tohmatsu

**LAURENTIDE INSURANCE AND MORTGAGE COMPANY LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
AS AT DECEMBER 31, 2011  
*(Expressed in Bahamian dollars)*

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Deposit - parent (Note 8)	\$ 1,849,362	\$ 321,565
Investments (Note 6)	38,570,024	36,780,856
Due from parent company (Note 8)	1,589,235	2,075,565
Other assets	<u>3,083</u>	<u>2,500</u>
<b>TOTAL</b>	<b><u>\$ 42,011,704</u></b>	<b><u>\$ 39,180,486</u></b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Unearned life assurance (Note 7)	\$ 16,472,008	\$ 15,436,369
Other liabilities	<u>154,871</u>	<u>144,666</u>
<b>Total liabilities</b>	<b><u>16,626,879</u></b>	<b><u>15,581,035</u></b>
<b>EQUITY:</b>		
Share capital		
Authorized, issued and fully paid:		
105,000 shares at \$2.86	300,300	300,300
Contributed surplus	2,750,000	2,750,000
Retained earnings	<u>22,334,525</u>	<u>20,549,151</u>
<b>Total equity</b>	<b><u>25,384,825</u></b>	<b><u>23,599,451</u></b>
<b>TOTAL</b>	<b><u>\$ 42,011,704</u></b>	<b><u>\$ 39,180,486</u></b>

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

These financial statements were approved by the Board of Directors on January 31, 2012 and are signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

**LAURENTIDE INSURANCE AND MORTGAGE COMPANY LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
*(Expressed in Bahamian dollars)*

	<b>2011</b>	<b>2010</b>
<b>INCOME:</b>		
Life assurance (Note 7)	\$ 7,586,131	\$ 7,496,068
Interest income - investments (Note 5)	1,926,178	1,320,967
Interest income on fixed deposit - parent (Notes 5 and 8)	-	476,027
Interest income - parent company (Notes 5 and 8)	<u>181,805</u>	<u>381,579</u>
Total income	<u>9,694,114</u>	<u>9,674,641</u>
<b>EXPENSES:</b>		
Claims	1,734,985	1,434,626
Commissions (Note 8)	1,724,688	1,386,100
Tax on premiums	517,407	415,830
General and administrative -		
Fees - parent company (Note 8)	300,000	300,000
Other	<u>61,660</u>	<u>40,503</u>
Total expenses	<u>4,338,740</u>	<u>3,577,059</u>
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	<u><b>\$ 5,355,374</b></u>	<u><b>\$ 6,097,582</b></u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO PARENT</b>	<u><b>\$ 5,355,374</b></u>	<u><b>\$ 6,097,582</b></u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES</b>	<u><b>105,000</b></u>	<u><b>105,000</b></u>
<b>EARNINGS PER SHARE</b>	<u><b>\$ 51.00</b></u>	<u><b>\$ 58.07</b></u>

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

**LAURENTIDE INSURANCE AND MORTGAGE COMPANY LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
*(Expressed in Bahamian dollars)*

	<u>Share Capital</u>	<u>Contributed Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2009	\$ 300,300	\$ 2,750,000	\$ 18,021,569	\$ 21,071,869
Total comprehensive income	-	-	6,097,582	6,097,582
Dividends (\$34.00 per share)	-	-	<u>(3,570,000)</u>	<u>(3,570,000)</u>
Balance at December 31, 2010	300,300	2,750,000	20,549,151	23,599,451
Total comprehensive income	-	-	5,355,374	5,355,374
Dividends (\$34.00 per share)	-	-	<u>(3,570,000)</u>	<u>(3,570,000)</u>
Balance at December 31, 2011	<u>\$ 300,300</u>	<u>\$ 2,750,000</u>	<u>\$ 22,334,525</u>	<u>\$ 25,384,825</u>

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

**LAURENTIDE INSURANCE AND MORTGAGE COMPANY LIMITED**  
**STATEMENT OF CASH FLOWS**  
FOR THE YEAR ENDED DECEMBER 31, 2011  
*(Expressed in Bahamian dollars)*

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income from operations	\$ 3,247,391	\$ 3,919,009
Increase in other assets	(583)	-
Increase (decrease) in unearned life assurance	1,035,639	(150,144)
Increase in other liabilities	<u>10,205</u>	<u>50,915</u>
Net cash from operating activities	<u>4,292,652</u>	<u>3,819,780</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Government Stock	(1,855,300)	(19,442,800)
Interest received from government stock	1,992,310	971,000
Decrease in due from parent company	486,330	7,685,979
Interest received from parent	<u>181,805</u>	<u>857,606</u>
Net cash from (used in) investing activities	<u>805,145</u>	<u>(9,928,215)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY:</b>		
Dividends paid	<u>(3,570,000)</u>	<u>(3,570,000)</u>
Net cash used in financing activity	<u>(3,570,000)</u>	<u>(3,570,000)</u>
NET INCREASE (DECREASE) IN DEPOSIT - PARENT	1,527,797	(9,678,435)
DEPOSIT - PARENT, BEGINNING OF YEAR	<u>321,565</u>	<u>10,000,000</u>
DEPOSIT - PARENT, END OF YEAR	<u>\$ 1,849,362</u>	<u>\$ 321,565</u>

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

# LAURENTIDE INSURANCE AND MORTGAGE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

*(Expressed in Bahamian dollars)*

### 1. INCORPORATION AND ACTIVITY

Laurentide Insurance and Mortgage Company Limited (“the Company”), is a wholly-owned subsidiary of Commonwealth Bank Limited (the “Parent”).

The Company is incorporated under the laws of the Commonwealth of The Bahamas and is a Registered Life Assurance Company.

The principal business of the Company is to provide credit life assurance in respect of borrowers from its parent company. The registered office is located at GTC Corporate Services Limited, P.O. Box SS-5383, Nassau, The Bahamas.

### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to their operations and effective for accounting periods beginning on January 1, 2011.

#### Revised Standard

IAS 24 (as revised in 2009)                      Related Party Disclosures

#### Amendments to Standards

Amendments to IFRS 1                      Limited Exemption from Comparative IFRS 7  
Disclosures for First-time Adopters

Amendments to IAS 32                      Classification of Rights Issues

#### Improvements to IFRSs (issued in 2010)

IFRS 1                      Accounting policy changes in the year of adoption  
(effective for annual periods beginning on or after 1  
January 2011)

IFRS 1                      Revaluation basis as deemed cost (effective for annual  
periods beginning on or after 1 January 2011)

IFRS 1                      Use of deemed cost for operations subject to rate  
regulation (effective for annual periods beginning on or  
after 1 January 2011)

IFRS 3 (as revised in 2008)	Measurement of non-controlling interests (effective for annual periods beginning on or after 1 July 2010)
IFRS 3 (as revised in 2008)	Un-replaced and voluntary replaced share-based payment awards (effective for annual periods beginning on or after 1 July 2010)
IFRS 3 (as revised in 2008)	Transitional requirements for contingent consideration from a business combination that occurred before the effective date of IFRS 3 (as revised in 2008) (effective for annual periods beginning on or after 1 July 2010)
IFRS 7	Clarification of disclosures (effective for annual periods beginning on or after 1 January 2011)
IAS 1	Clarification of presentation of items of other comprehensive income in the statement of changes in equity (effective for annual periods beginning on or after 1 January 2011)
IAS 27 (as revised in 2008)	Transitional requirements for consequential amendments as a result of IAS 27 Consolidated and Separate Financial Statements (as revised in 2008) to IAS 21, IAS 28 and IAS 31 (effective for annual periods beginning on or after 1 July 2010)
IAS 34	Significant events and transactions (effective for annual periods beginning on or after 1 January 2011)
IFRIC-Int 13	Fair value of award credit (effective for annual periods beginning on or after 1 January 2011)

### **New Interpretation**

IFRIC - Int 19	Extinguishing Financial Liabilities with Equity Instruments
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### **Amendments to Interpretation**

Amendments to IFRIC - Int 14	Prepayments of a Minimum Funding Requirement
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At the date of authorization of these financial statements, the following relevant Standards and Interpretations were in issue but not yet effective:

### **New Standard**

IFRS 9	Financial Instruments (as revised in 2010)
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
IFRS 13	Fair Value Measurement



IAS 19 (as revised in 2011)	Employee Benefits
<b>Amendments to Standards</b>	
Amendments to IFRS 1	Severe Hyperinflation
Amendments to IFRS 1	Removal of Fixed Dates for First-time Adopters
Amendments to IFRS 7 Disclosures	Transfers of Financial Assets
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets

The Directors anticipate that the adoption of these standards will have no material impact on the Company's financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance** - These financial statements have been prepared in accordance with International Financial Reporting Standards.

**Basis of preparation** - These financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal policies are set out below:

- a. **Recognition of income**
  - i. **Interest revenue** is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.
  - ii. **Life insurance income** is recognized on the rule of 78 basis over the term of the life policy. The amount taken to income is adjusted by the amount of any deficit after an annual actuarial valuation.
- b. **Related parties** - Related parties include:
  - i. Key Management Personnel, close family members of Key Management Personnel, and entities which are controlled individually and/or jointly, or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members; or
  - ii. Non Key Management Personnel who have significant influence over the Company or its Parent and their close family members. Non Key Management Personnel who control in excess of 5% of the outstanding common shares of the Company or its Parent are considered to have significant influence over the Company.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company or its Parent, being the Officers and Directors of both companies.

Close family members include the spouse of Key and Non Key Management Personnel and the children and dependents of Key and Non Key Management personnel or their spouse.

c. **Financial assets** - Financial assets are:

- i. Cash;
- ii. An equity instrument of another entity;
- iii. A contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions favourable to the Company;
- iv. A contract that will or may be settled in the Company's own equity instrument and is either a non derivative for which the Company is or may be obliged to receive a variable number of the Company's own equity instruments, or a derivative that will or may be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

Financial assets are classified into the following categories: 'Fair Value Through Profit or Loss' (FVTPL), 'Held-To-Maturity', 'Available-For-Sale' (AFS) and 'Loans and Receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are classified as at FVTPL where the financial asset is either held for trading or is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resulting gain or loss recognized in profit or loss.

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

AFS financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as a) FVTPL, b) held-to-maturity or c) loans and receivables. AFS assets are stated at fair value, except for investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

- d. ***Financial liabilities*** - Financial liabilities are any liabilities that are:
- i. Contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company;
  - ii. A contract that will or may be settled in the Company's own equity instruments and is either a non-derivative for which the Company is or may be obliged to deliver a variable number of its own equity instruments, or a derivative that will or may be settled either than by exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

Financial liabilities are classified as either financial liabilities as at FVTPL or other financial liabilities.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value with any resulting gain or loss recognized in profit or loss.

Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method with interest expense recognized on an effective yield basis.

The Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

#### **4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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.

The following are the judgments and estimates that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

- a. ***Fair value of financial instruments*** - Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. The best evidence of fair value is quoted price in an active market. In most cases, however, the financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. In these cases, the Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

IFRS 7 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three- level hierarchy:

Level 1 Quoted Prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from the prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Since the calculation of fair value is based on management's estimates, which involve uncertainties, the actual fair value realised in a sale or immediate settlement of the instruments may differ from the estimated amount. The use of the above hierarchy acts as an indicator of the potential variance of the actual amount realized to the estimated amount in each group of financial instruments.

- b. ***Unearned Life Assurance*** - A deficit on the actuarial valuation in excess of the unearned premium reserve is charged to income. Due to the nature of actuarial valuations which depend on various assumptions such as discount rates, expected rates of return on assets, projected mortality, and policy termination rates, actual experience may differ from the actuarial assumptions.

## 5. FINANCIAL INSTRUMENTS

The following table analyzes the carrying amounts of financial assets and financial liabilities as defined by IAS 39 Financial Instruments: Recognition and Measurement:

	<b>2011</b>			
	<b>Held-To- Maturity</b>	<b>Available- For-Sale</b>	<b>Amortised Cost</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>				
Investments (Note 6)	<u>\$ 38,570,024</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,570,024</u>
Deposit - parent (Note 8)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,849,362</u>	<u>\$ 1,849,362</u>
Due from parent company (Note 8)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,075,565</u>	<u>\$ 2,075,565</u>
<b>FINANCIAL LIABILITIES</b>				
Unearned life assurance (Note 7)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,472,008</u>	<u>\$ 16,472,008</u>
	<b>2010</b>			
	<b>Held-To- Maturity</b>	<b>Available- For-Sale</b>	<b>Amortised Cost</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>				
Investments (Note 6)	<u>\$ 36,780,856</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,780,856</u>
Deposit - parent (Note 8)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,075,565</u>	<u>\$ 2,075,565</u>
<b>FINANCIAL LIABILITIES</b>				
Unearned life assurance (Note 7)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,436,369</u>	<u>\$ 15,436,369</u>

At December 31, 2011 there were no assets classified as loans and receivables nor any assets or liabilities that were classified at FVTPL (2010: \$Nil).

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>				
Available For Sale				
Due from parent company (Note 8)	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>2,075,565</u>	\$ <u>2,075,565</u>
Held To Maturity				
Investments (Note 6)	\$ <u>          -</u>	\$ <u>38,570,024</u>	\$ <u>          -</u>	\$ <u>38,570,024</u>
<b>FINANCIAL LIABILITIES</b>				
Unearned life assurance (Note 7)	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>16,472,008</u>	\$ <u>16,472,008</u>

The following table shows income statement information on financial instruments:

	<b>2011</b>	<b>2010</b>
<b>Income</b>		
Interest on due from parent company	\$ 181,805	\$ 381,579
Interest on fixed deposit with parent company	-	476,027
Held-to-Maturity Investments	<u>1,926,178</u>	<u>1,320,967</u>
	<u>\$ 2,107,983</u>	<u>\$ 2,178,573</u>

## 6. INVESTMENTS

Investments are as follows:

	<b>Maturity</b>	<b>2011</b>	<b>2010</b>
<b>Bahamas Government Registered Stock</b>			
Prime + 3/4%	2012	\$ 42,800	\$ 42,800
Prime + 5/32%	2019	175,500	175,500
Prime + 1/24%	2019	5,000,000	5,000,000
Prime + 1/4%	2022	85,500	85,500
Prime + 3/16%	2022	21,400	21,400
Prime + 13/32%	2022	21,400	21,400
Prime + 7/32%	2023	537,800	537,800
Prime + 3/8%	2023	104,200	104,200
Prime + 11/32%	2023	94,000	94,000
Prime + 9/32%	2023	72,700	72,700
Prime + 5/16%	2024	<u>25,700</u>	<u>25,700</u>
Total carried forward		<u>6,181,000</u>	<u>6,181,000</u>

(Continued)

	<b>Maturity</b>	<b>2011</b>	<b>2010</b>
<b>Bahamas Government Registered Stock</b>			
Balance brought forward		6,181,000	6,181,000
Prime + 9/32%	2025	306,100	306,100
Prime + 5/16%	2026	1,246,700	1,246,700
Prime + 5/16%	2027	651,000	651,000
Prime + 9/64%	2029	27,400	27,400
Prime + 5/32%	2030	4,497,200	4,497,200
Prime + 11/32%	2031	673,800	673,800
Prime + 11/64%	2031	72,600	72,600
Prime + 3/8%	2032	1,414,600	1,414,600
Prime + 1/8 %	2032	505,400	-
Prime + 3/32 %	2032	1,349,900	-
Prime + 13/32%	2032	109,300	109,300
Prime + 3/16%	2032	228,700	228,700
Prime + 13/32%	2033	1,073,900	1,073,900
Prime + 7/16%	2033	173,500	173,500
Prime + 13/64%	2033	700,300	700,300
Prime + 7/32%	2034	2,289,300	2,289,300
Prime + 7/48%	2034	9,263,300	9,263,300
Prime + 15/64%	2035	1,931,000	1,931,000
Prime + 19/32%	2036	428,700	428,700
Prime + 1/4%	2036	1,196,300	1,196,300
Prime + 5/8%	2037	890,900	890,900
Prime + 17/96%	2037	736,700	736,700
		<u>35,947,600</u>	<u>34,092,300</u>
<b>The Bahamas Mortgage Corporation Bonds</b>			
Prime	2024	500,000	500,000
Prime + 1/4%	2029	500,000	500,000
Prime + 1/2%	2034	1,000,000	1,000,000
		<u>2,000,000</u>	<u>2,000,000</u>
Accrued interest receivable		<u>622,424</u>	<u>688,556</u>
Total investments		<u>\$ 38,570,024</u>	<u>\$ 36,780,856</u>

*(Concluded)*

## 7. UNEARNED LIFE ASSURANCE

An actuarial valuation of the Unearned Life Assurance was conducted as at December 31, 2011 by Oliver Wyman of Toronto, Canada. The result of the valuation was an aggregate actuarial reserve of \$12,272,014 (2010: \$13,909,154). The valuation included a provision of \$867,493 (2010: \$717,313) for claims incurred but not yet reported.

The Company calculates its liabilities for individual life insurance policies using the Canadian Policy Premium Method ("PPM"). The calculation of these policy reserves is based on assumptions as to future rates for mortality and morbidity, investment yields, policy lapse and expenses, which contain margins for adverse deviations.

Actuarial Assumption Sensitivities:

The total of unearned life assurance is not affected by a 10% change in the actuarial assumptions for mortality rates, policy lapse rates and the rate of return on fund assets.

The unearned premium using the rule of 78 method to recognize life assurance income over the life of the policy is \$16,472,008 (2010: \$15,436,369).

The movement in Unearned Life Assurance is as follows:

	<b>2011</b>	<b>2010</b>
UNEARNED LIFE ASSURANCE, BEGINNING OF YEAR	\$ 15,436,369	\$ 15,586,513
PREMIUMS RECEIVED	<u>17,246,885</u>	<u>13,861,002</u>
	<u>32,683,254</u>	<u>29,447,515</u>
LESS:		
Refunds	8,625,115	6,515,078
Life assurance income	<u>7,586,131</u>	<u>7,496,068</u>
	<u>16,211,246</u>	<u>14,011,146</u>
UNEARNED LIFE ASSURANCE, END OF YEAR	<u>\$ 16,472,008</u>	<u>\$ 15,436,369</u>

## 8. RELATED PARTY TRANSACTIONS AND BALANCES

During the year the Company paid commissions of \$1,724,688 (2010: \$1,386,100) to its sister company for life assurance business. Deposits with parent and due from parent balance earn interest at the Bahamian prime rate. On June 8, 2011, Bahamian prime rate was reduced to 4.75% from 5.5% (2010: 5.5% for the entire year). The fixed deposit with parent earned interest at 5.0% in 2010. The due from parent balance has no fixed terms of repayment. The Company pays an annual management fee of \$300,000 (2010: \$300,000) to its parent for undertaking its administrative activities.



## 9. RISK MANAGEMENT

*Capital risk management* - The Company manages its capital to ensure that it exceeds regulatory capital requirements and will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Company's risk management structure promotes making sound business decisions by balancing risk and reward. It promotes revenue generating activities that are consistent with the risk appetite of the Company, the Company's policies and the maximization of shareholders' return.

The capital structure of the Company consists of equity attributable to the common equity holders of the Company, comprising issued capital and retained earnings. The Company's Board reviews the capital structure at least annually. The Company manages its capital structure through the payment of dividends, new share issues and capital contributions.

The Company is licensed to conduct long term insurance business under The Insurance Act 2005 (the "Act").

Under paragraph 60(1)a of The Insurance (General) Regulations, 2010 (the "Regulations") an insurance company is required to have a minimum paid-up and unencumbered share capital of not less than three million dollars. As at December 31, 2011 the Company has \$300,300 in share capital and \$2,750,000 in contributed surplus. The Company's board passed a resolution on December 6, 2011 making the contributed surplus non-distributable.

The Company is required to establish and maintain a minimum statutory deposit of \$2 million, such deposit to be held in trust pursuant to section 43(2) of the Act and paragraph 62 of the Regulations. The LIM Statutory Reserve Trust was established on December 20, 2011 with assets valued at \$2,289,300 as at December 31, 2011.

The Company is required to maintain a solvency margin pursuant to paragraph 90 of the Regulations. For the purposes of the Regulations, margin of solvency means the excess of the value of its admissible assets over the amount of its liabilities. The required margin of solvency is the greater of (a) twenty per cent of the premium income, including annuity premiums, in its last financial year; or (b) five hundred thousand dollars, plus the minimum amount of capital required. As at December 31, 2011, the minimum margin of solvency was \$6,449,377. The Company's solvency margin at December 31, 2011 was \$21,943,144 resulting in a surplus of \$15,493,767.

Paragraph 68 of the Regulations stipulates that of the value of the admissible assets which the Company must at any time have in order to maintain the minimum margin of solvency required by the Act, at least sixty per cent shall be in the form of qualifying assets. As at December 31, 2011, the Company had \$38,570,024 in qualifying assets and \$38,570,024 in admissible assets as defined under paragraphs 70 and 72 of the Regulations, respectively.

The Company's strategy is unchanged from 2010.

**Operational risk** - Operational risk is the potential for loss resulting from inadequate or failed internal processes or systems, human error or external events not related to credit, market or liquidity risks. The Company manages this risk by maintaining a comprehensive system of internal control and internal audit, including organizational and procedural controls. The system of internal control includes written communication of the Company's policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel and sound and conservative accounting policies, which are regularly updated. These controls and audits are designed to provide the Company with reasonable assurance that assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and the Company is in compliance with all regulatory requirements.

**Liquidity risk** - Liquidity risk is the potential for loss if the Company is unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Financial commitments include liabilities to policy holders, suppliers and investment commitments.

The Company manages liquidity and funding risk by ensuring that sufficient liquid assets and funding capacity are available to meet regulatory requirements and financial commitments, even in times of stress. The Board of Directors oversees the Company's liquidity and funding risk management framework.

**Interest rate risk** - Interest rate risk is the potential for a negative impact on the Statement of Financial Position and/or Statement of Comprehensive Income arising from adverse changes in the value of financial instruments as a result of changes in interest rates.

Interest rate risk or interest rate sensitivity results primarily from differences in the maturities or repricing dates of assets and liabilities. Interest rate risk exposures, or "gaps" may produce favourable or unfavourable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or the expected volatility of those interest rates. When assets have a shorter average maturity than liabilities, an increase in interest rates would have a positive impact on net interest margins, and conversely, if more liabilities than assets mature or are repriced in a particular time interval then a negative impact on net interest margin would result. The consolidated gap position shows more assets than liabilities repriced in periods equal to or greater than within three months. The following table sets out the Company's interest rate risk exposure as at December 31, 2011, and represents the Company's risk exposure at this point in time only.

**Interest Rate Sensitivity:**

If interest rates increase by 50 basis points and all other variables remain constant, the Company's profit over the next 12 months is estimated to increase by \$183 thousand.

If interest rates decrease by 50 basis points and all other variables remain constant, the Company's profit over the next 12 months is estimated to decrease by \$183 thousand.

As of December 31, 2011	Repricing date of interest sensitive instruments					Non interest rate sensitive	Total
	Within 3 Months	3 - 6 months	6-12 months	1 - 5 Years	Over 5 years		
<b>Assets</b>							
Cash equivalents	\$ 1,849,362 4.75%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,849,362 4.75%
Investments	38,570,024 4.88%	-	-	-	-	-	38,570,024 4.88%
Due from parent	1,589,235 4.75%	-	-	-	-	-	1,589,235 4.75%
Other assets	-	-	-	-	-	3,083	3,083
<b>TOTAL</b>	<b>\$ 42,008,621</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,083</b>	<b>\$ 42,011,704</b>
<b>Liabilities and shareholders' equity</b>							
Unearned life assurance	-	-	-	-	-	16,472,008	16,472,008
Other liabilities	-	-	-	-	-	154,871	154,871
Shareholders' equity	-	-	-	-	-	25,384,825	25,384,825
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 42,011,704</b>	<b>\$ 42,011,704</b>
<b>INTEREST RATE SENSITIVITY GAP</b>	42,008,621	-	-	-	-	(42,008,621)	-
<b>CUMULATIVE INTEREST RATE SENSITIVITY GAP</b>							
	<b>\$ 42,008,621</b>	<b>\$ 42,008,621</b>	<b>\$ 42,008,621</b>	<b>\$ 42,008,621</b>	<b>\$ 42,008,621</b>	<b>\$ -</b>	<b>-</b>
<b>COMPARATIVE 2010</b>	<b>\$ 39,177,986</b>	<b>\$ 39,177,986</b>	<b>\$ 39,177,986</b>	<b>\$ 39,177,986</b>	<b>\$ 39,177,986</b>	<b>\$ -</b>	<b>-</b>
<b>Average Yield - Earning Assets</b>	4.86%	0.00%	0.00%	0.00%	0.00%		<b>4.86%</b>
<b>Average Yield - Paying Liabilities</b>	0.00%	0.00%	0.00%	0.00%	0.00%		<b>0.00%</b>
<b>Average Margin 2011</b>	4.86%	0.00%	0.00%	0.00%	0.00%		<b>4.86%</b>
<b>Average Margin 2010</b>	5.79%	0.00%	5.00%	0.00%	0.00%		<b>5.79%</b>
<b>Impact of 0.5% increase in rate</b>	183,788	-	-				<b>183,788</b>
<b>Impact of 0.5% decrease in rate</b>	(183,788)	-	-				<b>(183,788)</b>