

**BAHAMAS FIRST GENERAL INSURANCE
COMPANY LIMITED**

**Financial Statements For The Year
Ended December 31, 2011 and
Independent Auditors' Report**

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Bahamas First General Insurance Company Limited:

We have audited the financial statements of Bahamas First General Insurance 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 and cash flows 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bahamas First General Insurance 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.

Deloitte & Touche

April 2, 2012

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2011

(Expressed in Bahamian dollars)

	Notes	2011	2010
ASSETS			
Cash	6	\$ 6,463,107	\$ 5,454,823
Term deposits	7	4,182,791	4,026,735
Trade accounts receivable, net	4,9,20	14,984,813	23,311,906
Sundry receivables and prepayments	20	695,759	666,871
Deferred commission costs	10	6,377,736	6,947,655
Unpaid claims recoverable from reinsurers	4,11	23,725,175	13,020,813
Deferred reinsurance premiums	10	26,839,199	28,604,963
Deferred reinsurance costs	10	2,349,317	2,358,351
Investments	8	23,452,059	22,349,204
Receivables from related companies	20	19,118,968	18,081,753
Property and equipment	12	1,886,680	1,960,943
Intangible asset	4,13	<u>2,692,559</u>	<u>2,692,559</u>
TOTAL		<u>\$132,768,163</u>	<u>\$129,476,576</u>

(Continued)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2011

(Expressed in Bahamian dollars)

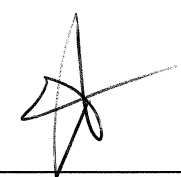
	Notes	2011	2010
LIABILITIES AND EQUITY			
LIABILITIES:			
Accrued expenses and other liabilities		\$ 640,064	\$ 1,158,854
Payable to reinsurers		1,298,727	3,065,399
Unearned commission income	10	5,956,540	6,716,907
Unearned premiums	10	39,478,046	41,668,934
Unpaid claims	4,11	35,394,786	24,030,845
Total liabilities		<u>82,768,163</u>	<u>76,640,939</u>
EQUITY:			
Share capital	14	7,500,000	7,500,000
Contributed surplus		14,100,000	14,100,000
Reserves	15,16	4,904,769	4,845,184
Retained earnings		23,495,231	26,390,453
Total equity		<u>50,000,000</u>	<u>52,835,637</u>
TOTAL		<u>\$132,768,163</u>	<u>\$129,476,576</u>

(Concluded)

See notes to financial statements.

These financial statements were approved by the Board of Directors on March 30, 2012 and are signed on its behalf by:


Director


Director

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2011

(Expressed in Bahamian dollars)

	Notes	2011	2010
UNDERWRITING INCOME:			
Gross premiums written	20,22	\$ 97,717,144	\$100,669,065
Movement in unearned premiums	10	<u>2,190,888</u>	<u>404,557</u>
		99,908,032	101,073,622
Premiums ceded to reinsurers		(66,151,110)	(67,696,514)
Movement in deferred reinsurance premiums	10	<u>(1,765,764)</u>	<u>(653,397)</u>
Net premiums earned		31,991,158	32,723,711
Commission income from reinsurers		<u>16,474,355</u>	<u>18,357,291</u>
Total underwriting income		<u>48,465,513</u>	<u>51,081,002</u>
UNDERWRITING EXPENSES:			
Commission expense	20	18,237,870	19,517,232
Cost of excess of loss reinsurance		11,296,704	13,076,675
Net claims incurred	11	12,939,706	8,800,023
Premium tax		<u>2,846,131</u>	<u>2,932,109</u>
Total underwriting expenses		<u>45,320,411</u>	<u>44,326,039</u>
Net underwriting income		<u>3,145,102</u>	<u>6,754,963</u>
OTHER EXPENSES:			
Management fees	20	2,071,461	2,255,650
Salaries, benefits and bonuses	18,19,20	1,924,274	1,823,877
General and administrative expenses		1,391,296	1,848,242
Depreciation	12	<u>84,150</u>	<u>65,949</u>
Total other expenses		<u>5,471,181</u>	<u>5,993,718</u>
NET TECHNICAL RESULTS		(2,326,079)	761,245
OTHER INCOME	17,20	<u>1,843,356</u>	<u>1,516,570</u>
(LOSS) PROFIT FOR THE YEAR		<u>(482,723)</u>	<u>2,277,815</u>
OTHER COMPREHENSIVE INCOME:			
Unrealised gain on available-for-sale investments	16	59,585	9,204
Revaluation of building	16	<u>-</u>	<u>66,712</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR		<u>59,585</u>	<u>75,916</u>
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		<u>\$ (423,138)</u>	<u>\$ 2,353,731</u>

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE 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>General Reserve</u>	<u>Revaluation Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2009	\$7,500,000	\$14,100,000	\$3,500,000	\$1,269,268	\$24,112,638	\$50,481,906
Profit	-	-	-	-	2,277,815	2,277,815
Other comprehensive income (Note 16)	-	-	-	75,916	-	75,916
Total comprehensive income	-	-	-	75,916	2,277,815	2,353,731
Balance at December 31, 2010	7,500,000	14,100,000	3,500,000	1,345,184	26,390,453	52,835,637
Loss	-	-	-	-	(482,723)	(482,723)
Other comprehensive income (Note 16)	-	-	-	59,585	-	59,585
Total comprehensive income (loss)	-	-	-	59,585	(482,723)	(423,138)
Dividends paid (\$0.32 per common share) (Note 14)	-	-	-	-	(2,412,499)	(2,412,499)
Balance at December 31, 2011	<u>\$7,500,000</u>	<u>\$14,100,000</u>	<u>\$3,500,000</u>	<u>\$1,404,769</u>	<u>\$23,495,231</u>	<u>\$50,000,000</u>

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2011

(Expressed in Bahamian dollars)

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
(Loss) profit for the year		\$ (482,723)	\$ 2,277,815
Adjustments for:			
Depreciation	12	84,150	65,949
Realized losses on sales of investments	8	21,675	22,120
Provision for bad debts	9	200,000	468,556
(Loss) profit from operations		(176,898)	2,834,440
Decrease (increase) in trade accounts receivable, net		8,127,093	(1,086,777)
(Increase) decrease in receivable from related company		(3,449,714)	6,943,447
(Increase) decrease in sundry receivables and prepayments		(28,888)	566,716
Decrease in deferred commission costs		569,919	518,642
Increase in net unpaid claims		659,579	1,163,901
Decrease (increase) in deferred reinsurance premiums		1,765,764	(260,058)
Decrease in deferred reinsurance costs		9,034	1,430,920
Decrease in unearned commission income		(760,367)	(145,831)
Decrease in unearned premiums		(2,190,888)	(404,557)
Decrease in payable to reinsurers		(1,766,672)	(727,823)
Decrease in accrued expenses and other liabilities		(518,790)	(279,665)
Net cash from operating activities		2,239,172	10,553,355

(Continued)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2011

(Expressed in Bahamian dollars)

	Notes	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	12	(9,887)	(5,004)
Proceeds from sale of investments	8	1,028,325	1,027,880
Purchase of investments	8	(2,093,270)	(5,047,200)
Increase in term deposits maturing after ninety days	7	<u>(156,056)</u>	<u>(166,262)</u>
Net cash used in investing activities		<u>(1,230,888)</u>	<u>(4,190,586)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		1,008,284	6,362,769
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR		<u>5,454,823</u>	<u>(907,946)</u>
END OF YEAR		<u>\$ 6,463,107</u>	<u>\$ 5,454,823</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:			
Interest received		<u>\$ 503,474</u>	<u>\$ 183,765</u>
Dividends received		<u>\$ 569,600</u>	<u>\$ 542,080</u>
Non-cash dividends paid	14	<u>\$ 2,412,499</u>	<u>\$ -</u>
Interest paid		<u>\$ -</u>	<u>\$ 26,737</u>

(Concluded)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

(Expressed in Bahamian dollars)

1. GENERAL

Bahamas First General Insurance Company Limited (the "Company") was incorporated on September 8, 1982 under the laws of the Commonwealth of The Bahamas. Effective January 1, 1998 the Company became a wholly-owned subsidiary of Bahamas First Holdings Limited ("BFH"). It is registered to carry on general insurance business. Two of BFH's subsidiaries, Nassau Underwriters Agency Insurance and Agents Brokers Ltd. ("NUA"), and General Brokers and Agents Insurance Limited ("GBA") (formerly General Brokers and Agents Limited), act as insurance agents for the Company.

Effective December 1, 2010, the property and casualty portfolio of GBA was combined with NUA, the operating company for the property and casualty portfolios of the registered insurance agencies.

The Company, BFH and the other subsidiaries of BFH are hereinafter collectively referred to in these financial statements as the "Group". All of the Group's companies except BFH International Limited ("BFHIL") and Cayman First Insurance Company Limited ("CFI") are incorporated in The Bahamas. BFHIL and CFI are incorporated under the laws (2009 Revision) of the Cayman Islands.

The registered office of the Company is located at 32 Collins Avenue, Nassau, Bahamas.

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS)

In the current year, there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB for annual reporting periods beginning on or after January 1, 2011. The adoption of these Standards and Interpretations has not led to any changes in the accounting policies.

a. *Standards and Interpretations effective but not affecting the reported results or financial position*

IFRS 3	(Amended) Business Combinations
IAS 1	(Amended) Presentation of Financial Statements
IAS 24	(Revised 2009) Related Party Disclosures
IAS 32	(Amended) Classification of Rights Issue
IAS 34	(Amended) Interim Financial Reporting
IFRIC 13	(Amended) Customer Loyalty Programmes
IFRIC 14	(Amended) Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

b. ***Standards and Interpretations in issue but not yet effective***

IFRS 7	(Amended) Financial Instruments: Disclosures - Transfers of Financial Assets
IFRS 9	(Amended) Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurements
IAS 12	(Amended) Deferred Tax - Recovery of Underlying Assets
IAS 19	(Revised 2011) Employee Benefits
IAS 27	(Revised 2011) Consolidated and Separate Financial Statements
IAS 28	(Revised 2011) Investments in Associates and Joint Ventures

Management has not assessed whether the relevant adoption of these standards and interpretations in future periods will have a material impact on the financial statements of the Company.

3. **SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The following is a summary of the significant accounting policies:

- a. ***Basis of preparation*** - These financial statements have been prepared on the accrual basis and under the historical cost convention, except for investments measured at fair value, and land and buildings, which are revalued every three years.

The accounting policies are consistent with those used in previous years.

b. ***Financial instruments:***

Classification and measurement - On initial recognition, a financial asset or liability is measured at its fair value plus transaction costs directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition, financial assets are classified as either financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; or available-for-sale ("AFS"); and are measured at their fair values without any deduction for transaction costs, except for the following financial assets:

- (i) loans and receivables and held-to-maturity financial instruments are measured at amortized cost using the effective interest rate method;
- (ii) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the classification at each reporting date.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value. Term deposits are classified as held-to-maturity financial instruments. They have fixed or determinable payments and fixed maturity dates, and the Company has the intent and ability to hold them to maturity.

Trade accounts receivable, sundry receivables and receivable from insurers that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables and are carried at cost, which equates to amortized cost, less provision for bad debts. Trade accounts payable and accrued liabilities are financial liabilities, which are carried at cost.

Investments in Bahamas Government Registered Stock are designated as held-to-maturity and are carried at amortized cost. Preference shares and redeemable fixed rate note investments are classified as available-for-sale and are carried at cost, as this is considered to be the fair value at the statement of financial position date. Gains and losses arising from changes in fair value of available-for-sale investments are recognized in other comprehensive income until the investments are disposed of or are determined to be permanently impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is included in profit or loss for the period. All other investments are classified as financial assets at fair value through profit or loss. They are measured at fair value with reference to market prices, or, for non-listed companies, financial information on the company.

Recognition and derecognition - The Company recognizes/derecognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Company recognizes/derecognizes financial assets purchased or sold on the trade date. The gain or loss on investments classified as at fair value through profit or loss is recognized in the statement of comprehensive income.

Investments held-to-maturity are recognized/derecognized on the day they are transferred to/by the Company. Financial liabilities are derecognized when they are extinguished. For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the statement of comprehensive income when it is derecognized or impaired, as well as through the amortization process.

- c. **Trade accounts receivable** - Trade accounts receivable are stated at cost less provision for bad debts. The bad debt provision is based on management's evaluation of the accounts receivable portfolio.
- d. **Property and equipment** - Property and equipment, other than freehold land and buildings, are stated at cost less accumulated depreciation and amortization and impairment losses.

Expenditure incurred in the construction or replacement of property and equipment is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the property and equipment. All other expenditure is recognized in the statement of comprehensive income as an expense as incurred.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives. Land is not depreciated and expenditure incurred in the construction-in-progress is not depreciated until construction is completed.

The estimated useful lives are as follows:

Buildings	40 years
Furniture and equipment	5 - 10 years
Leasehold improvements and others	3 - 5 years

Freehold land and buildings are stated at fair market value, based on independent professional appraisals, which are performed every three years. A revaluation increment is recorded in other comprehensive income, unless it reverses a revaluation decrease of the same asset previously recognized as an expense and is transferred to retained earnings to the extent realized by complete or partial disposal of the related asset.

Any revaluation decrease is recognized as an expense unless it reverses a revaluation increase that was previously recognized in other comprehensive income.

- e. ***Intangible assets*** - For insurance portfolios acquired, an intangible asset is accounted for under IFRS 4, representing the difference between the fair value of the contractual insurance rights acquired and insurance obligations assumed and any liability for insurance contracts that it issues. The subsequent measurement of this intangible asset is consistent with the measurement of the related insurance liability. IAS 38 Intangible Assets does not apply to this intangible asset; however, it does apply to customer lists and relationships reflecting the expectation of future contracts that are not part of the contractual insurance rights and insurance obligations that existed at the date of the business combination or portfolio transfer. Intangible assets recognized under IAS 38 are initially carried at cost. After initial recognition, an intangible asset with a finite useful life is amortized, whereas an intangible asset with an indefinite useful life is not amortized. An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the entity. The intangible asset is tested for impairment at least annually.

An intangible asset shall be derecognized on disposal or when no future economic benefit is expected from its use or disposal. The gain or loss arising from the derecognition is recognized in the statement of comprehensive income.

- f. ***Impairment*** - The carrying amounts of the Company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income.

An impairment loss in respect of held-to-maturity assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

g. ***Insurance contracts***

Product classification - Insurance contracts are those that transfer significant insurance risk at the effective date of the contract. Insurance risk is transferred when the Company agrees to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract under IFRS 4 Insurance Contracts are classified as investment contracts. The main insurance contracts issued by the Company are as follows:

Property and casualty insurance contracts: Property and casualty contracts are generally one year renewable contracts issued by the Company covering insurance risks over property, motor, marine, engineering and general accident.

Reinsurance contracts: Contracts with reinsurers under which the Company is compensated for losses are classified as reinsurance contracts held. Insurance contracts in which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

Premiums - Premiums written are recognized as income over the periods covered by the related policies taking into consideration the exposure period to which they relate. The adjustment to apportion the gross premiums written and ceded over the life of the policy is made through the movement in the unearned premiums.

Unearned premiums at year end represent the proportion of the premiums which relate to periods of insurance subsequent to the statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

Premiums ceded - Premiums ceded to reinsurers are recognized as an expense over the periods covered by the related policies taking into consideration the exposure period to which they relate.

Deferred reinsurance premiums in the statement of financial position at year end represent the proportion of the premiums ceded which relate to periods of insurance subsequent to the statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

- h. ***Unpaid claims and unpaid claims recoverable from reinsurers*** - The provision for unpaid claims and the reinsurers' share thereof, represents an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred on or before each statement of financial position date. The provision is periodically reviewed and evaluated in the light of emerging claims experience and changing circumstances. Changes in estimate of the ultimate liability are included in net claims incurred in the statement of comprehensive income.
- i. ***Policy acquisition cost***
- Reinsurance costs*** - Certain costs related to excess of loss reinsurance contracts are deferred and matched with the income related to these costs. Deferred reinsurance costs in the statement of financial position at year end represent the deferred portion of these costs.
- Deferred and unearned commissions*** - At year end, deferred and unearned commissions represent the proportion of the commission paid to agents and brokers and received from reinsurers which related to periods of insurance subsequent to the statement of financial position date. These amounts are calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.
- Commission income and expense*** - Base commissions paid to agents and received from insurers and reinsurers are calculated based on gross premiums written and reinsured. Base commissions paid and received are adjusted so that they are recognized over the period covered by the related policies taking into consideration the exposure period to which they relate.
- Profit commissions received from reinsurers and non-Company insurers, calculated based on past underwriting results, are received from other insurance companies for whom Company agents may act and from the Company's reinsurers. The agency profit commissions are recorded in the year in which Company agents receive notification of the commission. Reinsurance profit and override commissions are recorded on an accrual basis.
- j. ***Dividend and interest income*** - Dividend income is recorded when the dividend is declared. Interest income is accounted for on an accrual basis.
- k. ***Cash and cash equivalents*** - Cash and cash equivalents consist of cash on hand, cash at bank, bank overdraft, and term deposits with banks maturing within ninety days from the date of acquisition.
- l. ***Borrowings*** - Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the statement of comprehensive income over the period of borrowing using the effective rate method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan and are capitalized and amortized over the period of the facility to which it relates.

- m. **Share capital** - Shares are classified as equity when there is no obligation to transfer cash or other assets. Share capital is comprised of common shares. When common shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction in equity.
- n. **Related parties** - Related parties include:
- 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
 - Non-Key Management Personnel who have significant influence over the Group and their close family members. Non-Key Management Personnel who control in excess of 10% of the outstanding common shares are considered to have significant influence over the Group.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the Officers and Directors.

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.

- o. **Pension benefits** - The Company employees participate in a defined contribution plan. Under the plan, the Company contributes a fixed percentage of annual salary that is expensed in the year. Once the contributions have been made, the Company has no further obligations. The expensed amount is included in salaries, benefits and bonuses in the statement of comprehensive income.
- p. **Leases** - The Company has entered into an operating lease for office space. Payments made under the operating lease are recognized as an expense on a straight line basis over the term of the lease.
- q. **Taxation** - The Company is subject to tax on taxable gross premium income at the flat rate of 3% (2010: 3%). There are no other taxes on corporate income or capital gains levied on the Company.
- r. **Segment reporting** - In identifying its operating segments, management generally follows the Company's lines of business, which comprise the general insurance segment (property and casualty). The general insurance segment comprises fire, motor, marine, engineering, facultative and general accident.
- s. **Contingent liabilities** - A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that the Company will be required to settle that obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle that obligation at the reporting date and are discounted to present value.

Potential recoveries from third parties are recognized as a receivable when it is virtually certain that the recoveries will be received and the amount can be measured reliably.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i. *The ultimate liability arising from claims made under insurance contracts*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Company will ultimately pay to settle such claims.

Significant areas requiring estimation and judgments include:

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims provisions ("IBNR") included within provisions for insurance and reinsurance contracts.
- The corresponding estimate of the amount of reinsurance recoveries which will become due as a result of these estimated claims.
- The recoverability of amounts due from reinsurers.
- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

The carrying value at the statement of financial position date of gross claims reported and loss adjustment expenses and claims incurred but not reported was \$35,394,786 (2010: \$24,030,845). The amount of reinsurance recoveries estimated at the statement of financial position date is \$23,725,175 (2010: \$13,020,813).

ii. *Impairment of intangible assets*

Determining whether intangible assets are impaired requires an estimation of the value in use or fair value less costs to sell of the cash-generating unit to which the value has been allocated. Fair value less costs to sell is the amount obtainable from the sale of an asset or cash generating unit between knowledgeable willing parties, less the costs of disposal.

The carrying value at the statement of financial position date for the intangible asset is \$2,692,559 (2010: \$2,692,559).

iii. ***Provision for bad debts***

As described in Note 3c, provision for bad debts is based on management's evaluation of the respective portfolios. This evaluation is based on the aged analysis of the trade accounts receivable. Trade accounts receivable, which is shown net of provision for bad debts, is comprised of amounts receivable from insurance agents that have signed agency agreements with the Company.

The carrying value at the statement of financial position date for trade accounts receivable was \$14,984,813 (2010: \$23,311,906).

iv. ***Depreciation***

Depreciation is based on management estimates of the future useful life of property and equipment. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the depreciation charges. The Company reviews the future useful life of property and equipment periodically, taking into consideration the factors mentioned above and all other important factors. In case of significant changes in the estimated useful lives, depreciation charges are adjusted prospectively.

v. ***Fair value of financial assets and liabilities***

The fair values of listed equities are based on current bid prices reported on recognized exchanges. The fair value of debt securities is based on either current bid prices reported on recognized exchanges or pricing data provided by internationally recognized pricing services. Mutual funds are carried at fair value based on the net asset value per share provided by the administrator of the fund. If prices are not readily available, the fair value is estimated using either dealer quotes or pricing models or discounted cash flow models or management's estimate of amounts that could be realized under current market conditions and which are based on observable market-based inputs when available.

Where fair value has been determined using data provided by a recognized pricing service, dealer quotes, pricing models or net asset value per share, the Company has obtained an understanding of the methods, models and inputs used in pricing and has controls in place that management considers sufficient to validate that prices represent fair value.

For fair value of unlisted shares, fair value is estimated using assumptions that may not be supported by observable market prices or rates. In determining the fair value, the following information was used: the cost, cost less impairment and the book value available at the statement of financial position date.

Investments, for which observable market prices do not exist, are reported at fair value as determined in good faith by management. Fair value is based on the best information available and is determined by reference to information including, but not limited to the following: projected revenues, net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), book value, relevant public or private transactions, valuations for publicly traded companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and restrictions on disposition. The amount determined to be fair value may incorporate management's own assumptions (including appropriate risk adjustments for non-performance and lack of marketability).

For certain financial instruments carried at cost, the carrying amounts approximate to fair value due to the short term nature of these instruments. Such instruments include, premiums receivable, reinsurance balances receivable, other receivables, reinsurance balances payable and other short term liabilities.

Refer to Notes 5 and 8 for further information on the fair value of financial assets and liabilities.

5. RISK MANAGEMENT

The Company is concerned about the risks inherent in its business activities (insurance risk) and the risks associated with the management of the financial assets and liabilities (financial risk) which support the operational activities. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management structure. The Company has established the Technical Review and Risk Compliance Committee, and the Finance and Investment Committee to ensure that management has a system which details the risk policies, procedures, measurement, reporting and compliance. The committees report regularly to the Board of Directors on their activities.

The Company has exposures to risks in each class of business that may develop and that could have a material impact upon the Company's financial position.

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, the risk is random and therefore unpredictable.

Risk factors that affect insurance are many and include the lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Company insures the risks of entities within The Bahamas.

Below is a discussion of insurance risks specific to the lines of coverage provided by the Company.

Property and casualty insurance risks

Property risks are comprised of physical damage to property. Property policies are underwritten by reference to the commercial replacement value of the properties and content insured.

Casualty risks are comprised of personal injury from motor claims, public liability, employers' liability, workmen's compensation and personal liability coverage.

For the Company's property and casualty insurance contracts, significant risk exposure arises from low frequency, high severity events such as hurricanes. Single events, such as flooding and fires may also generate significant claims.

Claim payment limits are always included to cap the amount payable on occurrence of the insured event. The costs of rebuilding properties, replacement or indemnity for contents are the key factors that influence the level of claims under these policies.

The frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. The Company manages this risk through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. Underwriting limits are in place to enforce appropriate risk selection criteria. The Company actively manages and pursues early settlement of all claims to reduce its exposure to unpredictable developments. It has a dedicated in-house claims department and uses third party loss adjusters as necessary. The Company will, where necessary, appoint lawyers to act on the Company's behalf in respect of serious bodily injury claims thus ensuring settlements and avoiding claims development.

The Company follows the policy of underwriting and reinsuring contracts of insurance, which generally limit the liability for any one risk. In addition, catastrophe reinsurance is obtained to limit liability to a maximum of 10% of the Company's capital and reserves in the event of a series of claims arising out of a single occurrence.

The Company is exposed to contractual disputes with its reinsurers and the possibility of default by its insurers. The Company is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance constraints. The Company's strategy is to select reinsurers with the best combination of financial strength, price and capacity.

In the event that the Company's reinsurers were unable to meet their obligations under the reinsurance programs in place, the Company would still be obligated to pay all claims made under the insurance policies it issues, but would only receive reimbursement to the extent that the reinsurers could meet their above mentioned obligations.

Management does not anticipate that there will be any issues with the collection of amounts due from reinsurers as they become due, and is not aware of any disputes with reinsurers, overdue amounts or any specific credit issues.

The reinsurance program used by the Company is reviewed and approved by the Technical Review and Risk Compliance Committee on an annual basis.

FINANCIAL RISK

The Company is exposed to financial risk through its financial assets and liabilities. The components of financial risk that have an impact on the Company are credit risk, market risk and liquidity risk. Market risk exposure result from adverse movements in market rates and prices and as a result the Company is exposed to interest rate risk, foreign currency risk and price risk.

Financial risk is a significant risk for the Company's operations. The risk framework combines investment policies, limits, stress tests and regular monitoring to control the nature and level of financial risk and to ensure adherence to Company and regulatory policies and guidelines.

The following table reconciles financial assets and financial liabilities to the Company's statement of financial position:

	2011	2010
Financial assets:		
Cash and term deposits	\$ 10,645,898	\$ 9,481,558
Investments:		
Held-to-maturity	4,459,000	4,459,000
At fair value through profit and loss	12,831,000	13,881,000
Available-for-sale	6,162,059	4,009,204
Loans and receivables:		
Trade accounts receivable, net	14,984,813	23,311,906
Due from related parties	19,118,968	18,081,753
Other receivables*	645,783	605,688
Total financial assets	<u>68,847,521</u>	<u>73,830,109</u>
Non - financial assets	<u>63,920,642</u>	<u>55,646,467</u>
Total assets	<u>\$ 132,768,163</u>	<u>\$ 129,476,576</u>
Financial liabilities:		
Payables at amortized cost:		
Payable to reinsurers and accrued expenses and other liabilities	\$ 1,938,791	\$ 4,224,253
Total financial liabilities	<u>1,938,791</u>	<u>4,224,253</u>
Non - financial liabilities	<u>80,829,372</u>	<u>72,416,686</u>
Total liabilities	<u>\$ 82,768,163</u>	<u>\$ 76,640,939</u>

*excludes prepayments of \$49,976 (2010: \$61,183).

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Key areas where the Company is exposed to credit risk are in the investment portfolios, reinsurance receivables, premiums receivable, and other receivables.

The Company's investment policy permits the Company to invest in fixed income securities, equity securities, private placements of financial institutions, term deposits, and to limit exposure to any one issuer. The Company's deposits are placed with well-known high quality financial institutions. Policies and guidelines are in place to limit the exposure faced by the Company.

The Company is exposed to credit risk with respect to the amounts recoverable from its reinsurers. The Company's liability as primary insurer is not discharged if a reinsurer defaults on the obligation to pay. The Technical Review and Risk Compliance Committee ensures that management assesses the creditworthiness of all reinsurers by reviewing credit ratings as determined by independent rating agencies and other publicly available financial information. The concentration of credit risk is also monitored to minimize the Company's exposure to significant losses from reinsurer insolvency.

The following assets of the Company are exposed to credit risk:

	2011	2010
Held-to-maturity:		
Bahamas government registered stocks	\$ 4,459,000	\$ 4,459,000
Available-for-sale securities:		
Preference shares	3,000,000	3,000,000
Mutual fund	1,322,059	1,009,204
Redeemable fixed rate notes	1,840,000	-
Loans and receivables:		
Trade accounts receivable	15,684,813	23,811,906
Receivables from related parties	19,118,968	18,081,753
Other receivables	645,783	605,688
Cash and term deposits	10,645,898	9,481,558
Total	<u>\$ 56,716,521</u>	<u>\$ 60,449,109</u>

Financial assets exposed to credit risk that are neither past due nor impaired, past due but not impaired and those that are impaired are analyzed in the table below.

At December 31, 2011	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Held-to-maturity debt securities	\$ 4,459,000	\$ -	\$ -	\$ 4,459,000
Available-for-sale debt securities	6,162,059	-	-	6,162,059
Loans and receivables:				
Trade accounts receivable	12,000,303	2,984,510	700,000	15,684,813
Due from related party	19,118,968	-	-	19,118,968
Other receivables	645,783	-	-	645,783
Cash and term deposits	10,645,898	-	-	10,645,898
Total assets exposed to credit risk	<u>\$ 53,032,011</u>	<u>\$ 2,984,510</u>	<u>\$ 700,000</u>	<u>\$ 56,716,521</u>

At December 31, 2010	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Held-to-maturity debt securities	\$ 4,459,000	\$ -	\$ -	\$ 4,459,000
Available-for-sale debt securities	4,009,204	-	-	4,009,204
Loans and receivables:				
Trade accounts receivable	14,526,685	8,785,221	500,000	23,811,906
Due from related party	18,081,753	-	-	18,081,753
Other receivables	605,688	-	-	605,688
Cash and term deposits	9,481,558	-	-	9,481,558
Total assets exposed to credit risk	<u>\$ 51,163,888</u>	<u>\$ 8,785,221</u>	<u>\$ 500,000</u>	<u>\$ 60,449,109</u>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above. The Company does not hold collateral as security.

INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This is primarily a concern with fixed and fluctuating interest rate investments, which the Company intends to hold for the long-term.

The Company's investments are all subject to interest rate risk. Fluctuations in interest rates impact the level of gains and losses on the Company's interest bearing investments. The underlying debt securities of the mutual fund may be affected by changes in interest rates.

The Company's investment income will move with interest rates over the medium to long term with short term interest rate fluctuations creating unrealized gain or losses in other comprehensive income.

FOREIGN CURRENCY RISK

The Company is not directly exposed to foreign currency risk, as investments are denominated in Bahamian dollars ("B\$"), which is fixed to the US dollar at the following rate: B\$1 = US\$1.

PRICE RISK

The Company is subject to price risk on its equity securities due to changes in market values. One of the primary objectives of the Company's risk management policy is to mitigate potential adverse impacts of market movements.

LIQUIDITY RISK

Liquidity risk is the risk that the Company may have difficulty liquidating its positions due to existing or unforeseen market constraints to meet obligations associated with financial instruments. In respect of catastrophic events the Company is exposed to a liquidity risk associated with the timing differences between cash flows and expected reinsurance recoveries to meet its insurance liability obligation. The Company's investments are either in a market that is not highly active or do not have a market and therefore may not be readily realizable. As a result, the Company may not be able to quickly liquidate its investments at an amount close to their fair value in order to meet liquidity requirements. The Company mitigates this risk by maintaining significant holdings in cash and term deposits and also ensures that there are set guidelines for asset allocations, portfolio limit structures and maturity profiles of investments.

The following tables indicate the timing of undiscounted cash flows arising from financial liabilities as at December 31, 2011 and 2010.

2011

Financial liabilities

	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
Accrued expenses and other liabilities	\$ 640,064	\$ 640,064	\$ -	\$ -
Payable to reinsurers	<u>1,298,727</u>	<u>1,298,727</u>	<u>-</u>	<u>-</u>
Total undiscounted cash flows	<u>\$ 1,938,791</u>	<u>\$ 1,938,791</u>	<u>\$ -</u>	<u>\$ -</u>

2010

Financial liabilities

	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
Accrued expenses and other liabilities	\$ 1,158,854	\$ 1,158,854	\$ -	\$ -
Payable to reinsurers	<u>3,065,399</u>	<u>3,065,399</u>	<u>-</u>	<u>-</u>
Total undiscounted cash flows	<u>\$ 4,224,253</u>	<u>\$ 4,224,253</u>	<u>\$ -</u>	<u>\$ -</u>

SENSITIVITY ANALYSIS

The Company predominantly funds its net insurance liabilities through its cash and term deposits generated in the normal course of its operations. In the event of a catastrophe, the net insurance liabilities may be required to be funded through the Company's portfolio of investments.

Insurance liabilities are calculated using historical claims data to determine an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred at the date of the statement of financial position. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based. As such, the sensitivity of the insurance liabilities is based on the financial impact of changes to the reported loss ratio. The provision for long tail claims is determined by using the incurred loss method and loss ratio method. The loss development factors used are based on the Company's experience.

The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant. The analyses assume that there is no correlation between the assumptions.

Sensitivity factor	Description of sensitivity factor applied
Interest rate- cash, term deposits, and investment securities	The impact of a change in market interest rates by 1%
Underwriting expenses	The impact of a change in underwriting expenses by 5%
Loss ratios	The impact of a change in loss ratio by 5%

December 31, 2011 in \$						
	Interest rates		Underwriting expenses		Loss ratio	
	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	92,326	(92,326)	(1,629,855)	1,629,855	(1,599,558)	1,599,558
Impact on equity	92,316	(92,326)	(1,629,855)	1,629,855	(1,599,558)	1,599,558
December 31, 2010 in \$						
	Interest rates		Underwriting expenses		Loss ratio	
	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	73,907	(73,907)	(1,776,301)	1,776,301	(1,636,186)	1,636,186
Impact on equity	73,907	(73,907)	(1,776,301)	1,776,301	(1,636,186)	1,638,186

Price risk arises primarily from changes in the value of equity investments that may be bought and sold. The Company is sensitive to price risk on its fair value through profit or loss and available-for-sale securities. These securities are managed according to the benchmarks as specified in the Company's statement of investment policy and guidelines. The effect of a 10% increase (2010: 10%) and a 10% decrease (2010: 10%) in equity prices at the date of the statement of financial position are set out below:

	Carrying value	Effect on profit and equity +10%	Effect on profit and equity -10%
At December 31, 2011			
Listed on stock exchanges / markets	\$ 12,831,000	\$ 1,283,100	\$ (1,283,100)
Listed / unlisted mutual fund	<u>1,322,059</u>	<u>132,206</u>	<u>(132,206)</u>
Total	<u>\$ 14,153,059</u>	<u>\$ 1,415,306</u>	<u>\$ (1,415,306)</u>
At December 31, 2010			
Listed on stock exchanges / markets	\$ 13,881,000	\$ 1,388,100	\$ (1,388,100)
Listed / unlisted mutual fund	<u>1,009,204</u>	<u>100,920</u>	<u>(100,920)</u>
Total	<u>\$ 14,890,204</u>	<u>\$ 1,489,020</u>	<u>\$ (1,489,020)</u>

CAPITAL MANAGEMENT

The Company's objectives when managing Capital are as follows:

- to safeguard the Company's ability to continue as a going concern through prudent and sustainable growth, so that it can continue to maximize returns for shareholders;
- to ensure that it maintains a strong credit rating (minimum AM Best rating of A-Excellent) and healthy capital ratios in order to support its business objectives; and
- to comply with regulatory capital requirements stipulated in the jurisdiction in which the Company operates.

The Company actively monitors its capital requirements and is in compliance with all relevant laws, rules and regulations.

6. CASH

Cash consists of the following:

	2011	2010
Cash on hand	\$ 5,200	\$ 1,651
Cash at bank	<u>6,457,907</u>	<u>5,453,172</u>
	<u>\$ 6,463,107</u>	<u>\$ 5,454,823</u>

7. TERM DEPOSITS AND BANK OVERDRAFT

Term deposits are denominated in Bahamian dollars with an average interest rate of 3.17% (2010: 4.13%) per annum.

	2011	2010
Term deposits maturing after ninety days	<u>\$ 4,182,791</u>	<u>\$ 4,026,735</u>

The Company also has a bank overdraft facility up to \$3,000,000 (2010: \$3,000,000). The facility, if exercised, bears interest at the B\$ Prime Rate ("Prime") plus 1.5% per annum and is secured by the term deposits.

8. INVESTMENTS

	2011	2010
Held-to-maturity:		
Bahamas Government Registered Stock - at amortized cost		
Unrestricted		
\$231,000 4.78% (2010: 5.53%) per annum - Due 2015	\$ 231,000	\$ 231,000
\$1,788,400 4.77% (2010: 5.52%) per annum - Due 2017	1,788,400	1,788,400
\$481,700 4.79% (2010: 5.54%) per annum - Due 2019	481,700	481,700
\$180,000 4.94% (2010: 5.69%) per annum - Due 2020	180,800	180,800
\$777,100 4.91% (2010: 5.66%) per annum - Due 2030	<u>777,100</u>	<u>1,777,100</u>
	3,459,000	4,459,000
Restricted		
\$1,000,000 4.91% per annum - Due 2030	<u>1,000,000</u>	-
Total held-to-maturity	<u>4,459,000</u>	<u>4,459,000</u>
At fair value through profit or loss:		
Commonwealth Bank Limited		
1,833,000 (2010: 1,983,000) common shares		
Cost \$2,268,564 (2010: \$2,454,208)	<u>12,831,000</u>	<u>13,881,000</u>

(Continued)

	2011	2010
Available-for-sale:		
Commonwealth Bank Limited		
4,000 "A" Class preferred shares of \$500 each - at cost	2,000,000	2,000,000
FamGuard Corporation Limited		
500 variable rate cumulative redeemable preference shares - at cost	500,000	500,000
FOCOL Holdings Limited		
500,000 preference shares of \$1 each - at cost	500,000	500,000
CFAL Bond Fund, Ltd.		
Mutual fund - 821,967 Units (2010: 661,268 units) at cost of \$1,253,270 (2010: \$1,000,000)	1,322,059	1,009,204
The College of the Bahamas		
1,840 Series A Notes - Cost \$1,840,000	1,840,000	-
Total available-for-sale	<u>6,162,059</u>	<u>4,009,204</u>
Total investments	<u>\$23,452,059</u>	<u>\$22,349,204</u>

(Concluded)

Held-to-maturity investments are recorded at amortized cost based on the effective interest rate method. These investments are variable interest rate instruments tied to Prime, with interest rates ranging from 4.77% to 4.94% per annum (2010: 5.52% to 5.69%) and scheduled maturities between 2015 and 2030 (2010: 2015 and 2030) at the date of the statement of financial position. The investments are carried at amortized cost as the Company has the intent and ability to hold them to maturity. In 2011, in accordance with the Insurance Act 2005 (Amended 2009), and regulations 61 and 62 of the Insurance (General) Regulations 2010, the Company has established a Trust Account (the "BFG Trust") in which \$1,000,000 of the Bahamas Government Registered Stocks have been placed in Trust. This amount is restricted for regulatory purposes but the interest income accrues to the Company.

The Commonwealth Bank Limited (the "Bank") "A" Class preferred shares are redeemable at the option of the Bank and bear interest at Prime plus 1.50 % per annum, presently 6.25% (2010: 7%).

At December 31, 2011, the Bank's common shares were valued at \$7.00 (2010: \$7.00), which was the price quoted at Bahamas International Stock Exchange at that date.

The Company owns 500 variable rate cumulative redeemable preference shares in FamGuard Corporation Limited. The shares bear interest at Prime plus 1.50% per annum, presently 6.25% (2010: 7%).

The Company owns 500,000 cumulative redeemable preference shares in FOCOL Holdings ("FOCOL"). The shares are redeemable at the option of the FOCOL and bear interest at Prime plus 1.75%, presently 6.50% (2010: 7.25%).

During the year, the Company acquired 1,840 redeemable fixed rate notes (“Series A Notes” or “Notes”) issued by The College of The Bahamas (“The College”). The Notes are redeemable at the option of The College and bear interest at a fixed rate of 7%. Principal repayments will occur in fourteen equal installments beginning in June 2013 and ending in June 2026. This investment has principal maturities of \$657,142 within one to five years and \$1,182,858 thereafter.

Reconciliation of movements in the balance of investments is provided below:

	<u>Held-to- maturity</u>	<u>Fair value through profit or loss</u>	<u>Available- for-sale</u>	<u>Total</u>
At December 31, 2009	\$ 411,800	\$14,931,000	\$ 3,000,000	\$18,342,800
Cost of investments purchased	4,047,200	-	1,000,000	5,047,200
Proceeds from sales and maturities	-	(1,027,880)	-	(1,027,880)
Increase in fair value of investments	-	-	9,204	9,204
Realized losses on sales of investments	-	(22,120)	-	(22,120)
At December 31, 2010	4,459,000	13,881,000	4,009,204	22,349,204
Cost of investments purchased	-	-	2,093,270	2,093,270
Proceeds from sales and maturities	-	(1,028,325)	-	(1,028,325)
Increase in fair value of investments	-	-	59,585	59,585
Realized gains (losses) on sales of investments	-	(21,675)	-	(21,675)
At December 31, 2011	<u>\$ 4,459,000</u>	<u>\$12,831,000</u>	<u>\$ 6,162,059</u>	<u>\$23,452,059</u>

The Company’s portfolio of investments is located in The Bahamas.

Management believes that there is no objective evidence of impairment of its investment portfolio as there has not been a significant or prolonged decline in the fair value of any of its securities.

FAIR VALUE MEASUREMENT

In accordance with IFRS 7 Financial Instruments: Disclosure, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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 prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In addition to the measurement hierarchy, financial instruments which have significant unobservable inputs (classified as Level 3) requires the disclosures on the transfers into and out of Level 3, a reconciliation of the opening and closing balances, total gains and losses for the period split between those recognized in other comprehensive income, purchases, sales, issues and settlements, and sensitivity analysis of reasonably possible changes in assumptions. Disclosure is also required of the movements between different levels of the fair value hierarchy and the reason for those movements.

The following table presents the Company's financial assets measured at fair value at December 31, 2011, by the level in the fair value hierarchy into which the fair value measurement is categorized.

2011	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss:				
Equity securities	\$12,831,000	\$ -	\$ -	\$12,831,000
Total	<u>12,831,000</u>	<u>-</u>	<u>-</u>	<u>12,831,000</u>
Available-for-sale financial assets:				
Mutual fund	-	1,322,059	-	1,322,059
Preference shares	-	3,000,000	-	3,000,000
Series A Notes	-	1,840,000	-	1,840,000
Total	<u>-</u>	<u>6,162,059</u>	<u>-</u>	<u>6,162,059</u>
Total assets measured at fair value	<u>\$12,831,000</u>	<u>\$6,162,059</u>	<u>\$ -</u>	<u>\$18,993,059</u>

There were no transfers between the various levels during the year.

The following table presents the Company's financial assets measured at fair value at December 31, 2010 by the level in the fair value hierarchy into which the fair value measurement is categorized.

2010	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss:				
Equity securities	<u>\$13,881,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$13,881,000</u>
Total	<u>13,881,000</u>	<u>-</u>	<u>-</u>	<u>13,881,000</u>
Available-for-sale financial assets:				
Mutual fund	-	1,009,204	-	1,009,204
Preference shares	-	<u>3,000,000</u>	-	<u>3,000,000</u>
Total	-	<u>4,009,204</u>	-	<u>4,009,204</u>
Total assets measured at fair value	<u>\$13,881,000</u>	<u>\$4,009,204</u>	<u>\$ -</u>	<u>\$17,890,204</u>

There were no transfers between the various levels during the year.

9. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable, which is shown net of provision for bad debts, is comprised of amounts receivable from insurance agents that have signed agency agreements with the Company.

	2011	2010
Trade accounts receivable	\$15,684,813	\$23,811,906
Provision for bad debts:		
Balance at January 1	500,000	31,444
Increase in provision for the year	<u>200,000</u>	<u>468,556</u>
Balance at December 31	<u>700,000</u>	<u>500,000</u>
Trade accounts receivable, net	<u>\$14,984,813</u>	<u>\$23,311,906</u>

Ageing of trade accounts receivable, net is as follows:

	2011	2010
Less than 3 months	\$12,000,303	\$14,526,685
3 - 6 months	1,943,549	5,388,312
6 months - 1 year	356,140	2,721,133
Over 1 year	<u>684,821</u>	<u>675,776</u>
	<u>\$14,984,813</u>	<u>\$23,311,906</u>

10. DEFERRED/UNEARNED PREMIUMS AND COMMISSION COSTS

The movement in the deferred/unearned insurance assets and liabilities are as follows:

	<u>Insurance Assets</u>			<u>Insurance Liabilities</u>		<u>Net</u>
	<u>Deferred Reinsurance Premiums</u>	<u>Deferred Commission Costs</u>	<u>Deferred Reinsurance Costs</u>	<u>Unearned Premiums</u>	<u>Unearned Commission Income</u>	
Balance at December 31, 2009	\$ 28,344,905	\$ 7,466,297	\$ 3,789,271	\$ (42,073,491)	\$ (6,862,738)	\$ (9,335,756)
Portfolio transfer as a result of change in net retention	913,455	-	-	-	-	913,455
Movement during the year	(653,397)	(518,642)	(1,430,920)	404,557	145,831	(2,052,571)
Balance at December 31, 2010	28,604,963	6,947,655	2,358,351	(41,668,934)	(6,716,907)	(10,474,872)
Movement during the year	(1,765,764)	(569,919)	(9,034)	2,190,888	760,367	606,538
Balance at December 31, 2011	<u>\$ 26,839,199</u>	<u>\$ 6,377,736</u>	<u>\$ 2,349,317</u>	<u>\$ (39,478,046)</u>	<u>\$ (5,956,540)</u>	<u>\$ (9,868,334)</u>

11. UNPAID CLAIMS AND CLAIMS INCURRED

	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
Unpaid claims at December 31, 2009	\$ 21,849,016	\$ (12,002,885)	\$ 9,846,131
Claims incurred	20,237,426	(11,437,403)	8,800,023
Claims paid	(18,055,597)	10,419,475	(7,636,122)
Unpaid claims at December 31, 2010	24,030,845	(13,020,813)	11,010,032
Portfolio transfer	5,000	-	5,000
Claims incurred	58,746,887	(45,807,181)	12,939,706
Claims paid	(47,387,946)	35,102,819	(12,285,127)
Unpaid claims at December 31, 2011	<u>\$ 35,394,786</u>	<u>\$ (23,725,175)</u>	<u>\$ 11,669,611</u>

The table below shows the development of claims over a period of time on a gross basis. The table shows the cumulative incurred claims, including both notified and IBNR claims for each successive accident year.

The claims have been adjusted to make them comparable on a year to year basis.

	<u>Accident Years</u>					<u>Total</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	
Gross claims incurred at end of reporting year	\$ 18,731,278	\$ 17,093,172	\$ 15,057,157	\$ 16,079,196	\$ 53,731,028	
One year later	22,092,362	19,349,635	18,657,167	19,803,113		
Two years later	23,014,578	19,195,725	18,185,276			
Three years later	23,695,856	18,837,350				
Four years later	24,021,202					
Total incurred to date	24,021,202	18,837,350	18,185,276	19,803,113	53,731,028	
Cumulative payments to date	(21,576,139)	(16,808,793)	(15,692,393)	(14,664,737)	(39,752,759)	
Liability included in statement of financial position	<u>\$ 2,445,063</u>	<u>\$ 2,028,557</u>	<u>\$ 2,492,883</u>	<u>\$ 5,138,376</u>	<u>\$ 13,978,269</u>	\$ 26,083,148
Reserves for prior years						<u>9,311,638</u>
Total unpaid claims including amounts recoverable from reinsurers in the statement of financial position						<u>\$ 35,394,786</u>

12. PROPERTY AND EQUIPMENT

The movement of property and equipment for the year is as follow:

2011	Leasehold Improvements, Furniture and Equipment			
	Land	Buildings	Equipment	Total
COST/VALUATION:				
At January 1, 2011	\$ 498,750	\$ 1,657,451	\$ 240,585	\$ 2,396,786
Additions	-	-	9,887	9,887
At December 31, 2011	<u>498,750</u>	<u>1,657,451</u>	<u>250,472</u>	<u>2,406,673</u>
ACCUMULATED DEPRECIATION:				
At January 1, 2011	\$ -	\$ 241,202	\$ 194,641	\$ 435,843
Charge for the year	-	65,508	18,642	84,150
At December 31, 2011	<u>-</u>	<u>306,710</u>	<u>213,283</u>	<u>519,993</u>
NET BOOK VALUE:				
At December 31, 2011	<u>\$ 498,750</u>	<u>\$ 1,350,741</u>	<u>\$ 37,189</u>	<u>\$ 1,886,680</u>

2010	Leasehold Improvements, Furniture and Equipment			
	Land	Buildings	Equipment	Total
COST/VALUATION:				
At January 1, 2010	\$ 498,750	\$ 1,590,739	\$ 235,581	\$ 2,325,070
Additions	-	-	5,004	5,004
Revaluation of building (Note 16)	-	66,712	-	66,712
At December 31, 2010	<u>498,750</u>	<u>1,657,451</u>	<u>240,585</u>	<u>2,396,786</u>
ACCUMULATED DEPRECIATION:				
At January 1, 2010	\$ -	\$ 199,538	\$ 170,356	\$ 369,894
Charge for the year	-	41,664	24,285	65,949
At December 31, 2010	<u>-</u>	<u>241,202</u>	<u>194,641</u>	<u>435,843</u>
NET BOOK VALUE:				
At December 31, 2010	<u>\$ 498,750</u>	<u>\$ 1,416,249</u>	<u>\$ 45,944</u>	<u>\$ 1,960,943</u>

In December 2010, the land and building were revalued to fair market value based on a valuation performed by an independent appraiser. The fair value of the land and building was estimated to be \$498,750 and \$1,416,250, respectively, based on the combined effect of the cost, income and sales comparison approach. The surplus arising on the revaluation in the amount of \$66,712 is included in revaluation reserve in the statement of changes in equity. The net book value of the land and building, ignoring the effects of previous revaluations, would have been \$217,022 and \$442,631 (2010: \$217,022 and \$468,668) respectively.

13. INTANGIBLE ASSET

Intangible asset of \$2,692,559 as a result of the acquisition of an insurance portfolio is allocated to the Bahamas' General Insurance cash-generating unit. The Company performed its annual impairment test as at December 31, 2011. The recoverable amount of the cash-generating unit has been determined using the fair value less costs to sell calculation using the most recent price in a binding sales agreement in an arm's length transaction. As the recoverable amount exceeded the carrying amount, management did not identify any impairment in the value of this asset.

	<u>Total</u>
Balance December 31, 2011	<u>\$ 2,692,559</u>
Balance December 31, 2010	<u>\$ 2,692,559</u>

14. SHARE CAPITAL

The authorized share capital is 10,000,000 (2010: 10,000,000) with a par value of \$1.00 each; while issued and fully paid is \$7,500,000 (2010: \$7,500,000).

Dividends are accounted for in the period in which they are declared by the Company's Board of Directors. During the year dividends of \$0.32 per common share (total dividends \$2,412,499) were declared and paid. No dividends were declared and paid during the year ended December 31, 2010.

15. GENERAL RESERVE

The Company has established a general reserve from retained earnings in the amount of \$3,500,000 (2010: \$3,500,000), which the directors have determined is not available for distribution.

16. REVALUATION RESERVE

The movement in the revaluation reserve is as follows:

	<u>Land</u>	<u>Buildings</u>	<u>AFS Investments</u>	<u>Total</u>
Balance at December 31, 2009	\$ 281,728	\$ 987,540	\$ -	\$ 1,269,268
Revaluation of land and buildings (Note 12)	-	66,712	-	66,712
Increase in fair value of AFS investments	-	-	9,204	9,204
Balance at December 31, 2010	281,728	1,054,252	9,204	1,345,184
Increase in fair value of AFS investments	-	-	59,585	59,585
Balance at December 31, 2011	<u>\$ 281,728</u>	<u>\$ 1,054,252</u>	<u>\$ 68,789</u>	<u>\$ 1,404,769</u>

In accordance with the Company's accounting policy, freehold land and buildings are subject to a revaluation exercise that is performed by an independent professional appraiser every three years. The freehold land and buildings were independently valued at December 30, 2010. The next appraisal is due in 2013.

17. OTHER INCOME

Other income is as follows:

	2011	2010
Investment income	\$ 1,043,533	\$ 801,613
Interest	454,169	260,139
Rental income (Note 20)	120,000	120,000
Claims handling fees	129,500	72,717
Other income	96,154	53,878
Write-back of provision for payables	-	208,223
	<u>\$ 1,843,356</u>	<u>\$ 1,516,570</u>

18. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a bonus payable to certain directors, management and staff amounting to \$143,963 (2010: \$379,474). This bonus amount was approved by the Board of Directors.

19. PENSION PLAN

The majority of the Company's employees participate in a defined contribution pension plan into which the Company contributes 3% to 5% per annum of base salary. The Company paid contributions for the year amounting to \$66,787 (2010: \$51,027), which is included in salaries, benefits and bonuses in the statement of comprehensive income.

20. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances and transactions are as follows:

	2011	2010
Gross premiums written for the year	<u>\$43,004,642</u>	<u>\$50,157,732</u>
Commission expense paid for the year	<u>\$ 8,330,886</u>	<u>\$ 8,455,040</u>
Management fees paid to Bahamas First Corporate Services Ltd.	<u>\$ 2,071,461</u>	<u>\$ 2,255,650</u>
Rental income received from NUA	<u>\$ 120,000</u>	<u>\$ 120,000</u>
Trade accounts receivable from agents	<u>\$ 2,807,676</u>	<u>\$ 5,662,192</u>
Receivables from related parties	<u>\$19,118,968</u>	<u>\$18,081,753</u>

Receivables from related parties are interest free and unsecured with no fixed terms of repayment.

Key management personnel include members of the Company's management team having authority and responsibility for planning, directing and controlling the activities of the Company's operation. Compensation to key management personnel is included in salaries, benefits and bonuses in the statement of comprehensive income as follows:

	2011	2010
Salaries and benefits	\$ 658,635	\$ 753,812
Post retirement benefits	<u>28,116</u>	<u>28,294</u>
	<u>\$ 686,751</u>	<u>\$ 782,106</u>
Receivables from key management personnel	<u>\$ 44,439</u>	<u>\$ 147,453</u>

Receivables from key management personnel are interest free and unsecured with no fixed terms of repayment and are included in sundry receivables and prepayments in the statement of financial position.

21. CONTINGENCIES

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

22. SEGMENTED INFORMATION

In accordance with IFRS 8 Operating Segments, the Company has identified the Chief Operating Decision Maker as the Board of Directors. Key decisions on assessing performance and allocation of resources are reviewed by the Board or its sub-committees.

The Company's operations are segmented into the following classes of business based on its reinsurance treaties. The segment results for the years ended December 31, 2011 and 2010 are as follows:

2011	Gross Premiums	Net Underwriting
	<u>Written</u>	<u>Income (Loss)</u>
Fire	\$ 59,288,355	\$ (1,953,548)
Motor and Liability	26,721,137	4,607,681
Marine	1,174,224	(82,767)
Engineering	1,323,243	(27,280)
Accident	675,424	109,799
Facultative	8,326,651	462,656
Other	208,110	28,561
Total	<u>\$ 97,717,144</u>	<u>\$ 3,145,102</u>
2010	Gross Premiums	Net Underwriting
	<u>Written</u>	<u>Income (Loss)</u>
Fire	\$ 61,234,579	\$ 2,884,783
Motor and Liability	27,160,318	3,529,792
Marine	1,168,763	(98,483)
Engineering	1,999,458	31,990
Accident	726,521	86,227
Facultative	8,094,594	208,129
Other	284,832	112,525
Total	<u>\$ 100,669,065</u>	<u>\$ 6,754,963</u>

Total assets, liabilities and capital expenditure are not segmented by class of business.

23. COMPARATIVE INFORMATION

In accordance with IAS 1 (revised), the Company has re-presented comparative information to conform with the current year presentation, as follows:

- Held-to-maturity investments have been included in assets that are exposed to credit risk, within the Credit Risk Section.
- Trade accounts receivable have been shown at gross amounts instead of net within the Credit Risk Section.
- Term deposits have been reclassified as cash and cash equivalents based on their acquisition date, in both the statement of cash flows and Note 7.

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