



FOCUSED.



INNOVATIVE.



RESILIENT.



STRONG.



TALENTED.

It's why we're **FIRST.**

BAHAMAS FIRST HOLDINGS  
2012 ANNUAL REPORT

## FOCUSED. INNOVATIVE. RESILIENT. STRONG. TALENTED.

Combined they represent the attributes of why we are **FIRST** in the general insurance market and why we will continue to be **FIRST** in the years to come.



Our historic and continuing FOCUS is on our customers, partners, employees and the community and to remain First in every aspect of our business – from offering insurance products that meet customer needs, to providing prompt and fair claim settlements, to being an active and responsible corporate citizen.

INNOVATION is what ignites groundbreaking initiatives such as First Response, the First and most comprehensive on site accident assistance programme in The Bahamas.

Sound risk management practices have enabled Bahamas First to remain RESILIENT in the face of hurricanes and other catastrophic events as well as competitive threats.

*The consolidated financial statements in this report include the accounts of Bahamas First Holdings Limited ("BFH" or the "Company") and its subsidiaries which are collectively referred to as the "Group". The subsidiaries are as follows: Bahamas First General Insurance Company Limited ("BFG"), Cayman First Insurance Company Limited ("CFI"), Nassau Underwriters Agency Insurance Agents & Brokers Ltd. ("NUA"), General Brokers & Agents Insurance Limited ("GBA") (formerly General Brokers & Agents Limited), Bahamas First Corporate Services Ltd. ("BFCS"), First Response Limited ("FRL"), BFH International Limited ("BFHIL").*



The Group's historic STRONG financial performance is testament to our holistic management approach, one that embraces strong relationships with reinsurers, solid capitalization and conservative financial management strategies.

And the binding agent for the Company's success is the TALENTED group of Board members, executives, managers, staff and authorized agents whose expertise, experience and dedication have established Bahamas First's market leadership.

Focused. Innovative. Resilient. Strong. Talented.  
**THAT'S BAHAMAS FIRST.**

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We have a strong reputation in the market, especially with our reinsurers, and need to take advantage of this position.”

## MESSAGE FROM THE CHAIRMAN



**2012 recorded a most satisfactory result of \$5.7 million, despite the “visit” of Hurricane Sandy in October. Without this event your Company would have recorded its best ever operating result in its history. It is interesting to note that at the beginning of the year we had budgeted a projected result of \$5.9 million!**

This operating result demonstrates the wisdom by your Board to diversify our activities beyond The Bahamas in 2010. We have fully absorbed and integrated the Cayman operation into our Group, which recorded its best result since its acquisition. We shall continue to seek, in a careful and measured manner, further opportunities in the region, which is the best way to generate positive growth for BFH in the future. We have a strong reputation in the market, especially with our reinsurers, and need to take advantage of this position.

The world continued its slow, but relatively steady progress to some degree of normalcy after the Global Economic Recession, the worst since the 1930's Depression. There were as usual “bumps in the road”. In the USA unemployment started to decrease and the property market regained some positive movement which augers well for the Bahamian property market.

The highlight was the return of some industrial activity, which had previously gone “offshore”, largely as a result of higher labour costs in Asia, particularly in China, which decreased the cost advantage of

that region, but also due to the ever reducing cost of power caused by the huge quantities of natural gas and oil finds from “fracking”. This provides a significant advantage for the USA over the next few years.

In Europe the economy steadied, but problems of the Euro, slow growth, an aging population, low fertility rates, high unemployment and high debt are still a significant drag on development and future progress, particularly in the Southern/ Mediterranean countries.

In the so called developing world, China, India and Brazil all experienced a slowing of their impressive growth pattern, although China started to show some positive signs as the year came to an end. Japan also demonstrated some signs of positive activity, after a very long period of stagnation.

In The Bahamas we had a change of government in the Spring. The new government has to grapple with the continuing challenges of slow growth, high unemployment, high expenditure and a challenging income generation pattern.

However, the signs are encouraging as a result of the new airport in Nassau, the new road system and increased Foreign Direct Investment, particularly BahaMar.

In closing, there continues to be much to do to retain our positive momentum. It cannot be recorded too often, but I want to again repeat your Board's deep appreciation of and respect for the long term commitment, dedication, loyalty and support from all of our stakeholders; our shareholders, executive, staff, agents, reinsurers and most importantly our customers, for without them we surely would not have a business to operate. Thank you to each and every one of you!

Your Board continues to be extremely focused on the smooth running of its business and to the future development of your Company.

**IAN D. FAIR**  
CHAIRMAN



The improvements in the Group's overall performance allowed for an increase in the dividend payments declared in 2012."

## MESSAGE FROM THE PRESIDENT



**We were fortunate to see a reprieve from the extraordinary level of claims activity that characterized 2011, both internationally, and within the Caribbean Region. Despite the occurrence of Hurricane Sandy, the second major storm event to impact The Bahamas in as many years, the property and casualty segment of our business delivered positive Underwriting results, validating the scale and scope of our geographic and product line diversification.**

While the current estimates for insurance claims expected from Sandy show a combined global loss of \$25 billion, the worldwide insured catastrophe losses for 2012 were contained within the range of the average annual losses over the preceding ten (10) year period. The consequence of this fact, for companies operating in the region, was that the availability of reinsurance support was not materially altered for the 2013 renewal season.

In The Bahamas, we recorded some 358 claims generating gross losses of \$8.6 million arising from Hurricane Sandy. This accounted for a substantial share of the overall gross claims of \$46 million, which compares favourably with a gross incurred total of \$58.8 million in 2011. The overall claims ratio in 2012 was 43% compared to 51% in 2011.

The Group's Health business, which is written exclusively by CFI, turned in a stellar performance during 2012, the result of an aggressive resetting of our approach to the business and the disciplined execution of our turnaround strategy.

The combined impact of the favourable Health results together with the improved performance of the Property & Casualty portfolio in

CFI pushed this entity's share of the Group's bottom-line result up to a proportionately higher level.

The Group's total profit for the year increased to \$5.1 million, compared to \$1.0 million in 2011, despite the substantial unrealized loss on an equity investment which was \$0.770 million in 2012. The total comprehensive income increased to \$5.7 million, significantly outpacing the 2011 result of \$0.8 million, and of this amount \$5 million is attributable to the owners of the parent.

The combined ratio for 2012, reduced to 95%, as a result of the lower claims ratio, and a containment of the expense ratio at 33%. As a result of this favourable development, the net underwriting income increased to \$23.8 million which is just shy of the Group's record of \$24 million which we achieved in 2010. The Company's total equity increased to \$47 million from \$44 million a year ago, an increase of 6%, while earnings per common share increased from \$0.01 to \$0.14 in 2012.

The improvements in the Group's overall performance allowed for an increase in the dividend payments declared in 2012, totaling some five (5) cents per share, and the Board is scheduled to consider a further distribution in 2013.

Both CFI and BFG were able to retain the A.M. Best Rating of A- (Excellent), and in the case of the former, the outlook has been raised to stable from negative, in line with BFG's current outlook.

January 31, 2013 marked the retirement date of a loyal and dedicated Executive of the Group in the person of Pauline Ward. Pauline has always been a committed professional and she has left an indelible mark on the activities of the Group, particularly within BFG where she last served as a Director and Senior Vice President, Underwriting & Reinsurance. Pauline will remain on the Board of BFG and we wish her a happy retirement, and all the best for the future!

We are confident that the significant investment in technology, Human Resources and additional operational infrastructure has provided a platform for sustainable performance in the long term, and we look forward to the opportunity to embrace all that the future holds.



**PATRICK G. W. WARD**  
PRESIDENT & CEO



## SUMMARY OF RESULTS

### YEARS ENDED DECEMBER 31, 2012

In Bahamian \$ '000s, except for per share data and ratios

<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>2012</b>	<b>2011</b> (restated)	<b>% Change</b>	<b>2010</b> (restated)
Total assets	<b>175,738</b>	175,806	0%	182,458
Equity attributable to owners of the parent	<b>44,501</b>	41,865	6%	42,951
Book value per common share	<b>1.08</b>	1.01		1.05
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>				
Gross premiums written	<b>157,796</b>	151,742	4%	153,089
Net written premiums	<b>61,707</b>	61,116	1%	62,036
Net premiums earned	<b>60,641</b>	61,531	-1%	61,509
Commission income	<b>22,479</b>	22,710	-1%	25,742
Net claims incurred	<b>25,818</b>	31,607	-18%	26,982
Net underwriting income	<b>23,835</b>	18,877	26%	24,019
Other income	<b>2,184</b>	2,494	-12%	2,490
Total comprehensive income	<b>5,689</b>	808	604%	2,903
Total comprehensive income attributable to owners of the parent	<b>5,035</b>	479	952%	3,700
Earnings per common share	<b>0.14</b>	0.01		0.10
<b>RATIOS</b>				
Solvency ratio	<b>72%</b>	69%		73%
Combined ratio	<b>95%</b>	103%		98%
Loss ratio	<b>43%</b>	51%		44%
Expense ratio	<b>33%</b>	33%		37%

**SOLVENCY RATIO** Total equity attributable to owners of the parent as a % of net written premiums

**COMBINED RATIO** Net underwriting & administrative expenses as a % of net premiums earned

**LOSS RATIO** Net claims incurred as a % of net premiums earned

**EXPENSE RATIO** Administrative expenses as a % of net premiums earned





## 2012 YEAR IN REVIEW

### THE COMPETITIVE LANDSCAPE

Within The Bahamas and Cayman markets continued to evolve during 2012, with a number of new property and casualty players emerging on the scene. We fully expect the level and intensity of competition for business to increase in the short to mid-term, in both locations, given the attractive features that characterize the business environment in The Bahamas and the Cayman Islands.

Concurrent with these developments is the likely potential for market consolidation which, for well positioned companies, will create unique expansion opportunities. Given the inherent complications of our business and the difficulty in generating meaningful organic growth, we have developed a posture that allows for the ability to quickly respond to opportunities within our operating jurisdictions, while broadening our outlook for properly structured deals in select countries within the region.

Expanding our footprint in a manner that makes prudent sense will provide us with additional scale, and the ability to leverage the benefits of size across a bigger platform. The diversity, in geographic terms, can also provide a better risk profile, as evidenced in the last two years, thereby enhancing shareholder value within an acceptable risk tolerance framework.

### HURRICANE SANDY DEVELOPMENTS

For the second year in a row we have had to deal with the claims activity associated with a natural catastrophe event, as a consequence of the impact of Sandy, which made landfall on the 25th October, 2012.

The total gross and net claims from Sandy were approximately one third of the total claims emanating from Hurricane Irene which occurred fourteen (14) months earlier.

The Bahamian market as a whole, had a fairly bad experience with the quality of loss adjusting talent available, in the aftermath of Irene and the numerous preceding worldwide catastrophes.

As a result of a number of proactive measures in relation to our hurricane contingency planning, we were able to mitigate the impact of some of the problems that were encountered in 2011, and avoid a carryover into 2012. There is no doubt that the outcome was positively influenced by this course of action both in terms of quality of execution and the quantity of the overall claims spend.

### BUSINESS DEVELOPMENT

The economic environment in the region remains challenging but a slow but steady pace of recovery can still be seen in both The Bahamas and the Cayman Islands.

We experienced a mixed bag of results in terms of growth across the various product lines and geographical locations, but, in overall terms, the Group registered a 4% increase in gross written premium during 2012 as compared with 2011.

NWP were up by 1% in 2012, compared to the prior year and reflects, more closely, the organic growth in our core business in both of the insurance company subsidiaries. On a gross basis the property and casualty account grew by 9% in The Bahamas, while Cayman showed a decline of 4% in 2012, compared to 2011.

The overall growth in premium income during 2012, has resulted in an increase to unearned premium reserve charge, in excess of \$1 million, compared to a release of \$0.414 million in 2011, a difference of \$1.5 million. This development, which will prove to be a positive scenario for 2013, together with loss of incoming reinsurance commissions due to the "Sandy" impact has resulted in a reduction in the underwriting income to \$79.5 million from the prior year figure of \$81.3 million.

Net property and casualty claims reduced to \$10.2 million compared to the \$12.7 million in 2011, a 17.4% reduction, which is a reflection of the difference in the cost of Sandy vs. Irene. The total underwriting expenses reduced to \$59.3 million in 2012 compared to \$65.4 million in 2011, a 10% reduction.

The Administrative related expenses declined by 2% in 2012, compared to the prior year, while net underwriting income saw a dramatic improvement to \$23.8 million compared to \$18.9 million, a positive variance of 26%. The excellent technical results were primarily driven by the good underlying property and casualty performance in both Cayman, and to a lesser extent The Bahamas, particularly the significant improvement in the CFI Health Account.

	<u>2012</u>	<u>2011</u>
Gross Written Premium (GWP)	\$157.8M	\$151.7M
Net Written Premium (NWP)	\$61.7M	\$61.1M





## 2012 YEAR IN REVIEW

Continued



**Property:** We continue to observe a trend by consumers to shift away from the more traditional forms of personal and commercial covers, which incorporates catastrophe protection, to either non-catastrophe forms of cover or catastrophe cover with higher deductible levels.

In The Bahamas, the combined values for all catastrophe-exposed property business have declined by less than 1% over the last five (5) year period, while the corresponding data for non-catastrophe business has shown an increase of 21%. The total values for both categories have increased by 6% over the same time, but a significant number of policyholders have opted for higher deductible levels in excess of the standard 2%.

In Cayman, the position in 2012 was relatively flat compared to the prior year, in terms of the combined values for catastrophe-exposed business, but the trend towards higher deductibles showed a very similar pattern of development.

The Group's gross written premium for property business now amounts to \$81 million which positively contributed to the overall underwriting profit in both Cayman and The Bahamas, despite the impact of Hurricane Sandy.

**Motor & Liability:** The total insured vehicle count remained relatively flat in both Cayman and The Bahamas which is yet again a feature of the overall economic environment. The buying trend towards more pre-owned vehicle purchases continued in The Bahamas and accounted for a more pronounced shift away from

comprehensive motor covers to third party covers, resulting in 80% of our total vehicle count falling into this category.

There was no such movement in the mix of vehicles insured within Cayman and, on a combined basis, the Group's gross written premium for motor/liability now stands at \$35 million. The contribution to the underwriting profit from these two casualty lines continues to be very strong. The performance in each location was excellent throughout the year, notwithstanding the impact of Hurricane Sandy and the occurrence of a number of sizeable personal injury claims.

The total motor claims frequency in The Bahamas increased fairly sharply from 2508 to 2972 claims, but the average cost per claim was contained at the prior year's level – largely as a result of the significant cost mitigation advantage we derive from the activities of the First Response Unit.

The frequency and severity of claims within Cayman remained largely unchanged from the prior year.

**Health:** The Health Account generated gross premiums of \$22 million in 2012, slightly down from the prior year figure of \$23 million, but this is largely due to a strategic initiative aimed at improving the quality of the portfolio.

The total claims incurred in 2012 from this line of business was \$15.6 million down dramatically from the prior year's total of \$18.9 million, a reduction of \$3.3 million or 18%. The Earned Loss Ratio (ELR) for this class was 71%, as compared to 82.4% in 2011, and well within the budgeted target for this line of business.

We continue to restrict our exposure to this product to the Cayman Islands, which delivered its highest total contribution to the underwriting result for our CFI subsidiary in recent times. We will continue to focus on adequate pricing, claims control and the efficient delivery of services in order to preserve and enhance the current balance of revenue and expenses associated with this line of business.

**Marine:** The Marine portfolio has experienced a substantial improvement in the performance of the account with a loss ratio less than a quarter of the average of the prior two years. The Bahamas market has seen a recent reduction in the number of reported vessel thefts and this has, no doubt, influenced the result for 2012.

The premium income achieved in 2012, was relatively flat compared to 2011, and fortunately, Hurricane Sandy did not have a material impact on the overall profitability of this line of business.

**Engineering:** The gross written premiums recorded for this line of business increased marginally in 2012, over 2011, which reflects the continued inflow of Contractor's All Risk (CAR) business and the associated bond placements.

As public infrastructure and commercial projects continue to come on stream in both The Bahamas and the Cayman Islands, we expect to continue our participation in these ventures through the provision of risk management and insurance solutions for our existing and new clients.



## 2012 YEAR IN REVIEW

Continued

### INVESTMENT & ASSET MANAGEMENT:

The Investment climate in the region reflects the worldwide scenario as it relates to:

- Low interest rates on deposits.
- Lingering doubts about equity investments.
- The overhang of the continuous, albeit declining, Euro Zone crisis and the slow pace of recovery in the USA.

As a consequence of these factors, the Group continues to refine its investment strategies and guidelines in order to maintain a proper balance between risk tolerance levels and realistic returns to the portfolio of investment assets.

Total investment assets increased to \$58 million from \$54 million, while the cash component of this amount increased by 10% alone, compared to 2011, despite the cash demands of Hurricane Sandy.

The total investment income in 2012, including unrealized gains (losses) on available-for-sale ("AFS") investments totaled \$1.3 million compared to \$2.4 million in 2011. The majority of this reduction was linked to the unrealized loss on the Group's Commonwealth Bank equity holding which declined by \$0.770 million at December 2012.

During the year, NUA, our main subsidiary operating in the intermediary sector, acquired the portfolio of a long time Sub-Agent, the Joshua Culmer Insurance Agency (Eleuthera).

In a separate transaction, it also acquired the portfolio of a long-time BFG agent, the Bethel Thompson

Insurance Agency, thereby allowing BFG to retain 100% of the premium revenue associated with both transactions. The combined premiums for both entities were \$2.5 million in 2012 and should generate positive earnings for NUA within the initial year.

### Capital Management & Enterprise Risk Management (ERM)

The capital position, at a subsidiary level for both BFG and CFI, remain strong and well above the minimum levels required by the regulators in the respective jurisdictions. In the case of BFG, actual solvency margin exceeded the required solvency margin by \$4.7 million at the close of 2012. While this is down from the amount in 2011, it is nevertheless significantly above the mandated capital levels.

The Cayman Islands continues to define the solvency requirements more precisely, but we fully expect to be significantly above the minimum requirements, when fully implemented.

An important part of our capital management and preservation plans is heavily dependent on a functioning and effective Enterprise Risk Management. We are already observing signs that point to the fact that ERM will become a differentiator for financial service businesses and insurers in particular, in the Caribbean region, both from a Regulatory, Reinsurer and Investor perspective.

The scope and complexity of our ERM systems were developed and designed to mirror the scope and complexity of our operational and

other business related exposures. It also provides the Board and Management with a much more detailed and wide ranging perspective of the existing and evolving threats to our various business units.

### Future Outlook

The Regional Property and Casualty sectors will continue to face many challenges in the short to mid-term on several fronts. The anaemic economic environment, and the attendant side effects of crime and the retardation of opportunities will continue to create hurdles for operational efficiency and improved performance.

The recruitment and development of talent is also a massive challenge which, unfortunately, does not receive the attention and level of financial investment it deserves from the participants in the insurance sector. It is imperative that we continue to find ways to make innovation, across the enterprise, a defining characteristic of who we are, and the way we do business as an organization. 🍀

**PATRICK G. W. WARD**  
President & CEO

**GLEN O. A. RITCHIE**  
Group VP & CFO



# GROUP **ACTIVITIES**

**MICHAEL GAYLE**  
GENERAL MANAGER



**FOCUSED ON SUCCESS**



The Cayman First Team

**N**OW IN ITS THIRD FULL YEAR as a member of the Bahamas First Group of Companies, CFI has re-established itself as a strong force in the highly competitive Cayman insurance market.

Some fourteen domestic companies compete for business in either or both of the Property and Casualty (P&C) or Health Insurance segments. In addition, there are a number of overseas companies which write business in Cayman even though they do not have a physical presence in the country with a population of slightly more than 50,000.

Unlike the Bahamas market, policyholders are not obliged to place business through intermediaries and approximately one-third of CFI's business is

placed directly with and serviced by the company. An important factor making CFI a good fit within the Group is the similarity of underwriting philosophies. Both companies are conservative in this regard, and the results of this were evident in 2012.

Last year the P&C division continued to perform steadily, and on the back of considerable tightening of Health underwriting, the Health division was returned to profitability. This has been an area of primary focus for the past two years, and the oversight from the Board played an important role in achieving this turnaround.

The company has evolved to meet the changing circumstances in its environment with the transition to the Cayman First brand being the

latest in the evolutionary chain. There has been an ideal blending of the experience of the Cayman First staff and the extensive resources of the Bahamas First Group. This collaboration has benefited the company and by extension, the Group.

The Group provides support in critical areas such as IT, Finance, HR, Internal Audit, and through the Board, Corporate Governance has been strengthened. The company is currently actively participating in the Group's implementation of Enterprise Risk Management.

On April 2, 2013 the company will have celebrated 29 years of operation. Staff continuity over this period has been instrumental in creating a stable, experienced and successful operating platform. A number of staff members have been with the company for in excess of 20 years, some in excess of 25 years. 🇧🇸



## 32-FIRST



## INNOVATION KEEPS IT FIRST OF ITS KIND

**W**HEN FIRST RESPONSE WAS LAUNCHED in August 2007 it exemplified the Company's commitment to innovation and its determination to remain first in providing value-added services to its authorized agents and through them the thousands of Bahamians who trust Bahamas First for their automotive insurance needs.

First Response was the first company in The Bahamas offering on-location accident assistance and support to customers in New Providence whose vehicles are insured through BFG.

In 2012 First Response added a new element of innovation to create the most advanced on location motor accident service and support program in New Providence, offered at no additional cost. By introducing added state-of-the-art technology to its fleet of vans, First Response professionals can now expedite claims adjustment at the scene of the accident and continue to look after the client's care and needs right through the repair process.



This same technology has also created a new and expanded role for First Response to undertake online inspections of a client's vehicle at an agent's office on a real time remote basis. Clients benefit by not having to travel to BFG for the inspection and authorized agents benefit by being able to offer their clients a convenient motor inspection service. This includes Family island clients who now receive the same convenient pre and post loss inspections as clients in New Providence.

Since its launch the bold and distinctive First Response vans have become as common a sight at accident locations as other emergency response vehicles. Now with the benefit of advanced technology, First Response leads the way in delivering the most comprehensive motor accident assistance and inspection programmes in the country. 🇧🇸





## BRINGING OUR TALENT TO THE COMMUNITY

**T**HE BAHAMAS FIRST GROUP OF COMPANIES has a long and proud history of contributing to the community. But it's our management and staff who have always made the real difference in these efforts both financially and more importantly in terms of the time, talent and personal commitments they give to the many worthwhile programmes and causes on behalf of our companies in The Bahamas and Cayman.

Sponsorship of a Junior Achievement (JA) company highlighted Bahamas First community activities in 2012. JA students were not only given the challenge of running their company under the direction of Bahamas First mentors but were also expected to contribute their time by assisting at the Persis Rodgers Home for the Aged.

In Cayman, involvement in Cayman's ARK (Acts of Random Kindness) Foundation and the provision of school supplies to special needs students typified grassroots community involvement by CFI staff. In total, 23 organizations in The Bahamas and 16 in Cayman as well as various sports, school and church clubs in both countries benefited from Group and employee involvement in 2012.

In The Bahamas they included:

- Bahamas Air Sea Rescue Association
- Bahamas Flag Football League
- Bahamas Red Cross
- Bahamas Swimming Federation
- Bahamas Technical and Vocational Institute
- Cancer Society of The Bahamas
- International Cultural Festival
- Junior Achievement Bahamas
- Marathon Bahamas
- North Eleuthera Community Youth Program

- Persis Rodgers Home for the Aged
- Physically Challenged Children's Committee
- Pilot Club of Nassau
- Ranfurly Home for Children
- Rotary Club
- Royal Bahamas Police Force
- Royal Rangers Boys Club
- Special Olympics Bahamas
- Stop-Think-B-4-U-Act Prison Initiative
- The Bahamas Children's Emergency Hostel
- The Kiwanis Club of Nassau
- The Nassau Chapter of The Links Inc.
- Various Church, School and Sporting Organizations

In Cayman, support was provided to:

- Cayman Breast Cancer Foundation
- Cayman Islands Cancer Society
- Cayman Heart Fund
- Feed Our Future
- Youth Development Basketball Program
- Cayman National Basketball Team
- Cayman Islands First National Health Survey
- Cayman Road Safety Handbook
- Cayman Islands Marathon
- Cayman Islands Red Cross
- Cayman Islands Veterans Association
- Cayman Islands Volleyball Federation
- RCIPS Welfare Fund
- Sports Association of the Sister Islands
- Lighthouse School
- ARK Foundation
- Various Church, School and Sporting Organizations in Grand Cayman and Cayman Brac

The Board is proud of, and would like to thank, the many employees who, so unselfishly, give so much to the communities in which we work and live. 🙏







## DRIVING CHANGE INSIDE AND OUT

### THE INTERNAL AUDIT DEPARTMENT

**D**URING 2012, THE BOARD AND EXECUTIVE Management implemented a formal process for managing risk across the entire Group called Enterprise Risk Management (ERM). ERM is a continuous operational and strategic risk monitoring process, to ensure an entity's objectives are met. The formal launch of ERM began with a workshop hosted by Munich Re in May 2012.

At this workshop Management identified risks in the various business units, assessed the likelihood and impact of those risks occurring, and identified the causes and effects of those risks. Management then used that information to populate a Risk Register for their individual business unit. The Board and Executive Management then developed an ERM Policy which details the risk appetite of the Group and specific risk tolerance levels in various areas.



**Anishka Collie, CPA**  
*Group Senior Internal Auditor*

Going forward, Managers are required to certify on a quarterly basis that they have identified the most significant risks on their Risk Register, that controls are in place to mitigate those risks and whether current processes require improvements.

To assist Management with implementing ERM, the Internal Audit Department (IAD) was established. In August 2012, Anishka Collie joined the Management Team of Bahamas First as the Group Senior Internal Auditor.

Anishka is a Certified Public Accountant (CPA). She has eleven years of experience with Deloitte Bahamas Audit and Enterprise Risk Services Practice and ended her public accounting career as a Senior Manager.

The duties of the Internal Auditor include independently and objectively evaluating and improving risk management, control and governance processes. To establish independence, the IAD reports findings directly to the Audit Committee who oversee how Management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks that face the Group. To establish objectivity the IAD is not involved in daily operations and does not perform accounting transactions. 🚫

### INFORMATION TECHNOLOGY DRIVING INNOVATION

**I**NNOVATION COULDN'T BE MORE EVIDENT WITHIN the Bahamas First Group of Companies than in the area of Information Technology.

Over the past two years MITASA (Making Information Technology A Strategic Advantage), a programme driven by four staff members from cross-functional areas, has been the genesis of a number of information technology-based projects designed to deliver new and innovative customer services, to improve productivity and to provide the company with a competitive edge in both The Bahamas and Cayman.

The most public of these projects is the introduction of "Smart" vans for the First Response accident scene assistance service.

Each "Smart" van is now equipped with GPS technology to improve response times to accident scenes and to assist in tracking them while they are away from their home base. First Response professionals are also now using tablet technology to expedite claims adjustment at the scene of the accident.

Internally the MITASA team has implemented the first phase of an intranet application that has improved the efficiency of information sharing and overall document management. Phase one involves departments whose data is time and volume sensitive.



**The MITASA Team**

The MITASA team is currently working on a major technology driven project that will further strengthen the Group's competitive position, creating a lasting strategic advantage through Information Technology that facilitates new and innovative ways to deliver customer services and improve productivity. 🚀



## DIRECTORS & OFFICERS



**IAN D. FAIR** CHAIRMAN

Mr. Fair has been the Chairman of the Board and a member of the Board of Directors since 1999. He is Chairman of the Bahamas International Securities Exchange and Deputy Chairman of Butterfield Bank (Bahamas) Limited. He also serves as Chairman of the Grand Bahama Port Authority.



**JOHN A.G. DUNKLEY** DIRECTOR

Mr. Dunkley has been a Director since 1996. He was President and Managing Director of Nassau Underwriters Brokers & Agents up to December 31, 2010, and a Director of Bahamas First Corporate Services Ltd. He was also a Board member for Bahamas First General Insurance Company Limited from 1991 to 1997.



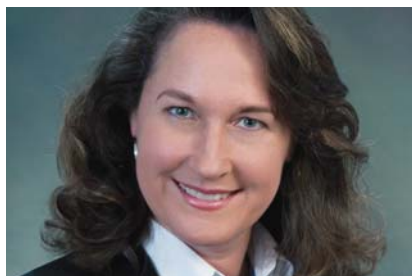
**JUDITH WHITEHEAD** DIRECTOR

A Director since 2005, Mrs. Whitehead is the Managing Partner of Graham Thompson & Co, a leading law firm in Nassau, Bahamas. She has served on various other company and civic boards.



**BHARAT KANNAN** DIRECTOR

A Director since June 2011, Mr. Kannan is Vice President, Finance and Controller of Economical Mutual Insurance Company (Economical). He started at Economical in 2001 and has over 15 years of financial experience. Mr. Kannan is a member of the Institute of Chartered Accountants of Ontario and holds a Chartered Financial Analyst (CFA) designation.



**KAREN GAVAN** DIRECTOR

A Director since June 2011, Ms. Gavan is President and Chief Executive Officer of Economical Mutual Insurance Company. She has 30 years of experience in the Canadian financial services industry. Ms. Gavan was formerly the Chief Operating Officer of Transamerica Life Canada and AEGON Fund Management Inc. She is a Fellow of the Institute of Chartered Accountants of Ontario.



**ALISON TRECO** DIRECTOR

Ms. Treco was appointed as a Director of the Bahamas First Holdings Limited and several of its subsidiary companies' boards in 2012. Ms. Treco previously served on the audit committee of Bahamas First Holdings Limited. She is a Director of FT Consultants Ltd., a firm specializing in accounting advisory services.



**PATRICK G.W. WARD** DIRECTOR  
*Group President & CEO*

Mr. Ward has been a Director since 1998 and prior to that President and Managing Director of Bahamas First General Insurance Company Ltd. He is President and CEO of Bahamas First Holdings Limited, Bahamas First General Insurance Company Limited and Bahamas First Corporate Services Ltd.



**GLEN O. A. RITCHIE** DIRECTOR  
*Vice President & CFO*

Mr. Ritchie was appointed as a Director of BFH in May 2012. He is Vice President and CFO of BFH, overseeing all financial, information technology and risk management related functions within the Group. Prior to joining BFH, he held a number of senior management and leadership roles in both banking and insurance institutions in The Bahamas.



**J. LASHELL ADDERLEY** SECRETARY

Miss Adderley is the Corporate Secretary of BFH and its subsidiary companies. She also serves as the Group's Legal and Compliance Manager. Prior to joining BFH, Miss Adderley worked as a Civil Litigation Attorney.



# FINANCIAL STATEMENTS



## INDEPENDENT AUDITORS' REPORT



Deloitte & Touche  
Chartered Accountants  
and Management Consultants  
2nd Terrace, Centreville  
P.O. Box N-7120  
Nassau, Bahamas

Tel: +1 (242) 302-4800  
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<http://www.deloitte.com>

To the Shareholders of  
Bahamas First Holdings Limited:

We have audited the consolidated financial statements of Bahamas First Holdings Limited (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bahamas First Holdings Limited as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Deloitte & Touche*

April 2, 2013

A member firm of  
Deloitte Touche Tohmatsu



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 2012, EXPRESSED IN BAHAMIAN DOLLARS.

ASSETS	Notes	December 31, 2012	December 31, 2011 (restated)	January 1, 2011 (restated)
Cash		\$ 10,641,297	\$ 11,614,327	\$ 9,001,888
Term deposits	6	6,841,478	4,222,503	8,073,973
Trade accounts receivable, net	4,9,24	26,103,831	26,980,097	33,740,514
Sundry receivables and prepayments	12,24	2,882,059	2,721,516	3,058,314
Deferred commission costs	10	4,671,507	5,217,081	5,433,185
Deferred reinsurance premiums	10	37,717,928	36,206,160	38,070,944
Unpaid claims recoverable from reinsurers	4,11	23,543,113	27,374,217	17,022,413
Investments	7	39,977,743	37,791,683	38,057,890
Investment in associate	8	463,790	372,880	305,769
Property and equipment	4,13	10,930,308	11,927,311	14,081,798
Intangible assets and goodwill	4,15	11,964,539	11,378,112	11,493,455
Provision for litigation recoverable	12	-	-	1,177,015
Due from escrow agent	12	-	-	2,940,680
<b>TOTAL</b>		<b>\$ 175,737,593</b>	<b>\$ 175,805,887</b>	<b>\$ 182,457,838</b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>Liabilities:</b>				
Accrued liabilities		\$ 1,905,100	\$ 2,248,382	\$ 2,838,945
Trade accounts payable		2,356,136	4,816,320	7,523,797
Unearned commission income	10	8,605,973	8,196,216	8,979,515
Unearned premiums	10	53,729,518	51,616,194	53,895,111
Unpaid claims	4,11	40,448,568	43,618,032	34,025,371
Provision for litigation	4,12,25	1,460,125	895,289	9,774,748
Loan payable	14	4,749,839	5,222,812	5,398,258
Bonds payable	16	15,248,438	15,248,438	15,276,563
<b>Total liabilities</b>		<b>128,503,697</b>	<b>131,861,683</b>	<b>137,712,308</b>
<b>Equity:</b>				
Common shares	17	365,055	365,055	363,055
Preference shares	17	5,000,000	5,000,000	5,000,000
Contributed surplus		14,882,944	14,882,944	14,639,446
Treasury shares	17	(497,886)	(256,316)	(256,316)
General reserve	18	4,000,000	4,000,000	4,000,000
Revaluation reserve	19	2,630,725	2,082,849	2,287,486
Retained earnings		18,119,809	15,790,701	16,917,607
Total equity attributable to owners of the parent		44,500,647	41,865,233	42,951,278
Non-controlling interest		2,733,249	2,078,971	1,794,252
<b>Total equity</b>		<b>47,233,896</b>	<b>43,944,204</b>	<b>44,745,530</b>
<b>TOTAL</b>		<b>\$ 175,737,593</b>	<b>\$ 175,805,887</b>	<b>\$ 182,457,838</b>

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on March 27, 2013 and are signed on its behalf by:

Chairman  
Ian D. Fair

Director  
Patrick G. W. Ward



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

	Notes	2012	2011 (restated)
<b>UNDERWRITING INCOME:</b>			
Gross premiums written	20,24	\$ 157,796,008	\$ 151,742,115
Movement in unearned premiums	10	[2,113,324]	2,278,917
		155,682,684	154,021,032
Premiums ceded to reinsurers		[96,089,318]	(90,625,633)
Movement in deferred reinsurance premiums	10	1,047,890	(1,864,784)
Net premiums earned		60,641,256	61,530,615
Commission income		22,478,671	22,709,884
<b>Total underwriting income</b>		<b>83,119,927</b>	<b>84,240,499</b>
<b>UNDERWRITING EXPENSES:</b>			
Net claims incurred	11	25,818,303	31,607,090
Commission expense	24	15,460,716	15,352,668
Cost of excess of loss reinsurance	27	14,877,280	15,509,742
Premium tax		3,128,551	2,893,808
<b>Total underwriting expenses</b>		<b>59,284,850</b>	<b>65,363,308</b>
<b>Net underwriting income</b>		<b>23,835,077</b>	<b>18,877,191</b>
<b>OTHER EXPENSES:</b>			
Salaries, benefits and bonuses	22, 23, 24	10,968,628	10,293,556
General and administrative expenses		8,969,507	10,111,236
<b>Total other expenses</b>		<b>19,938,135</b>	<b>20,404,792</b>
NET TECHNICAL RESULTS		3,896,942	(1,527,601)
MOVEMENT IN PROVISION FOR LITIGATION	12	[685,545]	46,344
LITIGATION RECOVERY	12	515,728	-
UNREALIZED LOSS ON INVESTMENT	7	[769,860]	-
OTHER INCOME, NET	21	2,184,176	2,493,838
PROFIT FOR THE YEAR		5,141,441	1,012,581
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>			
Unrealized gain (loss) on available-for-sale investments	7,19	547,876	(204,637)
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>		<b>547,876</b>	<b>(204,637)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>\$ 5,689,317</b>	<b>\$ 807,944</b>
<b>ATTRIBUTABLE TO:</b>			
OWNERS OF THE PARENT		5,035,039	478,676
NON-CONTROLLING INTEREST		654,278	329,268
		\$ 5,689,317	\$ 807,944
<b>BASIC AND DILUTED EARNINGS PER</b>			
<b>COMMON SHARE</b>	17	<b>\$ 0.14</b>	<b>\$ 0.01</b>

See notes to consolidated financial statements.





## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

	Attributable to owners of the parent							Non-Controlling Interest	Total
	Common Shares	Preference Shares	Contributed Surplus	Treasury Shares	General Reserve	Revaluation Reserve	Retained Earnings		
<b>Balance at January 1, 2011 as previously reported</b>	<b>\$363,055</b>	<b>\$5,000,000</b>	<b>\$14,639,446</b>	<b>\$(256,316)</b>	<b>\$4,000,000</b>	<b>\$2,287,486</b>	<b>\$19,535,923</b>	<b>\$1,879,801</b>	<b>\$47,449,395</b>
Adjustment for Change in Accounting Policy (Note 27)	-	-	-	-	-	-	(2,618,316)	(85,549)	(2,703,865)
<b>Balance at January 1, 2011 (restated)</b>	<b>363,055</b>	<b>5,000,000</b>	<b>14,639,446</b>	<b>(256,316)</b>	<b>4,000,000</b>	<b>2,287,486</b>	<b>16,917,607</b>	<b>1,794,252</b>	<b>44,745,530</b>
Profit for the year	-	-	-	-	-	-	683,313	329,268	1,012,581
Other comprehensive loss (Notes 7,19)	-	-	-	-	-	(204,637)	-	-	(204,637)
Total comprehensive income (loss)	-	-	-	-	-	(204,637)	683,313	329,268	807,944
Changes in shareholders' interest in CFI (Note 14)	-	-	45,498	-	-	-	-	(45,498)	-
Non-controlling interest participation in CFI's rights offering (Note 14)	-	-	-	-	-	-	-	949	949
Shares issued (Note 17)	2,000	-	198,000	-	-	-	-	-	200,000
Preference shares dividend paid (Note 17)	-	-	-	-	-	-	(350,000)	-	(350,000)
Dividends paid (\$0.04 per common share) (Note 17)	-	-	-	-	-	-	(1,460,219)	-	(1,460,219)
<b>Balance at December 31, 2011 (restated)</b>	<b>365,055</b>	<b>5,000,000</b>	<b>14,882,944</b>	<b>(256,316)</b>	<b>4,000,000</b>	<b>2,082,849</b>	<b>15,790,701</b>	<b>2,078,971</b>	<b>43,944,204</b>
Profit for the year	-	-	-	-	-	-	4,487,163	654,278	5,141,441
Other comprehensive income (Notes 7,19)	-	-	-	-	-	547,876	-	-	547,876
Total comprehensive income	-	-	-	-	-	547,876	4,487,163	654,278	5,689,317
Repurchase of common shares (Note 17)	-	-	-	(241,570)	-	-	-	-	(241,570)
Preference shares dividend paid (Note 17)	-	-	-	-	-	-	(350,000)	-	(350,000)
Dividends paid (\$0.05 per common share) (Note 17)	-	-	-	-	-	-	(1,808,055)	-	(1,808,055)
<b>Balance at December 31, 2012</b>	<b>\$365,055</b>	<b>\$5,000,000</b>	<b>\$14,882,944</b>	<b>\$(497,886)</b>	<b>\$4,000,000</b>	<b>\$2,630,725</b>	<b>\$18,119,809</b>	<b>\$2,733,249</b>	<b>\$47,233,896</b>

See notes to consolidated financial statements.



## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

CASH FLOWS FROM OPERATING ACTIVITIES:	Notes	2012	2011 (restated)
Profit for the year		\$ 5,141,441	\$ 1,012,581
Adjustments for:			
Depreciation	13	1,275,791	1,403,189
Amortization of intangible assets	15	138,573	115,343
Amortization of premiums and discounts on bonds	7,21	124,956	118,353
Share of net earnings of associate	8,21	(90,910)	(67,111)
Realized gains on sales of investments	7,21	-	(79,303)
Unrealized loss on investment	7	769,860	-
Income attributed to non-controlling interest		(654,278)	(329,268)
(Gain) loss on disposal of property and equipment	21	(21,497)	109,325
<b>Profit from operations</b>		<b>6,683,936</b>	<b>2,283,109</b>
Decrease in trade accounts receivable, net		876,266	6,760,417
(Increase) decrease in sundry receivables and prepayments		(160,543)	336,798
Decrease in deferred commission costs	10	545,574	216,104
(Increase) decrease in deferred reinsurance premiums	10	(1,511,768)	1,864,784
Decrease in provision for litigation recoverable		-	1,177,015
Decrease in due from escrow agent		-	2,940,680
Decrease in accrued liabilities		(343,282)	(590,563)
Decrease in trade accounts payable		(2,460,184)	(2,707,477)
Increase (decrease) in unearned commission income	10	409,757	(783,299)
Increase (decrease) in unearned premiums	10	2,113,324	(2,278,917)
Increase (decrease) in net unpaid claims	11	661,640	(759,143)
Increase (decrease) in provision for litigation	12	564,836	(8,879,459)
Decrease in accrued interest on bonds		-	(28,125)
<b>Net cash from (used in) operating activities</b>		<b>7,379,556</b>	<b>(448,076)</b>

See notes to consolidated financial statements

(Continued)



## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

CASH FLOWS FROM INVESTING ACTIVITIES:	Notes	2012	2011 (restated)
Purchases of property and equipment	13	\$ (310,492)	\$ (492,145)
Proceeds from sale and maturity of investments	7	2,000,000	3,135,539
Purchase of investments	7	(4,533,000)	(3,113,019)
Proceeds from disposal of property and equipment		53,201	1,134,118
Acquisition of customer relationships	15	(725,000)	-
Decrease (increase) in term deposits maturing after ninety days	6	846,596	(156,056)
<b>Net cash (used in) from investing activities</b>		<b>(2,668,695)</b>	<b>508,437</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Preference shares dividend paid	17	(350,000)	(350,000)
Change in non-controlling interest		654,278	284,719
Common shares dividend paid	17	(1,808,055)	(1,460,219)
Repurchase of common shares	17	(241,570)	-
Repayments of loan payable		(472,973)	(175,446)
Proceeds from issuance of common shares	17	-	200,000
Equity transactions between non-controlling interest	14	-	45,498
<b>Net cash used in financing activities</b>		<b>(2,218,320)</b>	<b>(1,455,448)</b>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,492,541	(1,395,087)
<b>CASH AND CASH EQUIVALENTS:</b>			
BEGINNING OF YEAR		11,654,039	13,049,126
<b>END OF YEAR</b>		<b>\$ 14,146,580</b>	<b>\$ 11,654,039</b>
<b>CASH AND CASH EQUIVALENTS ARE COMPRISED OF:</b>			
Cash		\$ 10,641,297	\$ 11,614,327
Term deposits maturing within ninety days	6	3,505,283	39,712
		<b>\$ 14,146,580</b>	<b>\$ 11,654,039</b>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>			
Interest received		\$ 1,522,634	\$ 1,639,161
Dividends received		\$ 531,570	\$ 579,016
Interest expense paid		\$ 1,235,208	\$ 1,262,935
See notes to consolidated financial statements.			(Concluded)



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

## 1. GENERAL

Bahamas First Holdings Limited ("BFH" or the "Company") and its subsidiaries are incorporated under the laws of the Commonwealth of The Bahamas, except BFH International Limited ("BFHIL") and Cayman First Insurance Company Limited ("CFI"), which are incorporated under the laws (2009 Revision) of the Cayman Islands. These consolidated financial statements include the accounts of BFH and its subsidiaries, which are hereinafter collectively referred to as the "Group". The primary activity of the Group is the carrying on of general insurance business (property and casualty) and health and group life insurance. The subsidiaries are as follows:

### **Registered insurers:**

- Bahamas First General Insurance Company Limited ("BFG")
- Cayman First Insurance Company Limited ("CFI")

### **Registered insurance agencies:**

- Nassau Underwriters Agency Insurance Brokers & Agents Ltd. ("NUA")
- Moseley Burnside Insurance Agency Limited ("MBI")
- Carib Insurance Brokers & Agents Limited ("CIA")
- General Brokers & Agents Insurance Limited ("GBA") (formerly General Brokers & Agents Limited)

### **Management company:**

- Bahamas First Corporate Services Ltd. ("BFCS")

BFCS provides administrative and corporate services to the Group and charges management fees to the various Group companies, which are eliminated on consolidation.

### **Claims servicing company:**

- First Response Limited ("FRL")

FRL provides motor claim roadside assistance and claim adjusting services to BFG.

### **Insurance holding company**

- BFH International Limited ("BFHIL")

All of the above subsidiaries are wholly-owned except for CFI.

BFHIL acquired a 75.24% equity interest in Sagicor General Insurance (Cayman) Ltd. ("SGI") on June 17, 2010, with an effective date of January 1, 2010. Sagicor General Insurance (Cayman) Ltd. was renamed Cayman First Insurance Company Limited on August 4, 2010.

At its Shareholders' Annual General Meeting held in May 2011, CFI passed a special resolution to increase its authorized share capital from \$1,000,000, divided into 1,000,000 ordinary voting shares of \$1 each, to \$5,000,000, comprised of 4,000,000 ordinary voting shares and 1,000,000 voting preference shares of \$1 each.

In May 2011, the Board of Directors of CFI resolved to raise additional share capital by way of a rights issue to the Company's existing shareholders. BFHIL participated in the rights issue and increased its equity holding in CFI to 83.48%.

In July 2011, Allied Bahamas Insurance Company Limited ("ABI"), a previously wholly owned subsidiary, commenced preparatory steps for the process of voluntary liquidation. As at December 31, 2011, the key legal steps for voluntary liquidation have been executed and ABI is no longer under the control of the Group.

Effective January 1, 2012, the assets and liabilities of General Brokers & Agents Insurance Limited ("GBA") were combined with NUA. NUA is now the operating company.

In December 2012, Moseley Burnside Insurance Agency Limited ("MBI") commenced preparatory steps for the process of voluntary liquidation.

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

### 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 effective for annual reporting periods beginning on or after January 1, 2012.

#### a. Standards and Interpretations early adopted

IAS 1 (Amended) Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012)

The Company has applied the amendments to IAS 1, which requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and the related notes are not required to accompany the third statement of financial position.

#### b. Standards and Interpretations effective but not affecting the reported results or financial position

IFRS 1 (Amended) Severe Hyperinflation and Removal of Fixed Dates  
IFRS 7 (Amended) Financial Instruments: Disclosures - Transfers of Financial Assets  
IAS 12 (Amended) Deferred Tax-Recovery of Underlying Assets

#### c. Standards and Interpretations in issue but not yet effective

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 1 (Amended) Presentation of Items of Other Comprehensive Income  
IAS 16 (Amended) Property, Plant and Equipment  
IAS 19 (Revised 2011) Employee Benefits  
IAS 27 (Revised 2011) Separate Financial Statements  
IAS 28 (Revised 2011) Investments in Associates and Joint Ventures  
IAS 32 (Amended) Classification of Rights Issue  
IAS 34 (Amended) Interim Financial Reporting  
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The preparation of consolidated 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 consolidated 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 consolidated 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 the previous years.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

- b. **Basis of consolidation** - Subsidiaries are those enterprises controlled by BFH. Control exists when the Company has the power, directly or indirectly, to govern financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Company shares held by a subsidiary are classified as Treasury shares and are included in the consolidated statement of changes in equity at a value determined by management, based on the most recent transaction between unrelated parties, as these shares do not have a quoted market price. No gain or loss will be recognized in the profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Consideration paid or received will be recognized directly in equity.

- c. **Business combinations** - Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the consideration transferred (measured at acquisition date fair value), and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition cost incurred is expensed.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination. Changes in the Company's ownership in a subsidiary that do not result in a loss of control are accounted for as equity transactions, and are recognized in contributed surplus in the consolidated statement of changes in equity.

- d. **Investment in associates** - An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results, and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially carried at cost and the carrying amount is increased or decreased to recognise the Company's share of the profit or loss of the associate after the date of acquisition. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Company's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Company's share of those changes is recognized in other comprehensive income of the Company.

After application of the equity method, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Losses of associates in excess of the Group's interest in those associates are not recognized. Where a company within the Group transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

- e. **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.





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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 Group has the intent and ability to hold them to maturity.

Trade accounts receivable, sundry receivables and receivable from insurers 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 share 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 consolidated statement of financial position date. Investment in fixed income debt securities and mutual funds are classified as available-for-sale and are carried at fair value. Gains and losses arising from changes in fair value of available-for-sale investments are recognized through the consolidated statement of 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 Group recognizes/derecognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Group 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 consolidated statement of comprehensive income.

Investments held-to-maturity are recognized/derecognized on the day they are transferred to/by the Group. 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 consolidated statement of comprehensive income when it is derecognized or impaired, as well as through the amortization process.

- f. **Trade accounts receivable** - Trade accounts receivable is stated at cost less provision for bad debts. The provision for bad debts is based on management's evaluation of the accounts receivable portfolio.
- g. **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 consolidated statement of comprehensive income as an expense as incurred.

Depreciation is charged to the consolidated 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
Computer software	3 - 7 years



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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.

h. **Intangible assets and goodwill** - On acquisition of an investment in an associate/subsidiary any goodwill arising (i.e. the excess of the cost of the investment over the investor's share of the net fair value of the identifiable assets, liabilities and contingent liabilities) is accounted for as follows:

- (i) goodwill is included in the carrying amount of the investment for associate and is neither amortized nor individually tested for impairment. For subsidiaries, it is included as goodwill in the consolidated statement of financial position, and is tested for impairment at least annually.
- (ii) other intangible assets identified on acquisition of a subsidiary are recognized only if future economic benefits attributable to the asset will flow to the Group, and if the fair value of the asset can be measured reliably. In addition, for purposes of recognition, the intangible asset must be separable from the business being acquired or must arise from contractual or legal rights. On acquisition, the useful life of the asset is estimated and determined to be either finite or indefinite.
- (iii) any excess of the investor's share of the fair value of the net assets over the cost of the investment is included in the consolidated statement of comprehensive income in the period in which the investment is acquired.

After initial recognition, an intangible asset with a finite useful life is amortized using the straight-line method over the estimated useful life, and is included in general and administrative expenses in the consolidated statement of comprehensive income. An intangible asset with an indefinite useful life is not amortized, but tested for impairment at least annually. 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.

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 consolidated statement of comprehensive income.

i. **Impairment** - The carrying amounts of the Group's assets, including goodwill and intangible assets are reviewed at each consolidated 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 consolidated 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.

j. **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 Group 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 Group are as follows:



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

**Health and Group Life insurance contracts:** Health and Group Life contracts are one year renewable contracts. Health insurance contracts cover insureds for medical expenses incurred. Group Life insurance contracts protect the Group's customers from the consequences of events (such as death or disability). Guaranteed benefits paid on occurrence of the specified insurance event are fixed.

**Reinsurance contracts** - Contracts with reinsurers under which the Group 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.

The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term recoverables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense over the period of the contract.

The Company assesses its reinsurance assets for impairment on an ongoing basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the consolidated statement of comprehensive income.

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

- k. **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 consolidated 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 consolidated statement of comprehensive income.

l. **Policy acquisition 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 consolidated 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.



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**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-group insurers, calculated based on past underwriting results, are received from other insurance companies for whom Group agents may act and from the Group's reinsurers. The agency profit commissions are recorded in the year in which Group agents receive notification of the commission and reinsurance profit and override commissions are recorded on an accruals basis.

- m. **Dividend and interest income** - Dividend income is recorded when the dividend is declared. Interest income is accounted for on an accrual basis.
- n. **Cash and cash equivalents** - Cash and cash equivalents consist of cash on hand and deposits with banks maturing within ninety days from the date of acquisition.
- o. **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 consolidated 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 included in sundry receivables and prepayments in the consolidated statement of financial position. Capitalized fees are amortized over the period of the facility to which it relates, and are included in general and administrative expenses in the consolidated statement of comprehensive income.

- p. **Share capital** - Shares are classified as equity when there is no obligation to transfer cash or other assets. Share capital is comprised of common and preference shares. The preference shares are non-voting and redeemable at the option of the Company. 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.
- q. **Foreign currency translation** - The Group's functional and presentation currency is the Bahamian dollar. Assets and liabilities of the foreign subsidiary are translated from its functional currency into Bahamian dollars at the exchange rate in effect at the consolidated statement of financial position date for monetary assets and liabilities, and at historical rate in effect for non-monetary assets and liabilities. With the exception of amortization expense, revenues and expenses are translated at the rate at transaction date, which is approximated by the weighted average rate prevailing during the year. Amortization expense is translated at the same historic rate as the related asset. Adjustments resulting from the translation of the statement of financial position of the foreign operation are included in other comprehensive income (loss) in the consolidated statement of comprehensive income.
- r. **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.

- s. **Pension benefits** - The Group's employees participate in a defined contribution plan. Under the plan, the Group contributes a fixed percentage of annual salary that is expensed in the year. Once the contributions have been made, the Group has no further obligations. The expensed amount is included in salaries, benefits and bonuses in the consolidated statement of comprehensive income.



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- t. **Share-based payments** - The Company has a share option plan for executives and on occasion a share subscription offer for non management employees. When the options are exercised the Company issues new shares and the proceeds received are credited to common shares and contributed surplus in the consolidated statement of changes in equity.
- u. **Earnings per share** - Earnings per share is computed by dividing the comprehensive income attributable to the common shareholders by the weighted average number of common shares outstanding during the year. The weighted average number of common shares outstanding during the year is the number of common shares outstanding at the beginning of the period, adjusted by the number of common shares repurchased or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the year. There is no material difference between basic earnings per share and fully diluted earnings per share.
- v. **Leases** - Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All of the Group's leases are operating leases. Payments made under operating leases are recognized as an expense on a straight line basis over the term of the lease.
- w. **Taxation** - Subsidiaries of the Group operating in The Bahamas are subject to tax on taxable gross premium income at the flat rate of 3% (2011: 3%). There are no other taxes on corporate income or capital gains levied on the Group in any of the jurisdictions in which the Company operates.
- x. **Segment reporting** - In identifying its operating segments, management generally follows the Group's business operating activities by geographic location (Bahamas & Cayman). The Bahamas' segment includes general insurance only and Cayman's segment includes both general insurance and health and group life. General insurance comprises fire, motor, marine, engineering and general accident. The health and life insurance segment includes group life and medical insurance.
- y. **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 Group 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 Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group 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 Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and 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 Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Group will ultimately pay to settle such claims.

The provision for unpaid claims is necessarily based on estimates due to the fact that ultimate disposition of claims incurred prior to the date of the statement of financial position, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include, inter alia, jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, changes in medical costs and the cost of automobile and property repair materials and labour rates.



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Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. Management estimates and judgments are based on the Company's claims experience, relevant circumstances and/or advice from legal counsel.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within one to three months after the claims event. Health claims are normally reported within three months of the event and are usually settled within days of being reported.

Information for long-tail claims such as casualty claims for bodily injury, general third party liability, employers' liability, workmen's compensation and long term disability may not be readily available. The provision for the long-tail claims is continually evaluated by management and is based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Group does not establish provisions for catastrophes (such as natural disasters) in advance of the occurrence of such events. These events can cause significant volatility in the Group's level of incurred losses and the provision for unpaid claims.

The impact of critical accounting estimates and judgments on the ultimate liability arising from claims made under insurance contracts is partially mitigated through relief arising from reinsurance contracts held.

The carrying value at the consolidated statement of financial position date of gross claims reported and loss adjustment expenses and claims incurred but not reported was \$40,448,568 (2011: \$43,618,032). The amount of reinsurance recoveries estimated at the consolidated statement of financial position date is \$23,543,113 (2011: \$27,374,217).

Refer to Note 11 for further information on the provision for unpaid claims.

### ii. Impairment of goodwill and intangible assets

Determining whether goodwill or intangible assets are impaired requires an estimation of the value in use or fair value less costs to sell of the cash-generating unit or group of units to which the value has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit(s) and a suitable discount rate in order to calculate present value, both of which are material sources of uncertainty.

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash generating unit(s) between knowledgeable willing parties, less the costs of disposal. The carrying value at the consolidated statement of financial position date for intangible assets and goodwill was \$11,964,539 (2011: \$11,378,112).

### iii. Provision for bad debts

As described in Note 3f, 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 (1) amounts receivable from insurance agents that have signed agency agreements with the Group insurers ("insurer trade receivables"); (2) clients of the Group's agency subsidiaries ("policyholders' receivables"); and (3) amounts receivable from reinsurers based on the benefits the Group is entitled to under its reinsurance contracts held ("reinsurers' receivables").

Provisions are recorded for policyholders' receivables as follows:

Over 6 months	10% provision
Over 9 months	20% provision
Over 1 year	100% provision

The carrying value at the consolidated statement of financial position date for trade accounts receivable, net was \$26,103,831 (2011: \$26,980,097).

### iv. Provision for litigation

As disclosed in Note 12, the Grand Court of the Cayman Islands (the "Court") issued a ruling on March 14, 2011 against CFI in relation to the undertaking as to damages pursuant to the Mareva Injunction. CFI subsequently, on October 14,





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2011, reached a settlement agreement with the various third parties for a lower settlement sum. The agreed amounts have been paid in full.

In the same judgment, the Court issued a ruling in favour of CFI in relation to the counterclaims related to abuse of process, and no damages were awarded to the third parties. Subsequent to the ruling, one of the third parties filed notice of appeal on March 28, 2011. The Court of Appeal heard the matter in November 2011 and issued its ruling on April 5, 2012 dismissing the appeal against the Court's ruling. Following the Court of Appeal ruling, the third party appealed further to the Privy Council. The Privy Council heard the matter in January 2013, but is yet to issue its ruling.

On December 9, 2011, the Court issued a ruling on the issue of costs relating to both the counterclaims related to abuse of process and the Mareva Injunction undertaking. The Court ordered that CFI must pay 85% of the costs and disbursements of the consolidated trial to the third parties awarded damages under the Mareva Injunction undertaking, on the standard basis, whilst all of the third parties, jointly and severally, must pay 15% of the costs and disbursements of CFI, on a standard basis. CFI has subsequently, on January 30, 2013, reached a settlement agreement with the various third parties and the agreed amounts have been paid in full.

Refer to Note 12 for further information related to this provision.

### v. **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.

### vi. **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 Group 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 consolidated 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 7 for further information on the fair value of financial assets and liabilities.



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### 5. RISK MANAGEMENT

As an insurance company, the Group 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 Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management structure. The Group 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 Group's Internal Audit Department reviews the risk management policies and processes and reports their findings directly to the Audit Committee. The Audit Committee oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks that face the Group. The committees report regularly to the Board of Directors on their activities.

The Group has exposures to risks that may develop in each class of business within each operating segment and could have a material impact upon the Group'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 Group insures the risks of entities within The Bahamas and the Cayman Islands. There is a concentration of insurance risk in those territories.

Below is a discussion of insurance risks specific to the lines of coverage provided by the operating segments within the Group.

#### 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 Group'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 Group 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 Group 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 Group 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 Group's capital and reserves in the event of a series of claims arising out of a single occurrence.

The Group is exposed to contractual disputes with its reinsurers and the possibility of default by its insurers. The Group is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance constraints. The Group's strategy is to select reinsurers with the best combination of financial strength, price and capacity. In the event that the Group's reinsurers were unable to meet their obligations under the reinsurance programs in place, the Group 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.



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### Health and group life insurance risks

The most significant factors that could increase the overall frequency of claims relating to health and group life insurance contracts are epidemics or widespread changes in lifestyle, resulting in earlier or more claims than expected. The reinsurance program used by the Group is reviewed and approved by the Technical Review and Risk Compliance Committee on an annual basis.

### FINANCIAL RISK

The Group is exposed to financial risk through its financial assets and liabilities. The components of financial risk that have an impact on the Group 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 Group is exposed to interest rate risk, foreign currency risk and price risk. Financial risk is a significant risk for the Group'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 Group and regulatory policies and guidelines.

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

	2012	2011 (restated)
<b>Financial assets:</b>		
Cash and term deposits	\$ 17,482,775	\$ 15,836,830
Investments:		
Held-to-maturity	4,459,000	4,459,000
At fair value through profit and loss	12,066,697	12,836,557
Available-for-sale	23,452,046	20,496,126
Loans and receivables:		
Trade accounts receivable, net	26,103,831	26,980,097
Other receivables*	1,927,660	1,854,806
<b>Total financial assets</b>	<b>85,492,009</b>	<b>82,463,416</b>
Non-financial assets	90,245,584	93,342,471
<b>Total assets</b>	<b>\$ 175,737,593</b>	<b>\$ 175,805,887</b>
<b>Financial liabilities:</b>		
Payables at amortized cost:		
Trade accounts payable, accrued expenses and other liabilities	\$ 4,261,236	\$ 7,064,702
Bond and loan payables	19,998,277	20,471,250
<b>Total financial liabilities</b>	<b>24,259,513</b>	<b>27,535,952</b>
Non-financial liabilities	104,244,184	104,325,731
<b>Total liabilities</b>	<b>\$ 128,503,697</b>	<b>\$ 131,861,683</b>

\* excludes prepaid expenses of \$954,399 (2011: \$866,710)



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

### 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 Group is exposed to credit risk are in the investment portfolios, reinsurance receivables, premiums receivable, and other receivables.

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

The Group is exposed to credit risk with respect to the amounts recoverable from its reinsurers. The Group'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 Group's exposure to significant losses from reinsurer insolvency.

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

	2012	2011
Held-to-maturity:		
Bahamas Government Registered Stocks	\$ 4,459,000	\$ 4,459,000
Available-for-sale securities:		
Fixed income debt securities	18,799,248	16,055,853
Mutual funds	1,652,798	1,440,273
Preference shares	3,000,000	3,000,000
Loans and receivables:		
Trade accounts receivable	27,535,539	28,942,871
Other receivables	1,927,660	1,854,806
Cash and term deposits	17,482,775	15,836,830
<b>Total</b>	<b>\$ 74,857,020</b>	<b>\$ 71,589,633</b>

Fixed income debt securities are analyzed in the table below using Standard & Poor's ("S&P") ratings (or an equivalent rating when not available from S&P).

	2012	2011
AAA	\$ 532,815	\$ 541,830
AA	4,178,429	3,707,892
A	9,527,305	7,355,175
BBB	7,159,699	7,049,956
Not rated	1,860,000	1,860,000
<b>Total debt securities</b>	<b>\$ 23,258,248</b>	<b>\$ 20,514,853</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

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:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
<b>At December 31, 2012</b>				
Held-to-maturity debt securities	\$ 4,459,000	\$ -	\$ -	\$ 4,459,000
Available-for-sale debt securities	23,452,046	-	-	23,452,046
Loans and receivables:				
Trade accounts receivable	17,293,834	8,809,997	1,431,708	27,535,539
Other receivables	1,877,660	50,000	-	1,927,660
Cash and term deposits	17,482,775	-	-	17,482,775
<b>Total assets exposed to credit risk</b>	<b>\$ 64,565,315</b>	<b>\$ 8,859,997</b>	<b>\$ 1,431,708</b>	<b>\$ 74,857,020</b>

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
<b>At December 31, 2011</b>				
Held-to-maturity debt securities	\$ 4,459,000	\$ -	\$ -	\$ 4,459,000
Available-for-sale debt securities	20,496,126	-	-	20,496,126
Loans and receivables:				
Trade accounts receivable	18,429,791	8,550,306	1,962,774	28,942,871
Other receivables	1,818,110	36,696	-	1,854,806
Cash and term deposits	15,836,830	-	-	15,836,830
<b>Total assets exposed to credit risk</b>	<b>\$ 61,039,857</b>	<b>\$ 8,587,002</b>	<b>\$ 1,962,774</b>	<b>\$ 71,589,633</b>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above. The Group 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 financial instruments, which the Group intends to hold for the long term.

The Group's investment in fixed income debt securities, money market fund, cash and cash equivalents, and its loan and bonds payables are all subject to interest rate risk. Fluctuations in interest rates impact the level of gains and losses on the Group's interest bearing financial instruments. The coupon rates associated with the fixed income debt securities held by the Group range from 2.60% to 8.50% (2011: 3.25% to 7.00%).



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

The underlying debt securities of the money market fund may be affected by changes in interest rates. The Group's loan payable is at a rate of 1.50% above U.S. prime rate (effective rate: 4.75%). Interest on the Series I and II bonds payable are at B\$ prime rate plus 1.75% and 2.00%, respectively (effective rate 6.50% and 6.75%, respectively).

The Group'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.

The average interest yields of investments held during the year are as follows:

Debt securities	6.2% (2011: 5.2%)
Cash, term deposits and money market funds	1.2% (2011: 1.6%)

### FOREIGN CURRENCY RISK

Foreign currency risk relates to the Group operating in different currencies and converting non-Bahamian earnings at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Group is not directly exposed to foreign currency risk, as investments are denominated in Bahamian dollars and US dollars. The Group's investments in The Bahamas are denominated in Bahamian dollars, which is fixed to the US dollar at the following rate: B\$1 = US\$1. CFI has investments denominated in US dollars. The Cayman Island dollar is fixed to the US\$ at the following rate: CI\$1 = US\$1.20, at the date of the consolidated statement of financial position. The Group is indirectly exposed to foreign currency risk, where it holds investments in mutual funds. The underlying investments of the mutual funds could be denominated in foreign currencies, resulting in exposure to fluctuations in foreign exchange rates.

### PRICE RISK

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

### LIQUIDITY RISK

Liquidity risk is the risk that the Group 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 Group is exposed to liquidity risk associated with the timing differences between cash flows and expected reinsurance recoveries to meet its insurance liability obligation. Most of the Group'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 Group may not be able to quickly liquidate its investments at an amount close to their fair value in order to meet liquidity requirements. The Group 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, 2012 and 2011:

2012 Financial liabilities	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
Accrued expenses and other liabilities	\$ 1,905,100	\$ 1,864,947	\$ 40,153	\$ -
Bonds payable	15,248,438	248,438	-	15,000,000
Loan payable	4,749,839	460,593	2,080,138	2,209,108
Trade accounts payable	2,356,136	2,356,136	-	-
<b>Total undiscounted cash flows</b>	<b>\$ 24,259,513</b>	<b>\$ 4,930,114</b>	<b>\$ 2,120,291</b>	<b>\$ 17,209,108</b>





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

2011 Financial liabilities	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
Accrued expenses and other liabilities	\$ 2,248,382	\$ 2,208,670	\$ 39,712	\$ -
Bonds payable	15,248,438	248,438	-	15,000,000
Loan payable	5,222,812	438,333	2,540,885	2,243,594
Trade accounts payable	4,816,320	4,816,320	-	-
<b>Total undiscounted cash flows</b>	<b>\$ 27,535,952</b>	<b>\$ 7,711,761</b>	<b>\$ 2,580,597</b>	<b>\$ 17,243,594</b>

### SENSITIVITY ANALYSIS

The Group 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 Group'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 Group'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 rates - cash and cash equivalents	The impact of a change in market interest rates by 1%
Underwriting expenses	The impact of a change in underwriting expenses by 5%
Loss ratio	The impact of a change in loss ratio by 5%

December 31, 2012	Interest rates		Underwriting expenses		Loss ratio	
In \$	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	166,598	(166,598)	(1673,327)	1,673,327	(3,032,063)	3,032,063
Impact on equity	576,455	(576,455)	(1673,327)	1,673,327	(3,032,063)	3,032,063

December 31, 2011 (restated)	Interest rates		Underwriting expenses		Loss ratio	
In \$	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	164,563	(164,563)	(1,687,811)	1,687,811	(3,076,531)	3,076,531
Impact on equity	661,826	(661,826)	(1,687,811)	1,687,811	(3,076,531)	3,076,531



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

Price risk arises primarily from changes in the value of equity investments that may be bought and sold. The Group is sensitive to price risk on its fair value through profit or loss and available-for-sale equity securities. These securities are managed according to the benchmarks as specified in the Group's statement of investment policy and guidelines. The effect of a 10% increase (2011: 10%) and a 10% decrease (2011: 10%) in equity prices at the date of the statement of financial position are set out below:

		Effect on profit and equity +10%	Effect on profit and equity -10%
<b>At December 31, 2012</b>	<b>Carrying Value</b>		
Listed on stock exchanges / markets	\$ 12,066,697	\$ 1,206,670	\$ (1,206,670)
Listed / unlisted mutual funds	1,652,798	165,280	(165,280)
<b>Total</b>	<b>\$ 13,719,495</b>	<b>\$ 1,371,950</b>	<b>\$ (1,371,950)</b>
<b>At December 31, 2011</b>			
Listed on stock exchanges / markets	\$ 12,836,557	\$ 1,283,656	\$ (1,283,656)
Listed / unlisted mutual funds	1,440,273	144,027	(144,027)
<b>Total</b>	<b>\$ 14,276,830</b>	<b>\$ 1,427,683</b>	<b>\$ (1,427,683)</b>

### CAPITAL MANAGEMENT

The Group's objectives when managing Capital are:

- To safeguard the Group'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 the regulatory capital requirements in the jurisdictions in which the Group operates.

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

### 6. TERM DEPOSITS AND BANK OVERDRAFT

Term deposits are denominated in Bahamian and United States dollars with an average interest rate of 1.42% (2011: 3.17%) per annum at the consolidated statement of financial position date.

	2012	2011
Term deposits maturing within ninety days	\$ 3,505,283	\$ 39,712
Term deposits maturing after ninety days	3,336,195	4,182,791
<b>Total</b>	<b>\$ 6,841,478</b>	<b>\$ 4,222,503</b>

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

### 7. INVESTMENTS

	2012	2011
Held-to-maturity:		
Bahamas Government Registered Stocks - at amortized cost		
Unrestricted	\$ 3,459,000	\$ 3,459,000
Restricted	1,000,000	1,000,000
Total held-to-maturity	4,459,000	4,459,000
At fair value through profit or loss:		
Bahamas International Securities Exchange Limited (BISX)		
12 (2011: 12) common shares - at cost \$130,556		
(2011: \$130,556) less impairment	5,557	5,557
Commonwealth Bank Limited		
1,833,000 (2011: 1,833,000) common shares		
Cost \$2,268,564 (2011: \$2,268,564)	12,061,140	12,831,000
Total at fair value through profit or loss	12,066,697	12,836,557
Available-for-sale:		
Fixed income debt securities, at fair value		
amortised cost \$18,042,314 (2011: \$15,780,370)	18,799,248	16,055,853
Mutual funds, at fair value		
cost less impairment \$1,516,772 (2011: \$1,371,484)	1,652,798	1,440,273
Preference shares	3,000,000	3,000,000
Total available-for-sale	23,452,046	20,496,126
Total investments	\$ 39,977,743	\$ 37,791,683

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 (2011: 4.77% to 4.94%) and scheduled maturities between 2015 and 2030 (2011: 2015 and 2030) at the date of the consolidated statement of financial position. The investments are carried at amortized cost as the Group 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 Group 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 Group.

The investment in Commonwealth Bank Limited (the "Bank") was valued at \$6.58 (2011: \$7.00) per share, which is the listed price at the date of the consolidated statement of financial position on the Bahamas International Stock Exchange ("BISX"). As a result, the Group recorded an unrealized loss of \$769,860.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

The amortized cost and fair value of available-for-sale fixed income debt securities held at December 31, 2012 by contractual maturities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to repay obligations early without repayment penalties. Interest rates range from 2.60% to 8.50% (2011: 3.25% to 7.00%) per annum at the date of the consolidated statement of financial position.

	2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:				
Due in less than 1 year	\$ 1,989,898	\$ 2,012,862	\$ 2,003,958	\$ 2,030,951
Due from 1 through 5 years	9,359,560	9,774,834	8,854,314	9,005,762
Due after 5 years	6,692,856	7,011,552	4,922,098	5,019,140
<b>Total</b>	<b>\$ 18,042,314</b>	<b>\$ 18,799,248</b>	<b>\$ 15,780,370</b>	<b>\$ 16,055,853</b>

The Group's available-for-sale fixed income debt securities are comprised of the following:

	2012	2011
Government debt securities	\$ 14,309,207	\$ 10,992,812
Corporate debt securities	4,470,041	5,043,041
Other debt securities	20,000	20,000
<b>Total</b>	<b>\$ 18,799,248</b>	<b>\$ 16,055,853</b>

The geographical locations of the Group's portfolio of investments are as follows:

	2012	%	2011	%
Bahamas	\$ 22,910,485	56%	\$ 23,457,616	62%
USA	11,628,350	29%	11,670,775	31%
Europe	2,791,982	7%	615,405	2%
Australia	1,071,204	3%	505,190	1%
Asia	1,055,222	3%	500,425	1%
Latin America	500,500	2%	523,255	2%
Cayman	20,000	0%	519,017	1%
<b>Total</b>	<b>\$ 39,977,743</b>	<b>100%</b>	<b>\$ 37,791,683</b>	<b>100%</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

Reconciliations of movements in the balance of investments and loans and receivable are provided below:

		Held-to-maturity		Fair value through profit or loss		Available-for-sale		Total
At December 31, 2010	\$	4,459,000	\$	13,886,557	\$	19,712,333	\$	38,057,890
Cost of investments purchased		-		-		3,113,019		3,113,019
Proceeds from sales and maturities		-		(1,028,325)		(2,107,214)		(3,135,539)
Amortization of premiums / discounts on bonds		-		-		(118,353)		(118,353)
Net decrease in fair value of investments		-		-		(204,637)		(204,637)
Realized gains (losses) on sales of investments		-		(21,675)		100,978		79,303
At December 31, 2011	\$	4,459,000	\$	12,836,557	\$	20,496,126	\$	37,791,683
Cost of investments purchased		-		-		4,533,000		4,533,000
Proceeds from sales and maturities		-		-		(2,000,000)		(2,000,000)
Amortization of premiums / discounts on bonds		-		-		(124,956)		(124,956)
Net change in fair value of investments		-		(769,860)		547,876		(221,984)
At December 31, 2012	\$	4,459,000	\$	12,066,697	\$	23,452,046	\$	39,977,743

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) require 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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

The following table presents the Group's financial assets measured at fair value at December 31, 2012, by the level in the fair value hierarchy into which the fair value measurement is categorized:

2012	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss:				
Equity securities	\$ 12,066,697	\$ -	\$ -	\$ 12,066,697
<b>Total</b>	<b>12,066,697</b>	<b>-</b>	<b>-</b>	<b>12,066,697</b>
Available-for-sale financial assets:				
Fixed income debt securities	-	18,779,248	20,000	18,799,248
Mutual funds	-	1,544,788	108,010	1,652,798
Preference shares	-	3,000,000	-	3,000,000
<b>Total</b>	<b>-</b>	<b>23,324,036</b>	<b>128,010</b>	<b>23,452,046</b>
<b>Total assets measured at fair value</b>	<b>\$ 12,066,697</b>	<b>\$ 23,324,036</b>	<b>\$ 128,010</b>	<b>\$ 35,518,743</b>

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

The following table presents the Group'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	\$ 12,836,557	\$ -	\$ -	\$ 12,836,557
<b>Total</b>	<b>12,836,557</b>	<b>-</b>	<b>-</b>	<b>12,836,557</b>
Available-for-sale financial assets:				
Fixed income debt securities	-	16,035,853	20,000	16,055,853
Mutual funds	-	1,322,059	118,214	1,440,273
Preference shares	-	3,000,000	-	3,000,000
<b>Total</b>	<b>-</b>	<b>20,357,912</b>	<b>138,214</b>	<b>20,496,126</b>
<b>Total assets measured at fair value</b>	<b>\$ 12,836,557</b>	<b>\$ 20,357,912</b>	<b>\$ 138,214</b>	<b>\$ 33,332,683</b>

There were no transfers between the various levels during 2011.

The following table presents the changes in Level 3 instruments during the year:

	2012	2011
Balance at January 1	\$ 138,214	\$ 137,402
(Decrease) increase in fair value	(10,204)	812
<b>Balance at December 31</b>	<b>\$ 128,010</b>	<b>\$ 138,214</b>





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

### 8. INVESTMENT IN ASSOCIATE

The Company holds a 20% (2011: 20%) equity interest in Star General Agency (Grand Bahama) Limited ("Star General").

	2012		2011	
Balance at January 1	\$	372,880	\$	305,769
Share of net earnings for the year		90,910		67,111
<b>Balance at December 31</b>	<b>\$</b>	<b>463,790</b>	<b>\$</b>	<b>372,880</b>
Share of associates unaudited statement of financial position:				
Total assets	\$	919,404	\$	1,207,868
Total liabilities		(563,614)		(942,988)
Net assets		355,790		264,880
Goodwill		108,000		108,000
<b>Carrying value of investment in associate</b>	<b>\$</b>	<b>463,790</b>	<b>\$</b>	<b>372,880</b>
Share of associate's unaudited statement of comprehensive income:				
<b>Revenues</b>	<b>\$</b>	<b>447,050</b>	<b>\$</b>	<b>668,247</b>
<b>Net income</b>	<b>\$</b>	<b>90,910</b>	<b>\$</b>	<b>67,111</b>

Investment in associate includes \$108,000 (2011: \$108,000) in goodwill. At December 31, 2012 the recoverable amount exceeded the carrying amount of the investment in associate, accordingly no provision for impairment was considered necessary.

### 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 Group insurers ("insurer trade receivables"),
- clients of the Group's agency subsidiaries ("policyholders' receivables"), and
- amounts receivable from reinsurers based on the benefits the Group is entitled to under its reinsurance contracts held ("reinsurers' receivables").

	2012		2011	
Insurer trade receivables	\$	15,348,620	\$	17,370,267
Policyholders' receivables		11,458,318		10,846,986
Reinsurers' receivables		728,601		725,618
		27,535,539		28,942,871
Provision for bad debts:				
Balance at January 1		1,962,774		1,785,284
(Decrease) increase in provision for the year		(269,329)		297,302
Bad debts written off for the year		(261,737)		(119,812)
Balance at December 31		1,431,708		1,962,774
<b>Trade accounts receivable, net</b>	<b>\$</b>	<b>26,103,831</b>	<b>\$</b>	<b>26,980,097</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

Ageing of trade accounts receivable, net is as follows:

	2012		2011	
Less than 3 months	\$	17,293,834	\$	18,429,791
3-6 months		5,561,688		5,073,311
6 months - 1 Year		2,640,798		2,792,174
Over 1 Year		607,511		684,821
	\$	<b>26,103,831</b>	\$	<b>26,980,097</b>

### 10. DEFERRED/UNEARNED PREMIUMS AND COMMISSION COSTS

	Insurance Assets			Insurance Liabilities			Net
	Deferred Reinsurance Premiums	Deferred Commission Costs	Deferred Reinsurance Cost	Unearned Premiums	Unearned Commission Income		
Balance at January 1, 2011 as previously reported	\$ 38,070,944	\$ 5,433,185	\$ 2,703,865	\$ (53,895,111)	\$ (8,979,515)	\$	(16,666,632)
Adjustment for Change in Accounting Policy (Note 27)	-	-	(2,703,865)	-	-		(2,703,865)
Balance at January 1, 2011 (restated)	38,070,944	5,433,185	-	(53,895,111)	(8,979,515)		(19,370,497)
Movement during the year	\$ (1864,784)	\$ (216,104)	\$ -	\$ 2,278,917	\$ 783,299	\$	981,328
Balance at December 31, 2011 (restated)	36,206,160	5,217,081	-	(51,616,194)	(8,196,216)		(18,389,169)
Portfolio transfer	463,878	-	-	-	-		463,878
Movement during the year	\$ 1,047,890	\$ (545,574)	\$ -	\$ (2,113,324)	\$ (409,757)	\$	(2,020,765)
Balance at December 31, 2012	37,717,928	4,671,507	-	(53,729,518)	(8,605,973)		(19,946,056)

### 11. UNPAID CLAIMS AND CLAIMS INCURRED

	Gross	Reinsurance	Net
Unpaid claims at December 31, 2010	\$ 34,025,371	\$ (17,022,413)	\$ 17,002,958
Claims incurred	80,434,957	(48,827,867)	31,607,090
Claims paid	(70,842,296)	38,476,063	(32,366,233)
Unpaid claims at December 31, 2011	\$ 43,618,032	\$ (27,374,217)	\$ 16,243,815
Portfolio transfer	-	(84,467)	(84,467)
Claims incurred	45,774,268	(19,955,965)	25,818,303
Claims paid	(48,943,732)	23,871,536	(25,072,196)
Unpaid claims at December 31, 2012	\$ 40,448,568	\$ (23,543,113)	\$ 16,905,455



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

P&C	2008	2009	2010	2011	2012	Total
Gross claims incurred at end of reporting year	\$ 17,093,172	\$ 15,057,157	\$ 19,565,254	\$ 56,295,718	\$ 28,308,564	
One year later	19,349,635	18,481,176	22,956,965	60,976,920		
Two years later	19,368,689	20,971,212	21,469,136			
Three years later	18,837,350	18,427,189				
Four years later	18,230,333					
Total incurred to date	18,230,333	18,427,189	21,469,136	60,976,920	28,308,564	
Cumulative payments to date	(16,904,544)	(16,318,327)	(17,680,254)	(56,560,634)	(15,592,389)	
Liability included in the consolidated statement of financial position	1,325,789	2,108,862	3,788,882	4,416,286	12,716,175	\$ 24,355,994
Reserves for prior years						13,632,574
<b>Total unpaid claims for P&amp;C business including amount recoverable from reinsurer</b>					\$	<b>37,988,568</b>

H&L	2008	2009	2010	2011	2012	Total
Gross claims incurred at end of reporting year	\$ -	\$ 16,987	\$ 18,006,813	\$ 18,860,377	\$ 16,193,273	\$ 53,077,450
One year later		16,987	18,363,287	18,390,587		
Total incurred to date	-	16,987	18,363,287	18,390,587	16,193,273	52,964,134
Cumulative payments to date	-	(16,987)	(18,363,287)	(18,390,587)	(13,913,273)	(50,684,134)
Liability included in the consolidated statement of financial position	-	-	-	-	2,280,000	2,280,000
Reserves for prior years						180,000
<b>Total unpaid claims for H&amp;L business including amount recoverable from reinsurer</b>					\$	<b>2,460,000</b>
<b>Total unpaid claims including amount recoverable from reinsurer in the consolidated statement of financial position</b>					\$	<b>40,448,568</b>

### 12. PROVISION FOR LITIGATION & PROVISION FOR LITIGATION RECOVERABLE

#### Hurricane Ivan claims

Effective November 30, 2005, Cayman National Corporation ("CNC") sold a controlling 51% stake in CFI to Sagicor Life of the Cayman Islands Limited ("SLCI"). On October 22, 2007, SLCI purchased an additional 24.24% interest in CFI from CNC. Under the terms of the initial Sales Agreement, CNC provided certain warranties to SLCI, including claims in relation to Hurricane Ivan claims not finally settled at the date of the agreement.

In February 2006, CFI filed suit against certain third parties to recover sums paid for work done in respect of Hurricane Ivan, specifically the "Windsor Village litigation". The understanding of the shareholders (SLCI and CNC) based on discussions held, was that CNC would be entitled to retain any benefits realized from the Windsor Village litigation, and be responsible for all liabilities that might arise therefrom. CFI and SLCI's position was also that CNC was responsible for the conduct of the litigation.



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In December 2008, CFI withdrew its claims against the third parties, and the third parties lodged counterclaims related to abuse of process against CFI. Additionally, having discharged an injunction ("the Mareva Injunction") obtained in the course of the initial litigation, CFI became liable under an undertaking as to damages to compensate the third parties for any loss caused by the injunction.

As noted in note 1, on June 17, 2010, SLCI executed a Share Purchase Agreement ("SPA") for the sale of its 75.24% holding in CFI to BFHIL, with an effective date of January 1, 2010. Based on the terms of the SPA, SLCI agreed to indemnify BFHIL in relation to 75.24% of all costs, claims and demands directly arising out of or in connection with the Windsor Village litigation and certain other specified potential liabilities. SLCI exposure in relation to the above liabilities is unlimited. Additionally, Sagicor Life Jamaica Limited ("SLJ" -SLCI's parent company) has guaranteed the performance of SLCI's obligations (including in relation to the Windsor Village litigation) as stipulated in the SPA or any other agreement entered into in connection with the acquisition to the extent of US\$10,000,000. To secure SLCI's obligation under the SPA, US\$10,000,000 was placed into an escrow account pursuant to the terms of an Escrow Agreement dated May 6, 2010 among SLJ, BFHI and Cayman National Trust Co. Ltd. ("Escrow Agent").

On March 14, 2011, the Court issued a judgment ruling in favour of CFI in relation to the counterclaims related to abuse of process, and no damages were awarded to the third parties.

Subsequent to the ruling, one of the third parties filed notice of appeal on March 28, 2011 in relation to the counterclaims related to abuse of process. The Court of Appeal heard the matter in November 2011 and issued its ruling on April 5, 2012 dismissing the appeal against the Court's ruling with regard to the abuse of process claims, and awarding costs in favour of CFI. Following the Court of Appeal ruling, the third party appealed further to the Privy Council. The Privy Council heard the matter in January 2013, but is yet to issue its ruling.

Management's view, supported by legal advice, is that the appeal to the Privy Council is likely to be unsuccessful as the initial judgment, which was upheld by the Court of Appeal, was clear and in accordance with decided authorities relating to claims for abuse of process and malicious prosecution.

In the March 14, 2011 judgment, in relation to the undertaking as to damages pursuant to the Mareva Injunction, the Court awarded damages to the various third parties totalling \$8,613,677, plus interest. Based on advice from legal counsel, management estimated the interest payable on the damages awarded would be \$1,161,071. Consequently, a provision of \$9,774,748 was recorded in the consolidated statement of financial position at December 31, 2010.

Based on the Escrow Agreement described above, an amount, due from Escrow Agent and litigation recovery totalling \$2,940,680, was recorded in the consolidated statement of financial position at December 31, 2010, and the consolidated statement of comprehensive income for the year ended December 31, 2010, respectively. Following the developments of the Windsor Village litigation noted above, the Escrow Agreement was terminated on May 26, 2011 and the funds were transferred to the respective parties.

An amount of \$1,177,015 was recorded as a recoverable from CNC in the consolidated statement of financial position at December 31, 2010 under the warranties described above related to the Windsor Village litigation and other amounts related to Hurricane Ivan. On April 7, 2011, this amount was received from CNC.

From a review of the judgment and advice obtained from legal counsel, CFI and SLCI were of the view that there are a number of properly arguable grounds for appeal in respect of the Mareva awards. CFI filed notice of appeal on March 28, 2011 and made a payment of \$9,686,897 into Court on May 31, 2011, as it awaited its Court of Appeal date.

Prior to the appeal being heard by the Court of Appeal, CFI and the various third parties agreed upon an out-of-court settlement and entered into a Deed of Settlement and Release Agreement dated October 14, 2011, whereby the final and full settlement for the Mareva awards was agreed at a reduced amount. CFI then withdrew its appeal, recovered the monies previously paid into Court, and settled the agreed amounts.

On December 9, 2011, the Court issued its ruling on the issue of costs relating to both the counterclaims related to abuse of process and the Mareva Injunction undertaking. The Court ordered that CFI must pay 85% of the costs and disbursements of the consolidated trial to the third parties awarded damages under the



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Mareva Injunction undertaking, on the standard basis, whilst all of the third parties, jointly and severally, must pay 15% of the costs and disbursements of CFI, on a standard basis.

Management's view, supported by legal advice, is that the Court has ruled inequitably on the issue, as the majority of time spent and costs incurred related to the abuse of process claims, which CFI was successful in defending. CFI has, therefore, subsequently filed notice of appeal against the ruling. Prior to the appeal being heard by the Court of Appeal, CFI and the various third parties entered into a Deed of Settlement and Release Agreement dated January 30, 2013, whereby the final and full settlement for all claims in the proceedings between CFI and the third parties were agreed upon. CFI has withdrawn its appeal and settled the agreed amount in full.

The provision of \$1,460,125 (2011: \$895,289) in the consolidated statement of financial position at December 31, 2012 represents management's estimate of the net costs payable to the third parties, in accordance with the Deed of Settlement and Release Agreement dated January 30, 2013, plus estimated legal fees to close out the two open litigation matters referred to above.

Based on the terms of the SPA described above, an amount, due from SLCI for litigation recovery totaling \$515,728 was recorded in the consolidated statement of financial position (included in "sundry receivables and prepayments") at December 31, 2012, and the consolidated statement of comprehensive income for the year ended December 31, 2012, respectively.

The movement in the provision for litigation during 2012 for the amounts provided for and recovered with respect to the Windsor Village litigation is a net increase of \$685,545 (2011: net decrease of \$46,344) and is recorded in the consolidated statement of comprehensive income.

### 13. PROPERTY AND EQUIPMENT

2012		Land		Buildings		Furniture and Equipment		Leasehold Improvements and Others		Computer Software		Total
COST/VALUATION:												
At January 1, 2012	\$	2,493,750	\$	7,321,202	\$	2,435,842	\$	1,691,197	\$	3,674,247	\$	17,616,238
Additions		-		-		284,004		11,631		14,857		310,492
Disposals		-		-		(158,703)		-		-		(158,703)
At December 31, 2012	\$	2,493,750	\$	7,321,202	\$	2,561,143	\$	1,702,828	\$	3,689,104	\$	17,768,027
ACCUMULATED DEPRECIATION:												
At January 1, 2012	\$	-	\$	1,209,358	\$	112,256	\$	115,200	\$	2,194,113	\$	5,688,927
Charge for the year		-		209,160		369,985		189,399		507,247		1,275,791
Disposals		-		-		(126,999)		-		-		(126,999)
At December 31, 2012	\$	-	\$	1,418,518	\$	1,372,242	\$	1,345,599	\$	2,701,360	\$	6,837,719
<b>Carrying amount 2012</b>	<b>\$</b>	<b>2,493,750</b>	<b>\$</b>	<b>5,902,684</b>	<b>\$</b>	<b>1,188,901</b>	<b>\$</b>	<b>357,229</b>	<b>\$</b>	<b>987,744</b>	<b>\$</b>	<b>10,930,308</b>



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2011	Land	Buildings	Furniture and Equipment	Leasehold Improvements and Others	Computer Software	Total
COST/VALUATION:						
At January 1, 2011	\$ 3,018,750	\$ 8,067,202	\$ 3,015,748	\$ 1,673,208	\$ 3,626,429	\$ 19,401,337
Additions	-	-	426,338	17,989	47,818	492,145
Disposals	(525,000)	(746,000)	(1,006,244)	-	-	(2,277,244)
At December 31, 2011	\$ 2,493,750	\$ 7,321,202	\$ 2,435,842	\$ 1,691,197	\$ 3,674,247	\$ 17,616,238
ACCUMULATED DEPRECIATION:						
At January 1, 2011	\$ -	\$ 1,071,389	\$ 1,698,375	\$ 869,446	\$ 1,680,329	\$ 5,319,539
Charge for the year	-	217,406	385,245	286,754	513,784	1,403,189
Disposals	-	(79,437)	(954,364)	-	-	(1,033,801)
At December 31, 2011	\$ -	\$ 1,209,358	\$ 1,129,256	\$ 1,156,200	\$ 2,194,113	\$ 5,688,927
<b>Carrying amount 2011</b>	<b>\$ 2,493,750</b>	<b>\$ 6,111,844</b>	<b>\$ 1,306,586</b>	<b>\$ 534,997</b>	<b>\$ 1,480,134</b>	<b>\$ 11,927,311</b>

In August 2011, GBA's property, appraised at \$1,200,000 as at December 30, 2010, was sold for net proceeds of \$1,115,563. Proceeds from the sale were used to liquidate GBA's payable to BFG. Based on the fair value less cost to sell the property, a loss of \$75,999 was recognized on the sale and included in other income, net, in the consolidated statement of comprehensive income.

In December 2010, the land and buildings were revalued to fair market value based on a valuation performed by an independent appraiser for financial statement purposes. The fair value of the land and buildings was estimated to be \$3,018,750 and \$6,996,250, respectively, based on the combined effect of the cost, income and sales comparison approach. The net book value of the land and buildings of the Group, ignoring the effects of previous revaluations, would have been \$2,118,844 and \$4,201,690 (2011: \$2,118,844 and \$4,346,011) respectively.

### 14. BUSINESS COMBINATION

There were no acquisitions during 2012 and 2011. BFHIL, a wholly owned subsidiary acquired a 75.24% interest in CFI on June 17, 2010 with an effective date of January 1, 2010. Purchase consideration for the acquisition was partly funded by a non-revolving 10-year demand loan totaling \$5,398,258 from The Cayman National Bank at a rate of 1.5% above U.S. prime rate (effective rate - 4.75%). As a prerequisite of the facility, CFI entered into a Deed of Guarantee dated June 21, 2010 guaranteeing the payment of the loan, all interest and all other sums payable in respect of the loan facility. Pursuant to a pledge agreement dated June 21, 2010, CFI has provided to Cayman National Bank, security interest over its investments as collateral for the credit facility. Consequently, CFI's investments have been hypothecated to the extent required to collateralize the credit facility issued to BFHIL. The balance of the demand loan as at December 31, 2012 was \$4,749,839 (2011: \$5,222,812).

As per Note 1, in May 2011, the Board of Directors of CFI resolved to raise additional share capital by way of a rights issue to its existing shareholders. In September 2011, CFI offered a rights issue of 1 share for every 2 shares held to all holders of its ordinary voting shares for a total offering of 500,000 additional shares. One minority shareholder took up 125 shares at a cost of \$949. BFHIL acquired 499,875 shares to increase its equity holding from 75.24% to 83.48%. The effect of this 8.24% increase in BFHIL's ownership resulted in an increase of \$45,498 in contributed surplus and a corresponding decrease in non-controlling interest, and is reflected in the consolidated statement of changes in equity.





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### 15. INTANGIBLE ASSETS AND GOODWILL

		Intangible Assets			Total
		Goodwill	Finite Life	Indefinite Life	
<b>Balance at January 1, 2011</b>	\$	<b>7,125,088</b>	\$ <b>1,675,808</b>	\$ <b>2,692,559</b>	\$ <b>11,493,455</b>
Amortization		-	(115,343)	-	(115,343)
<b>Balance at December 31, 2011</b>	\$	<b>7,125,088</b>	\$ <b>1,560,465</b>	\$ <b>2,692,559</b>	\$ <b>11,378,112</b>
Acquisition of Customer Relationships			725,000		725,000
Amortization		-	(138,573)	-	(138,573)
<b>Balance at December 31, 2012</b>	\$	<b>7,125,088</b>	\$ <b>2,146,892</b>	\$ <b>2,692,559</b>	\$ <b>11,964,539</b>

In July 2012, NUA acquired the general insurance portfolio of one of BFG's exclusive agents for a consideration of \$475,000. In August 2012, NUA acquired the general insurance portfolio of one of its exclusive sub-agents for a consideration of \$250,000. Both acquisitions of customer relationships are expected to generate benefits to NUA over a finite period of time, and are therefore amortized using the straight-line method over their estimated useful lives.

Intangible assets, with finite useful lives are amortized using the straight-line method over their estimated useful lives, and is included in general and administrative expenses in the consolidated statement of comprehensive income.

Intangible assets and goodwill acquired through business combinations with indefinite lives have been allocated to two cash-generating units, which are also operating and reportable segments, for impairment testing as follows:

Bahamas' cash-generating unit	\$	7,785,717
Cayman's cash-generating unit		2,031,930
	\$	<b>9,817,647</b>

The Group performed its annual impairment test as at December 31, 2012. The recoverable amounts of both the Bahamas' and Cayman's cash-generating units have been determined using the fair value less costs to sell calculation. As the recoverable amounts exceeded the carrying amounts, management did not identify any impairment for either cash-generating unit.

### 16. BONDS PAYABLE

On October 15th 2010, the Group effected a private offering of Series I & II Redeemable Cumulative Variable Rate Corporate Bonds ("the bonds"). The net proceeds were used for general corporate purposes. Interest on the bonds is payable at B\$ prime rate plus 1.75% and 2.00% respectively. The bonds rank equally among themselves and with all other existing and future unsubordinated and unsecured debt of the Company. The bonds rank senior to the Company's existing and all future preference and ordinary shares.

Maturity dates are as follows:

- Series I bonds maturing October 15th, 2020, in the outstanding principal amount of \$7,500,000. The bonds, while callable only at the option of the Company, may not be called prior to the fifth anniversary date from the closing date of the issue.
- Series II bonds maturing October 15th, 2025, in the outstanding principal amount of \$7,500,000. The bonds, while callable only at the option of the Company, may not be called prior to the tenth anniversary date from the closing date of the issue.



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The Company may at its option redeem in whole or in part any principal amount invested in the bond subject to a notice period of ninety days on any date following the expiration of the anniversary date for the respective series.

	2012	2011
<b>Series I Corporate Bonds</b>		
\$7,500,000 at B\$ prime rate + 175%, presently 6.50% (2011: 6.50%) per annum - Due 2020	\$ 7,500,000	\$ 7,500,000
<b>Series II Corporate Bonds</b>		
\$7,500,000 at B\$ prime rate + 200%, presently 6.75% (2011: 6.75%) per annum - Due 2025	7,500,000	7,500,000
Accrued interest	248,438	248,438
<b>Total</b>	<b>\$ 15,248,438</b>	<b>\$ 15,248,438</b>

### 17. SHARE CAPITAL

The Group's share capital is comprised as follows:

	2012	2011
<b>Common shares</b>		
Authorized: 45,000,000 (2011: 45,000,000) at \$0.01 each		
Issued and fully paid: 36,505,471 (2011: 36,305,471) par value \$0.01 per share	\$ 365,055	\$ 365,055
<b>Preference shares</b>		
Authorized: 5,000,000 (2011: 5,000,000) at \$100 each		
Issued and fully paid: 5,000,000 (2011: 5,000,000) par value \$100 per share	\$ 5,000,000	\$ 5,000,000

The calculation of basic earnings per share as at December 31, 2012 was based on comprehensive income attributable to common shareholders of \$5,035,039 (2011: \$478,676) and weighted average number of common shares outstanding, adjusted by the number of common shares repurchased or issued during the year, of 36,240,528 (2011: 36,224,073). There were no transactions that would dilute earnings per share.

Dividends are accounted for in the period in which they are declared by the Group's Board of Directors. During the year, dividends of \$0.05 (2011: \$0.04) per common share (total dividends \$1,808,055 (2011: \$1,460,219)) were declared and subsequently paid. The Preference Shares are non-convertible, non-voting, cumulative, redeemable "A" with a dividend rate of 7% per annum. These shares are redeemable at the option of the Company.

Under the management bonus profit sharing scheme approved by the Board of Directors in 2007, senior managers may opt to acquire shares of the Company in lieu of receiving a profit sharing bonus.

In June 2011, the Board of Directors extended share options to two executives to purchase 100,000 shares each at a purchase price of \$1.00. The options are exercisable over a three-year period but not later than June 3, 2014. The options were fully exercised during 2011. Since the Company's shares are not derived from quoted prices, the fair value applied to the shares issued during 2011 was based on an independent valuation performed during the year.

During the year, 161,047 of the Company's shares were repurchased for a total consideration of \$241,570, and are recognized as a change in equity. As at December 31, 2012, treasury shares comprise 344,363 (2011: 183,316) of the Company's shares. This represents 0.9% (2011: 0.5%) of the outstanding shares of the Company.



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### 18. GENERAL RESERVE

The Group has established a general reserve from retained earnings in the amount of \$4,000,000 (2011: \$4,000,000), which the Board of Directors have determined is not available for distribution.

### 19. REVALUATION RESERVE

		Land & Buildings		AFS Investments		Total
<b>Balance at January 1, 2011</b>	\$	<b>1,779,082</b>	\$	<b>508,404</b>	\$	<b>2,287,486</b>
Net decrease in fair value of AFS investments (Note 7)		-		(204,637)		(204,637)
<b>Balance at December 31, 2011</b>	\$	<b>1,779,082</b>	\$	<b>303,767</b>	\$	<b>2,082,849</b>
Net increase in fair value of AFS investments (Note 7)		-		547,876		547,876
<b>Balance at December 31, 2012</b>	\$	<b>1,779,082</b>	\$	<b>851,643</b>	\$	<b>2,630,725</b>

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

### 20. GROSS PREMIUMS WRITTEN

		2012		2011
Group agents and insurers	\$	99,468,848	\$	97,020,604
Non-Group agents		57,099,532		52,278,019
Associate		1,227,628		2,443,492
<b>Total</b>	\$	<b>157,796,008</b>	\$	<b>151,742,115</b>

### 21. OTHER INCOME, NET

		2012		2011
Interest income	\$	1,479,797	\$	1,639,161
Dividend income		531,570		579,016
Claim handling fees		129,390		129,500
Share of net earnings from associate (Note 8)		90,910		67,111
Other income		55,968		92,185
Gain (loss) on disposal of property and equipment		21,497		(109,325)
Realized gains on sales of investments (Note 7)		-		79,303
Service fees		-		70,833
Write-back of provision for bad debts		-		64,407
Amortization of premiums and discounts on bonds (Note 7)		(124,956)		(118,353)
<b>Total</b>	\$	<b>2,184,176</b>	\$	<b>2,493,838</b>



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### 22. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a bonus payable to management and staff amounting to \$846,814 (2011: \$335,680). This amount was determined and approved by the Board of Directors.

### 23. PENSION PLAN

Employees of the Group participate in defined contribution plans registered in The Bahamas and in the Cayman Islands. These plans are administered by independent administrators and trustees and membership is mandatory for all eligible employees. Under these plans, the Group paid contributions of 3% - 5% per annum of base salary. Contributions under these plans totalled \$351,962 (2011: \$353,968) and are included in "Salaries, benefits and bonuses" in the consolidated statement of comprehensive income.

### 24. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances are as follows:

	2012	2011
Gross premiums written	\$ 1,227,628	\$ 2,443,492
Commission expense - associate	\$ 318,221	\$ 526,584
Trade accounts receivable - associate	\$ 340,007	\$ 432,167
Directors fees paid	\$ 258,248	\$ 251,354

The trade accounts receivable - associate is secured by a guarantee. The receivable balance will be settled in cash. No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Key management personnel include members of the Group's management team having authority and responsibility for planning, directing and controlling the activities of the Group's operation. Compensation to key management personnel is included in salaries, benefits and bonuses in the consolidated statement of comprehensive income and receivables from key management personnel is included in sundry receivables and prepayments in the consolidated statement of financial position and are as follows:

	2012	2011
Salaries and other benefits	\$ 1,459,124	\$ 1,281,886
Post employment benefits	57,275	55,187
<b>Total</b>	<b>\$ 1,516,399</b>	<b>\$ 1,337,073</b>
Receivables from key management personnel	\$ 70,280	\$ 46,019

As part of its reinsurance program, the Group purchases reinsurance from Economical Mutual Insurance Company ("Economical") for motor and liability quota share. Economical holds a 20% ownership in the Group. The ceded motor and liability quota share is 50.5% and Economical's reinsurance participation is 10%.

### 25. COMMITMENTS AND CONTINGENCIES

#### Commitments

The Group has commitments relating to leased premises. The Group has leased office space with expiration terms and renewal terms extending up to five years. Lease terms vary with the last lease term expiring in 2018. The Group also had a sublease on one of the locations which expired in 2012. Rent expense for the year ended December 31, 2012 totalled \$730,351 (2011: \$710,154). The related sublease payments were \$22,782 (2011: \$35,750).



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

Future lease payments under the operating leases and the sublease income are as follows:

2012		< 1 year		1 - 5 years		> 5 years		Total
Operating lease agreements and rental payments	\$	752,718	\$	744,426	\$	-	\$	1,497,144
Sublease payments receivable		-		-		-		-
<b>Total</b>	<b>\$</b>	<b>752,718</b>	<b>\$</b>	<b>744,426</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>1,497,144</b>

2011		< 1 year		1 - 5 years		> 5 years		Total
Operating lease agreements and rental payments	\$	734,658	\$	937,487	\$	-	\$	1,672,145
Sublease payments receivable		(39,096)		(3,258)		-		(42,354)
<b>Total</b>	<b>\$</b>	<b>695,562</b>	<b>\$</b>	<b>934,229</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>1,629,791</b>

### Contingencies

In the normal course of its business, the Group is involved in various legal proceedings arising out of and incidental to its insurance operations. The Group is of the opinion that litigation arising from these legal proceedings will not have a significant impact on the financial position, results of operation or cash flows of the Group.

## 26. SEGMENTED INFORMATION

In accordance with IFRS 8 Operating Segments, the Group 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 Group's operations are segmented into the following business segments by geographic location:

- General Insurance / Property and Casualty (P&C)
- Health and Life (H&L)

The segment results for the years ended December 31, 2012 and 2011 are as follows:

		Bahamas		Cayman			Total
		P&C		P&C	H&L		
<b>2012</b>							
Net underwriting income	\$	13,616,597		5,760,769	4,457,711		23,835,077
Depreciation of property & equipment		1,134,513		67,519	73,759		1,275,791
Amortization of intangible assets		138,573		-	-		138,573
Segment Profit for the Year		1,652,166		1,923,702	1,565,573		5,141,441
Total segment assets		133,281,973		29,320,585	13,135,035		175,737,593
Total segment liabilities		102,593,169		23,005,484	2,905,044		128,503,697
Capital expenditure		245,718		32,387	32,387		310,492
		P&C		P&C	H&L		Total
<b>2011 (restated)</b>							
Net underwriting income	\$	11,443,443		5,860,896	1,572,852		18,877,191
Depreciation of property & equipment		1,176,874		111,053	115,262		1,403,189
Amortization of intangible assets		115,343		-	-		115,343
Segment Profit for the Year		(793,592)		2,979,190	(1,173,017)		1,012,581
Total segment assets		136,053,553		28,462,272	11,290,062		175,805,887
Total segment liabilities		104,693,921		24,542,011	2,625,751		131,861,683
Capital expenditure		454,680		14,162	23,303		492,145



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012, EXPRESSED IN BAHAMIAN DOLLARS.

### 27. CHANGE IN ACCOUNTING POLICY FOR COST OF EXCESS OF LOSS REINSURANCE

During the current year, the Company changed the accounting policy for recognizing the excess of loss reinsurance costs. IFRS 4 – Insurance Contracts does not provide specific guidance on the earnings recognition of insurance premiums or reinsurance costs. In prior years, the excess of loss reinsurance costs were deferred and recognized over the effective term of the underlying written catastrophic policies. Under the revised accounting policy, the Company recognizes excess of loss reinsurance costs over the term of the excess of loss reinsurance contract thereby aligning the recognition of the reinsurance costs with the term of the excess of loss reinsurance coverage.

In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the 2011 comparative financial statements have been restated to conform with this change in accounting policy as follows:

	2011 Audited	Adjustments	2011 Restated
Statement Of Financial Position	\$	\$	\$
<b>Assets:</b>			
Deferred reinsurance costs at January 1, 2011	2,703,865	(2,703,865)	-
Deferred reinsurance costs at December 31, 2011	2,696,425	(2,696,425)	-
<b>Equity:</b>			
Retained earnings at January 1, 2011	19,535,923	(2,618,316)	16,917,607
Retained earnings at December 31, 2011	18,429,784	(2,639,083)	15,790,701
Non-controlling interest at January 1, 2011	1,879,801	(85,549)	1,794,252
Non-controlling interest at December 31, 2011	2,136,313	(57,342)	2,078,971
<b>Statement Of Comprehensive Income</b>			
Cost of excess of loss reinsurance	15,517,182	(7,440)	15,509,742
Total Comprehensive Income for the Year	800,504	7,440	807,944
Attributable to:			
Owners of the Parent	499,443	(20,767)	478,676
Non-controlling interest	301,061	28,207	329,268
	\$ 800,504	\$ 7,440	\$ 807,944





## CORPORATE GOVERNANCE

**B**FH HAS DEVELOPED A COMPLIANCE FRAMEWORK that gives each of our employees, agents and strategic partners the resources, guidance and tools necessary to make ethical and value-based decisions that will effectively minimize and manage the risks inherent to our business, while maximizing shareholder value. It is a framework based on the belief that good governance requires adherence to all legal requirements, regulations and our stated Company policies, as well as a developed culture of responsibility. Five corporate governance committees of the Board are in place, each chaired by a non executive director.

### AUDIT COMMITTEE

The committee assists the Board in fulfilling its oversight responsibilities as they relate to the Group's accounting policies, financial reporting, internal control and the legal and regulatory environment.

#### MEMBERS:

Alison Treco - **Chairman**  
Ian D. Fair  
John A. G. Dunkley  
Bharat Kannan

### CORPORATE GOVERNANCE CONDUCT REVIEW & NOMINATIONS COMMITTEE

The committee measures the Group's governance against best practices and makes recommendations for Board appointments and composition.

#### MEMBERS:

Ian D. Fair - **Chairman**  
Judith Whitehead  
Karen Gavan

### HUMAN RESOURCES & COMPENSATION COMMITTEE

The committee is responsible for reviewing and approving the Group's compensation plan, and evaluating executive performance.

#### MEMBERS:

Ian D. Fair - **Chairman**  
Alison Treco

### FINANCE & INVESTMENT COMMITTEE

The committee focuses on two objectives: financial risk management and investment policy oversight.

#### MEMBERS:

Ian D. Fair - **Chairman**  
Alison Treco  
John A. G. Dunkley  
Glen O. A. Ritchie  
Patrick G.W. Ward  
Karen Gavan

### TECHNICAL REVIEW & RISK COMPLIANCE COMMITTEE

The committee is responsible for ensuring adherence to risk management guidelines as they relate to reviewing and assessing technical and reinsurance matters.

#### MEMBERS:

Brian Murphy (CFI) - **Chairman**  
Bharat Kannan  
Tracy Bonczek  
Valerie Darville  
John A. G. Dunkley  
Glen O. A. Ritchie  
Pauline P. Ward  
Keith Rolle  
Patrick G.W. Ward

### THE BFH GROUP RETIREMENT FUND COMMITTEE

**Plan Administrator:**  
Colonial Pension Services  
(Bahamas) Limited

**Trustee/Custodian:**  
Butterfield Bank (Bahamas) Limited

#### INVESTMENT COMMITTEE:

**Company Representatives:**  
Glen O. A. Ritchie, Chairman  
John A. G. Dunkley

**Staff Representatives:**  
Kevin Hudson  
Warren Rolle



## AUTHORIZED AGENTS & BROKERS

**OUR EXTENSIVE NETWORK OF AGENTS** in The Bahamas stretches from Grand Bahama to Inagua and everywhere in between. In the Cayman Islands, we enjoy the support of a vibrant network of agents and brokers for all of our product lines. They have been the backbone of our Company since we first offered insurance services, and continue to deliver the highest quality of service to our customers.



### THE BAHAMAS:

#### NEW PROVIDENCE

A Scott Fitzgerald Insurance Brokers & Agents | (242) 324-0865  
Chandler Gilbert Insurance Associates Limited | (242) 676-2306  
CMA Insurance Brokers & Agents | (242) 393-6735  
Colina General Insurance Agency | (242) 677-2050  
Confidence Insurance Brokers & Agents | (242) 323-6920  
FG Insurance Agents & Brokers Limited | (242) 396-1300  
FINCO | (242) 328-0559  
LIV Insurance Agents and Brokers Ltd. | (242) 361-5123  
N.U.A. Insurance Agents & Brokers Ltd. | (242) 328-5992  
Professional Insurance Consultants | (242) 327-2143  
Response Insurance Agency Ltd. | (242) 328-7316  
Star General Insurance Agency | (242) 676-0800  
Sunshine Insurance Agency | (242) 394-0011  
Tavares Higgs Insurance Brokers & Agents | (242) 327-8606

#### ABACO

Abaco Insurance Agency | (242) 367-2549

#### GRAND BAHAMA

General Brokers & Agents Insurance Ltd. | (242) 352-7891  
Star General Insurance (G.B.) Ltd. | (242) 352-5705



### CAYMAN ISLANDS:

#### CAYMAN BRAC

Brac Insurance Associates | (345) 948-2266

#### GRAND CAYMAN

AON Risk Solutions (Cayman) Ltd | (345) 949-0111  
Balderamos Insurance Services Ltd. | (345) 945-3450  
Caribbean Insurance Practice | (345) 943-2475  
Cayman Insurance Centre | (345) 949-4657  
Bogle Insurance Brokers Limited | (345) 949-0579  
Fidelity Insurance (Cayman) Ltd. | (345) 949-5836  
FIS Insurance Brokers | (345) 945-5616  
Island Insurance Brokers Ltd. | (345) 949-0883  
Jen International Insurance Brokers | (345) 943-5442  
Marsh Management Services Cayman | (345) 949-7988  
Quik Care Insurance Brokers | (345) 946-2273



## CORPORATE INFORMATION

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### HEAD OFFICE

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T: (242) 302-3900  
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info@bahamasfirst.com  
www.bahamasfirst.com

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### AUDITORS

Deloitte & Touche  
Chartered Accountants  
and Management Consultants  
2nd Terrace, Centreville  
Nassau, Bahamas

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### ATTORNEYS

Graham Thompson & Co.  
Sassoon House  
Shirley Street & Victoria Avenue  
Nassau, Bahamas

Maples and Calder  
Ugland House  
Grand Cayman, Cayman Islands

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### REGISTRAR & TRANSFER AGENTS

Bahamas Central Securities Depository Limited (BCSD)  
50 Exchange Place, Bay Street  
Nassau, Bahamas

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**BAHAMAS FIRST HOLDINGS LIMITED**

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