

**Colina Insurance Limited**

**Audited Consolidated Financial Statements  
Year Ended December 31, 2009  
With Report of Independent Auditors**

**INDEPENDENT AUDITORS' REPORT**

To the Shareholder of  
Colina Insurance Limited

We have audited the accompanying consolidated financial statements of Colina Insurance Limited (the "Company"), which comprise the consolidated balance sheet as at December 31, 2009, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Goodman's Bay Development Company Limited ("GBDC"), a subsidiary of which the Company owns a 67% interest in, which statements reflect total assets of \$29,981,599 as of December 31, 2009 and total revenues of \$2,780,846 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for GBDC, is based solely on the report of the other auditors.

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

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

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

***Opinion***

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements give a true and fair view of the financial position of the Company as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



April 29, 2010

# OLIVER WYMAN

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March 25, 2010

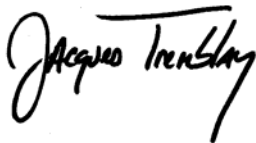
Subject:  
2009 certification of actuarial liabilities

The majority of the assets of Colina Holdings Bahamas Limited is its wholly owned subsidiary, Colina Insurance Limited, for which I am also the Appointed Actuary.

I have valued the actuarial liabilities of Colina Insurance Limited for its consolidated balance sheet as of 31st December 2009, for a total amount of \$304,728,304, and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice, the Canadian Institute of Actuaries' Standards of Practice (for Life companies), and the Canadian valuation method ("CALM"), all of which are accepted in the Bahamas, including selection of appropriate assumptions and methods.

In my opinion, the amount of the actuarial liabilities reported above makes appropriate provision for all future policyholder obligations, and the consolidated financial statements of Colina Insurance Ltd. present fairly the results of the valuation.

Respectfully submitted,



Jacques Tremblay  
Fellow of Canadian Institute of Actuaries, Fellow of Society of Actuaries  
Appointed Actuary for Colina Holdings Bahamas Limited and Colina Insurance Limited  
March 25, 2010

**COLINA INSURANCE LIMITED**  
**Consolidated Balance Sheet**


At December 31, 2009  
(Expressed in Bahamian dollars)

	Notes	2009	2008
<b>ASSETS</b>			
Term deposits	9	\$ 12,147,223	\$ 15,607,664
Investment securities	10	188,514,129	183,204,745
Mortgages and commercial loans	11	76,859,904	73,858,868
Policy loans	12	71,742,995	73,168,649
Investment properties	13	52,726,442	40,130,000
Investment in associates	14	<u>8,523,561</u>	<u>3,708,442</u>
Total invested assets		410,514,254	389,678,368
Cash and demand balances	9	12,821,425	12,332,780
Receivables and other assets	15	40,169,949	35,630,880
Property and equipment	16	20,937,852	21,392,326
Goodwill	17	8,665,074	8,665,074
Other intangible assets	18	266,885	498,826
Investment in parent	19	81,615	81,615
Due from parent	20	<u>64,956</u>	<u>73,500</u>
<b>Total assets</b>		<b><u>\$ 493,522,010</u></b>	<b><u>\$ 468,353,369</u></b>
<b>LIABILITIES</b>			
Provision for future policy benefits	21	\$ 304,728,304	\$ 292,204,944
Policy dividends on deposit		<u>32,328,725</u>	<u>33,783,922</u>
Total policy liabilities		337,057,029	325,988,866
Bank loan	22	2,903,756	678,923
Other liabilities	23	<u>55,310,103</u>	<u>53,288,061</u>
<b>Total liabilities</b>		<b><u>395,270,888</u></b>	<b><u>379,955,850</u></b>
<b>EQUITY</b>			
Ordinary shares	24	1,000,000	1,000,000
Share premium		42,721,105	42,721,105
Revaluation reserve	25	6,566,504	8,461,703
Retained earnings		<u>34,981,608</u>	<u>27,948,881</u>
Total ordinary shareholder's equity		85,269,217	80,131,689
Non-controlling interests		<u>12,981,905</u>	<u>8,265,830</u>
<b>Total equity</b>		<b><u>98,251,122</u></b>	<b><u>88,397,519</u></b>
<b>Total liabilities and equity</b>		<b><u>\$ 493,522,010</u></b>	<b><u>\$ 468,353,369</u></b>

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors on April 29, 2010 and signed on its behalf by:

  
T. Hilts - Chairman

  
E. M. Alexiou – Executive Vice-Chairman

**COLINA INSURANCE LIMITED**  
**Consolidated Statement of Income**

For the Year Ended December 31, 2009  
(Expressed in Bahamian dollars)

	Notes	2009	2008
<b>Revenues:</b>			
Premium revenue		\$ 149,632,858	\$ 147,412,821
Less: Reinsurance premiums	28	<u>(16,230,623)</u>	<u>(11,614,216)</u>
Net premium revenue	28	133,402,235	135,798,605
Net investment income	29	27,576,256	23,648,551
Other income and fees		<u>5,182,404</u>	<u>3,790,992</u>
Total revenues		<u>166,160,895</u>	<u>163,238,148</u>
<b>Benefits and expenses:</b>			
Policyholders' benefits		104,512,085	105,157,024
Less: Reinsurance recoveries	30	<u>(9,087,877)</u>	<u>(4,955,653)</u>
Net policyholders' benefits	30	95,424,208	100,201,371
Changes in provision for future policy benefits	21	12,523,360	8,120,430
General and administrative expenses	31	26,129,869	28,415,457
Commissions		13,263,168	12,310,529
Premium and other tax expense		3,041,081	3,796,792
Finance costs	32	222,162	344,186
Other expenses		<u>1,665,443</u>	<u>1,579,293</u>
Total benefits and expenses		<u>152,269,291</u>	<u>154,768,058</u>
<b>Net income for the year</b>		<b><u>\$ 13,891,604</u></b>	<b><u>\$ 8,470,090</u></b>
Net income attributable to:			
Ordinary shareholder of the Company		\$ 12,894,276	\$ 8,040,325
Non-controlling interests		<u>997,328</u>	<u>429,765</u>
<b>Net income for the year</b>		<b><u>\$ 13,891,604</u></b>	<b><u>\$ 8,470,090</u></b>

The accompanying notes are an integral part of these consolidated financial statements.

**COLINA INSURANCE LIMITED**  
**Consolidated Statement of Comprehensive Income**

For the Year Ended December 31, 2009  
(Expressed in Bahamian dollars)

	<b>2009</b>	<b>2008</b>
<b>Net income for the year</b>	\$ 13,891,604	\$ 8,470,090
<b>Other comprehensive income:</b>		
Fair value gains on property and equipment	-	4,087,598
Transfers to retained earnings	(350,728)	(82,541)
Change in available-for-sale financial assets	<u>(1,286,836)</u>	<u>(1,590,277)</u>
<b>Other comprehensive (expense)/income for the year</b>	<u>(1,637,564)</u>	<u>2,414,780</u>
<b>Total comprehensive income for the year</b>	<b><u>\$ 12,254,040</u></b>	<b><u>\$ 10,884,870</u></b>
<b>Attributable to:</b>		
Ordinary shareholder of the Company	11,262,486	10,450,507
Non-controlling interests	<u>991,554</u>	<u>434,363</u>
<b>Total comprehensive income for the year</b>	<b><u>\$ 12,254,040</u></b>	<b><u>\$ 10,884,870</u></b>

The accompanying notes are an integral part of these consolidated financial statements.

**COLINA INSURANCE LIMITED**  
**Consolidated Statement of Changes in Equity**

For the Year ended December 31, 2009  
(Expressed in Bahamian dollars)

	Ordinary Share Capital	Share Premium	Revaluation Reserve	Retained Earnings	Non-controlling Interests	Total Equity
Balance, December 31, 2007	\$ 1,000,000	\$ 42,721,105	\$ 6,114,639	\$ 23,006,298	\$ 6,092,120	\$ 78,934,162
Increase in treasury shares	-	-	-	-	-	-
Net loss on remeasurement of available-for-sale securities to fair value	-	-	(1,590,277)	-	-	(1,590,277)
Net fair value gain transferred to income on disposal of available-for-sale securities	-	-	(22,752)	-	-	(22,752)
Net income for the year	-	-	-	8,040,325	429,765	8,470,090
Acquisition of subsidiaries	-	-	-	-	1,974,645	1,974,645
Transfers	-	-	(127,505)	127,505	-	-
Distributions by subsidiaries	-	-	-	-	(230,700)	(230,700)
Revaluation of land and buildings	-	-	4,087,598	-	-	4,087,598
Dividends paid	-	-	-	(3,225,247)	-	(3,225,247)
Balance, December 31, 2008	1,000,000	42,721,105	8,461,703	27,948,881	8,265,830	88,397,519
Net loss on remeasurement of available-for-sale securities to fair value	-	-	(1,286,836)	-	-	(1,286,836)
Net fair value gain transferred to income on disposal of available-for-sale securities	-	-	(257,635)	-	-	(257,635)
Sale of shares in subsidiary	-	-	-	-	245,615	245,615
Net income for the year	-	-	-	12,894,276	997,328	13,891,604
Acquisition of subsidiaries	-	-	-	-	3,703,832	3,703,832
Transfers	-	-	(350,728)	350,728	-	-
Distributions by subsidiaries	-	-	-	-	(230,700)	(230,700)
Dividends paid	-	-	-	(6,212,277)	-	(6,212,277)
Balance, December 31, 2009	<u>\$ 1,000,000</u>	<u>\$ 42,721,105</u>	<u>\$ 6,566,504</u>	<u>\$ 34,981,608</u>	<u>\$ 12,981,905</u>	<u>\$ 98,251,122</u>

The accompanying notes are an integral part of these consolidated financial statements.

**COLINA INSURANCE LIMITED**  
**Consolidated Statement of Cash Flows**

For the Year ended December 31, 2009  
(Expressed in Bahamian dollars)

	2009	2008
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,891,604	\$ 8,470,090
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Change in unrealized loss on fair value through profit or loss securities	534,137	1,031,883
Increase in provision for future policy benefits	12,523,360	8,120,430
Changes in loss provisions for loans and receivables	4,335,218	3,445,425
Depreciation and impairment/amortization charges	1,796,303	2,756,032
Net realized loss/(gain) on fair value through profit or loss securities	606,565	(144,568)
Net realized gain on sale of available-for-sale securities	(257,635)	(22,752)
Interest income	(22,882,123)	(21,872,342)
Dividend income	(1,209,333)	(1,113,524)
Fair value gains on investment properties	(1,008,000)	(528,836)
Finance costs	<u>222,162</u>	<u>344,186</u>
Operating cash flows before changes in operating assets and liabilities	8,552,258	486,024
Changes in operating assets and liabilities:		
(Increase)/decrease in other assets	(5,948,281)	8,206,914
Increase/(decrease) in other liabilities	<u>592,678</u>	<u>(9,999,735)</u>
Net cash provided by/(used in) operating activities	<u>3,196,655</u>	<u>(1,306,797)</u>

*(Continued)*

The accompanying notes are an integral part of these consolidated financial statements.

**COLINA INSURANCE LIMITED**  
**Consolidated Statement of Cash Flows**

For the Year ended December 31, 2009  
(Expressed in Bahamian dollars)

	<b>2009</b>	<b>2008</b>
<b>Cash flows from investing activities:</b>		
Investment in associate	(5,000,000)	-
Acquisition of subsidiaries, net of cash acquired	(3,743,921)	1,978,977
Decrease in term deposits with original maturities greater than 90 days	2,859,502	574,735
Increase in restricted cash	(1,646)	(14,089)
Fair value through profit or loss securities purchased	(12,041,719)	(1,942,486)
Proceeds on disposal of fair value through profit or loss securities	5,919,021	1,767,939
Available-for-sale securities purchased	(27,959,109)	(15,412,488)
Proceeds on disposal of available-for-sale securities	26,094,885	18,343,619
Net decrease in loans to policyholders	2,436,373	1,597,139
Net (increase)/decrease in mortgages and commercial loans	(4,885,073)	2,507,095
Additions to investment property	(29,442)	(4,374,343)
Interest received	21,356,397	19,777,188
Dividends received	1,209,333	1,113,524
Proceeds on disposal of property and equipment, net	(7,872)	44,997
Additions to property and equipment	(1,236,983)	(507,414)
Additions to other intangible assets	(55,616)	(726,484)
	<u>4,914,130</u>	<u>24,727,909</u>
Net cash provided by investing activities		
<b>Cash flows from financing activities:</b>		
Distributions by subsidiaries	(230,700)	(230,700)
Interest paid on guaranteed investment and other contracts	(30,882)	(34,843)
Payment of interest on bank loan	(191,280)	(309,343)
Repayment of principal on bank loan	(839,677)	(5,549,789)
Dividends paid	(6,212,277)	(3,225,247)
	<u>(7,504,816)</u>	<u>(9,349,922)</u>
Net cash used in financing activities		
Net increase in cash and cash equivalents	605,969	14,071,190
Cash and cash equivalents, beginning of year	<u>19,904,768</u>	<u>5,833,578</u>
Cash and cash equivalents, end of year (Note 9)	<u><b>\$ 20,510,737</b></u>	<u><b>\$ 19,904,768</b></u>

(Concluded)

The accompanying notes are an integral part of these consolidated financial statements.

**COLINA INSURANCE LIMITED**  
**Notes to Consolidated Financial Statements**

Year ended December 31, 2009  
(Expressed in Bahamian dollars)

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**1. General Information**

Colina Insurance Limited (“the Company”), formerly “ColinaImperial Insurance Ltd.,” was incorporated under the laws of the Commonwealth of The Bahamas. The Company adopted its present name on December 4, 2009.

The principal activity of the Company is the transaction of life and health insurance business. The Company is registered to operate as a life and health insurer in The Bahamas, The Cayman Islands, The Turks and Caicos Islands, and the United States of America.

The Company is wholly owned by Colina Holdings Bahamas Limited (the “Parent”) whose majority shareholder is AF Holdings Ltd. (“AFH”). Both the Parent and AFH are Bahamian companies and ordinary shares of the Parent are listed on the Bahamas International Securities Exchange. All significant balances and transactions with AFH and parties related to AFH are disclosed in these consolidated financial statements (See Note 36).

The registered office of the Company is located at Trinity Place Annex, Frederick and Shirley Streets, P.O. Box N-4805, Nassau, The Bahamas and its principal place of business is located at 308 East Bay Street, P.O. Box N-4728, Nassau, The Bahamas.

The consolidated financial statements of the Company for the year ended December 31, 2009 were authorized for issue in accordance with a resolution of the Company’s Board of Directors on April 29, 2010.

**2. Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IFRS interpretations as of January 1, 2009 which the Company has adopted:

- IAS 1 (Revised) – *Presentation of Financial Statements*;
- Amendment to IFRS 7 – *Financial Instruments: Disclosures*;
- IFRS 8 – *Operating Segments*; and
- IFRS 3 (Revised) - *Business Combinations* and IAS 27 (Revised) - *Consolidated and Separate Financial Statements*.

The principal effects of these changes are as follows:

*IAS 1 (Revised) Presentation of Financial Statements*

This standard requires separate disclosure of owner and non-owner changes in equity. The Company has elected to present comprehensive income in two separate statements, the consolidated income statement and the statement of comprehensive income. The previous standard required components of comprehensive income to be represented in the consolidated statement of changes in equity.

*Amendment to IFRS 7 – Financial Instruments: Disclosures*

This amendment requires an entity to provide a quantitative and qualitative analysis of those instruments recognized at fair value based on a three-level measurement hierarchy. Furthermore, for those instruments which have significant unobservable inputs (classified as Level 3), the amendment requires 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. In addition, disclosure is required of the movements between different levels of the fair value hierarchy and the reason for those

**COLINA INSURANCE LIMITED**  
**Notes to Consolidated Financial Statements**

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(Expressed in Bahamian dollars)

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movements. Finally, the standard amends the previous liquidity risk disclosures as required under IFRS 7 for non-derivative and derivative financial liabilities.

Entities are required to apply this amendment for annual periods beginning on or after January 1, 2009, with no requirement to provide comparatives on transition.

*IFRS 8 – Operating Segments*

IFRS 8, 'Operating segments' replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the new standard, the Company's segment reporting will be based on the internal reporting to the Company's Board of Directors, which makes decisions on the allocation of resources and the assessment of the performance of the reportable segments. The application of IFRS 8 does not have any material effects for the Company.

*IFRS 3 (Revised) - Business Combinations and IAS 27 (Revised) - Consolidated and Separate Financial Statements*

IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) to be accounted for as an equity transaction. Therefore, such a transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The following are Standards and Interpretations that have been issued, but have no significant impact on the consolidated financial statements:

- Amendment to IFRS 2 – *Share-Based Payments – Vesting Conditions and Cancellations*;
- Amendment to IFRS 1 – *First-time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements*;
- IAS 39 – *Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)*;
- IAS 32 – *Financial Instruments: Presentation* and IAS 1 – *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*;
- IAS 23 – *Borrowing Costs*;
- IFRIC 13 – *Customer Loyalty Programmes*;
- IFRIC 15 – *Agreement for the Construction of Real Estate*;
- IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*; and
- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39).

**COLINA INSURANCE LIMITED**  
**Notes to Consolidated Financial Statements**

Year ended December 31, 2009  
(Expressed in Bahamian dollars)

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**3. Standards Issued but not yet Effective**

The Company has not adopted the following International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective.

- IFRIC Interpretation 17 – *Distributions of Non-Cash Assets to Owners*: Effective prospectively for reporting periods beginning on or after 1 July 2009;
- IFRIC 18 – *Transfer of Assets from Customers*: Effective prospectively for reporting periods beginning on or after 1 July 2009; and
- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39).

The Company does not anticipate that the adoption of these standards in future periods will have a material impact on the consolidated financial statements of the Company.

**4. Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

**4.1 Statement of compliance**

The consolidated financial statements of the Company have been prepared in accordance with IFRS.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) is presented in Note 37.

**4.2 Basis of preparation**

These consolidated financial statements, comprising the Company and its subsidiaries, have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and investment properties that are required to be remeasured at fair value. The Company, with the concurrence of The Insurance Commission of The Bahamas, uses actuarial practices generally accepted in Canada for the valuation of its provision for future policyholder benefits as no specific guidance is provided by IFRS for determining such provisions. The adoption of IFRS 4 – Insurance Contracts, permits the Company to continue with this valuation policy.

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

**4.3 Significant accounting judgments and key sources of estimation uncertainty**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

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**Notes to Consolidated Financial Statements**

Year ended December 31, 2009  
(Expressed in Bahamian dollars)

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*Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- (a) Valuation of insurance contract liabilities and investment contract liabilities with a Discretionary Participation Feature ("DPF")

The liability for life insurance contracts and investment contracts with DPF is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates, and discount rates. The Company bases mortality and morbidity rates on standard industry Canadian mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation if appropriate.

Lapse and surrender rates are based on the Company's historical experience of lapses and surrenders.

Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

The carrying value at December 31, 2009 of life insurance contract liabilities is \$275,512,275 (2008: \$257,489,244) and of investment contract liabilities with DPF is \$10,791,710 (2008: \$16,930,882).

- (b) Medical insurance contract liabilities

For medical insurance contracts, estimates have to be made for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported at the balance sheet date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for certain types of policies, IBNR claims form the majority of the balance sheet liability.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs.

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**Notes to Consolidated Financial Statements**

Year ended December 31, 2009  
(Expressed in Bahamian dollars)

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The carrying value at the balance sheet date of non-life insurance contract liabilities is \$18,424,319 (2008: \$ 17,784,818).

(c) Goodwill impairment testing

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which goodwill is allocated.

The carrying value of goodwill is \$8,665,074 (2008: \$8,665,074).

**4.4 Principles of consolidation**

The consolidated financial statements include the accounts of the Company and subsidiaries where the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are de-consolidated from the date on which control ceases.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination (See Note 4.5) and the non-controlling interest's share of changes in equity since the date of the combination.

All material inter-company balances and transactions are eliminated on consolidation. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

**4.5 Business combinations**

The Company uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets obtained and liabilities incurred or assumed at the date of exchange, and equity instruments issued by the Company in exchange for control of the acquiree.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

**4.6 Investment in associates**

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The operating 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 carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associates, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate

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(which includes any long-term interests that, in substance, form part of the Company's net investment in the associate) are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The Company assesses at each balance sheet date whether there is any objective evidence that the investment in associate is impaired by comparing the acquisition cost to its fair value. Any impairment losses are recognized immediately in the consolidated statement of income. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where the Company or any of its subsidiaries transact with an associate, profits and losses are eliminated to the extent of the Company's interest in the relevant associate.

#### **4.7 Foreign currency translation**

The Company's functional and presentation currency is the Bahamian dollar. Monetary assets and liabilities denominated in currencies other than the Bahamian dollar are translated to Bahamian dollars using the rate of exchange prevailing at the balance sheet date. Income and expense items denominated in foreign currencies are translated at a rate of exchange that approximates the actual rate prevailing at the time of the transaction. Resulting differences are recognized in income in the reporting period in which they arise.

#### **4.8 Cash and cash equivalents**

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise: cash on hand; demand deposits; term deposits with original maturities of 90 days or less; adjusted for restricted cash balances and bank overdrafts.

#### **4.9 Financial assets**

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. 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 every reporting date.

##### *Financial assets at fair value through profit or loss ("FVPL")*

Financial assets at FVPL has two sub categories - namely, financial assets held for trading, and those designated at fair value through the income statement at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated at initial recognition as at FVPL, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains and losses on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at FVPL or available-for-sale. Balances that are included in this classification include: mortgages and commercial loans, policy loans, receivables arising from insurance contracts, and term deposits with maturities of greater than 90 days.

*Available-for-sale ("AFS") financial assets*

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Regular way purchases and sales of financial assets are recognized on trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus, in the case of all financial assets not carried at FVPL, transaction costs that are directly attributable to their acquisition. Investments are derecognized when the rights to receive cash flows from the investments have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

*Fair value of financial instruments*

Fair value is defined under accounting guidance currently applicable to the Company to be the prices that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date. AFS financial assets and financial assets at FVPL are subsequently carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets classified in the FVPL category are included in the consolidated statement of income in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of financial assets classified as AFS are recognized in the revaluation reserve in the consolidated statement of changes in equity. When financial assets classified as AFS are sold or impaired, the difference between cost or amortized cost and estimated fair value is removed from the revaluation reserve and charged to the consolidated statement of income.

For financial instruments where there is not an active market, the fair value is determined by comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

The carrying value of floating rate and overnight deposits with credit institutions approximates fair value. The carrying value is the cost of the deposit and accrued interest.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 10.

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#### **4.10 Impairment of financial assets**

##### *Financial assets carried at amortized cost*

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset ('a loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, though the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of financial assets are reduced by the impairment loss directly for all financial assets with the exception of trade receivables and mortgage loans, where the carrying value is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

##### *Financial assets carried at fair value*

The Company assesses at each balance sheet date whether there is objective evidence that an AFS financial asset is impaired, including in the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost. If any evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognized in profit or loss – is removed from equity and recognized in the consolidated statement of income. The impairment loss is reversed through the consolidated statement of income if in a subsequent period the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

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For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

**4.11 Investment properties**

Investment properties comprise freehold land and buildings, mainly commercial properties that are held for long-term yields and capital appreciation purposes and are held initially at cost. Subsequent to initial recognition, such properties are measured at estimated fair value based on open market value determined periodically by external appraisers with management valuations in intervening periods. Fair value gains and losses on investment properties are included in the results of operations in the year in which they arise.

**4.12 Property and equipment**

Property and equipment are carried at cost less accumulated depreciation and any impairment losses. Depreciation is charged using the straight-line method to allocate the cost of the assets over their estimated useful lives, as follows:

- Furniture, fixtures and equipment                      5 to 10 years
- Computer hardware    3 to 5 years
- Motor vehicles    4 to 5 years
- Leasehold improvements                                      5 to 15 years, or shorter lease term
- Land improvements and buildings                      40 to 50 years

Land is not depreciated. The assets' useful lives are reviewed at each balance sheet date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of income.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve in equity.

Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the consolidated statement of income and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

**4.13 Goodwill and other intangible assets**

*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquiree at the acquisition date. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For goodwill arising from the purchase of insurance related business, goodwill is allocated to cash-generating units ("CGUs") identified according to the nature and type of insurance contract by major block of business.

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For each CGU, the impairment charge is calculated by comparing the present value of the in force and projected new business at time of purchase and currently to determine how much the value has decreased relative to the original amount of goodwill recorded.

The Company's policy for goodwill arising on the acquisition of an associate is described in Note 4.6.

*Other intangible assets*

Other intangible assets include acquired computer software licenses which are capitalized on the basis of the costs incurred to acquire and implement the specific software. These costs are amortized using the straight-line method over the estimated useful life, not exceeding a period of three years and are included in general and administrative expenses in the consolidated statement of income. At each balance sheet date, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

**4.14 Insurance contracts**

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Significant insurance risk is defined as the probability of paying significantly more on the occurrence of an insured event than if the insured event did not occur.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

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

A number of insurance and investment contracts contain a Discretionary Participation Feature ("DPF"). This feature entitles the contract holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Company, and;
- that are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realized and/or unrealized investment returns on a specified pool of assets held by the Company; or
  - the profit or loss of the Company, fund or other entity that issues the contract.

The amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the Appointed Actuary.

Insurance contracts and investment contracts with and without DPF are classified into three main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

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*Short-term insurance contracts*

Short duration life insurance contracts protect the Company's customers from the consequences of events (such as death, sickness, or disability) that would affect the ability of the customer or his/her dependants to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims Incurred But Not Reported ("IBNR").

Individual health insurance premiums are recognized as revenue when received. Group life and health insurance premiums are recognized as revenue over the related contract periods.

*Long-term insurance and other contracts*

Long-term insurance and other contracts insure events associated with human life (for example death, or survival) over a long duration. Premiums are recognized as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognized. The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are reviewed annually. A margin for adverse deviations is included in the assumptions.

Long-term insurance and other contracts are further classified into the following sub-categories:

- with fixed and guaranteed terms;
- with fixed and guaranteed terms and with DPF;
- without fixed and guaranteed terms; and
- without fixed and guaranteed terms and with DPF.

The contracts containing DPF participate in the profits of the Company. As the Company declares the bonus to be paid, it is credited to the individual policyholders.

*Long-term investment contracts with DPF*

The fair value of these contracts is determined with reference to the fair value of the underlying financial assets and they are recorded at inception at their fair value.

**4.15 Provision for future policy benefits**

The provision for future policy benefits represents the amount required, in addition to future premiums and investment income, to provide for future benefit payments, commissions and policy administration expenses for all insurance and annuity policies in force with the Company. The Company's Appointed Actuary is responsible for determining the amount of the policy liabilities such that sufficient funds will be available in the future to meet the Company's contractual obligations.

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The provision for future policy benefits is determined using accepted actuarial practices established by the Canadian Institute of Actuaries ("CIA"), which are accepted in The Bahamas. In accordance with these standards, the policy actuarial liabilities have been determined by the Appointed Actuary using the Canadian Asset Liability Method ("CALM") and the CIA Standards of Practice (Practice – Specific Standards For Insurers), Section 2300, Life and Health Insurance ("SOP").

CALM involves the projection of future interest rate scenarios in order to determine the amount of assets needed to provide for all future obligations. The method consists of four basic steps:

1. Determination of the period over which these projections are performed.
2. Projection of liability cash flows.
3. Projection of asset cash flows.
4. Performance of interest rate scenario testing under a variety of plausible economic conditions.

The Company maintains specific assets to back the policy liabilities by lines of business. The projection of liability and asset cash flows recognizes these specific assets. The projection period is chosen so as to include all insured events in the valuation process.

The actuarial liabilities for very small blocks of business have been set up as 100% of their annual premiums. IBNR reserves for group life, accident and health are computed as a percentage of related premiums based on experience studies. These bases are in accordance with CALM and SOP.

**4.16 Commission expense**

Commission expenses comprise commissions earned by the Company's agents in respect of insurance and investment products sold. Commission expenses are recognized when payable.

**4.17 Pension business**

The pension business consists of group defined contribution plans with fund accumulations at rates of interest determined by the Company. There are no future interest or annuity rate guarantees. The liability established for future pension benefits for each of these plans is equal to the fund balance at the valuation date. Such third party pension liabilities are included in 'other liabilities', see Note 23.

**4.18 Policy dividends on deposit**

Policy dividends on deposit comprise dividends declared on policies but not withdrawn from the Company, together with accrued interest.

**4.19 Share capital**

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Company's Board of Directors. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

**4.20 Revenue recognition**

Interest income for financial assets that are not classified as at FVPL is recognized using the effective interest method. Dividend income is recognized when the Company's right to receive payment is established – this is the ex-dividend date for equity securities. The Company's policy for recognition of

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revenue from operating leases is described in Note 4.26. For the revenue recognition policies surrounding insurance contracts, see Note 4.14.

**4.21 Reinsurance**

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover benefits paid, by ceding premiums to reinsurers under excess coverage contracts. Contracts entered into that meet the classification requirements of insurance contracts are classified as reinsurance contracts held. Amounts recoverable from reinsurers are estimated in a manner consistent with the policy liability associated with the reinsured.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums due for reinsurance contracts and are recognized as an expense when due.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the consolidated statement of income.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

**4.22 Defined contribution pension plan**

The Company operates a defined contribution pension plan. Contributions are made to the plan on a mandatory and voluntary basis. The Company has no further payment obligations once the contributions have been paid. The Company's portion of the contributions is charged to the consolidated statement of income as employee/agent benefits expense in the year to which they relate.

**4.23 Share-based payments**

The Company operates an Employee Share Ownership Plan ("ESOP"). Under this plan, eligible employees and agents can purchase common shares of the Parent on the open market through regular payroll deductions up to a maximum of 10% of eligible earnings. Employee and agent contributions are matched by the Company at rates between 20% to 25% of eligible earnings. The Company's matching contribution fully vests to the employee or agent after a period of 4 years. These share-based payments to employees and agents are measured at the fair value of the equity instruments at the grant date. The cost of matching employee and agent contributions amounted to \$6,893 in 2009 (2008: \$7,113) and is included in employee/agent benefits expense.

**4.24 Taxation**

The Company is subject to tax on taxable gross premium income at the flat rate of 3% (2008: 3%). There are no other corporate, income or capital gains taxes levied on the Company in The Bahamas or in any other jurisdictions in which the Company operates.

**4.25 Segregated fund**

With the acquisition of Imperial Life in 2005, certain contracts were acquired which allow unitholders to invest in a segregated fund managed by the Company for their benefit. Substantially all risks and rewards of ownership accrue to the unitholders and, consequently, the assets held in the segregated

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fund account are excluded from the assets in the Company's general funds. As of December 31, 2009, these assets amounted to \$44.8 million (2008: \$66.2 million). The Company has entered into a sub-investment management agreement with its own related party Investment Manager to manage a significant portion of these assets.

**4.26 Leases**

Rental income due from lessees on operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Where the Company is the lessee, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

**4.27 Loans**

Loans are initially recognized at fair value, which is the cost of the consideration received, net of issue costs and any discount or premium on settlement. Subsequent to initial recognition, they are measured at amortized cost, using the effective interest rate method.

Borrowing costs are recognized as an expense when incurred.

**4.28 Other financial liabilities and insurance, trade and other payables**

These items are recognized when due and measured on initial recognition at the fair value of the consideration paid. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

Financial liabilities and insurance, trade and other payables are derecognized when the obligation under the liability is discharged, cancelled or expired. When the existing liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

**4.29 Contingent liabilities**

Provisions for contingent liabilities are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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**4.30 Corresponding figures**

Certain corresponding figures have been reclassified to conform to the financial statement presentation adopted in the current year.

**5. Responsibilities of the Appointed Actuary and Independent Auditors**

The Appointed Actuary is appointed by the Board of Directors and is responsible for carrying out an annual valuation of the Company's policy liabilities in accordance with accepted actuarial practice and reporting thereon to the Board of Directors. In performing the valuation, the Appointed Actuary makes assumptions as to the future rates of interest, asset default, mortality, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies taking into consideration the circumstances of the Company and the policies in force. The Appointed Actuary's report outlines the scope of the valuation and the actuary's opinion.

The Independent Auditors have been appointed by the shareholders and are responsible for conducting an independent and objective audit of the consolidated financial statements in accordance with International Standards on Auditing. They report to the shareholders regarding the fairness of the presentation of the Company's consolidated financial statements in accordance with International Financial Reporting Standards. In carrying out their audit, the Independent Auditors also make use of the work of the Appointed Actuary and the Appointed Actuary's report on the policy liabilities. The Independent Auditors' report outlines the scope of their audit and their opinion.

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**6. Subsidiaries**

Subsidiaries of the Company as of December 31, 2009 are as follows:

<b>Name</b>	<b>Place of Incorporation</b>	<b>Shareholding</b>
<b>Mortgage Company</b>		
Colina Mortgage Corporation Ltd. ("CMCO")	The Bahamas	100%
<b>Investment Property Holding Companies</b>		
Bay St. Holdings Ltd.	The Bahamas	100%
Collmpco One Ltd.	The Bahamas	100%
Dax Limited	The Bahamas	100%
Goodman's Bay Development Company Limited ("GBDC")	The Bahamas	67%
IMPCO Properties (Bahamas) Limited	The Bahamas	100%
IMPCO Real Estate Holdings (Bahamas) Limited	The Bahamas	100%
NCP Holdings Ltd.	The Bahamas	100%
Partner Investment Ltd.	The Bahamas	100%
P.I. Investments Ltd.	The Bahamas	100%
RND Holdings Ltd.	The Bahamas	51%
Wednesday Holding Company Ltd.	The Bahamas	100%
<b>Investment Holding Companies</b>		
Sharp Investment Ltd.	The Bahamas	100%
PRO Health Holdings Ltd.	The Bahamas	100%
<b>Investment Funds</b>		
CFAL Global Bond Fund Ltd.	The Bahamas	96%
CFAL Global Equity Fund Ltd.	The Bahamas	50%

During 2008, the Company acquired shares in the CFAL Global Bond Fund Ltd. (Global Bond Fund) and CFAL Global Equity Fund Ltd. (Global Equity Fund). Both Funds are investment funds registered in The Bahamas and are managed by a related party. The Global Bond Fund was established in October 2007 and commenced operations on January 1, 2008. The Global Bond Fund seeks a high total risk adjusted investment return by investing in a global portfolio of investment grade and non-investment grade fixed income securities. The Global Equity Fund was established in October 2007 and commenced operations on January 1, 2008. The Global Equity Fund seeks a high total risk adjusted investment return by investing in a global portfolio of investment grade and non-investment grade fixed income and equity securities.

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**7. Business Combinations and Acquisition of Non-controlling Interests**

As of December 31, 2008, the Company, through purchases on the open market, had accumulated 2,197,779 shares in RND Holdings Limited ("RND"), representing a 24.8% shareholding. RND is a holding company incorporated in The Bahamas which acts principally through its subsidiary companies whose principal activities include investment property rentals, and the provision of universal ticketing systems.

During 2009, through additional purchases of shares on the open market as of June 9, 2009, the Company had acquired a total of 4,482,314 shares at a cost of \$0.40 per share representing a 50.6% shareholding.

The Company has acquired RND to expand its investment property holdings to support its life insurance liabilities over the long term.

The fair value of the identifiable assets and liabilities of RND as at the date of acquisition and the previous carrying amounts immediately before the acquisition were as follows:

	Fair value recognized on acquisition	Previous carrying value
Cash	\$ 1,459	\$ 1,459
Accounts receivable, net	80,617	80,617
Prepayments and deposits	-	9,774
Inventory	-	614
Other receivables	2,920	2,920
Investment properties	11,559,000	11,559,000
Property and equipment	160,145	160,145
Computer software	-	53,342
<b>TOTAL ASSETS</b>	<u>11,804,141</u>	<u>11,867,871</u>
Bank overdrafts	197,191	197,191
Accounts payable and other liabilities	877,716	877,716
Deferred revenue	-	165,647
Other liabilities	167,088	167,088
Bank loan	3,064,510	3,064,510
<b>TOTAL LIABILITIES</b>	<u>4,306,505</u>	<u>4,472,152</u>
<b>TOTAL IDENTIFIABLE NET ASSETS</b>	<u>\$ 7,497,636</u>	<u>\$ 7,395,719</u>
Non-controlling interest measured at share of net assets	<u>3,703,832</u>	
Total net assets acquired	3,793,804	
Fair value of original investment at acquisition date	<u>1,739,768</u>	
Gain on bargain purchase (see Note 29)	<u>\$ 2,054,036</u>	

The gain on the acquisition of RND is included in net investment income on the consolidated statement of income. From the date of acquisition, RND has contributed \$815,191 of revenue and \$43,926 to the net profit before non-controlling interests of the Company.

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**8. Segment Information**

For management purposes, the Company is organized into business units based on its products and services and has two reportable operating segments as follows:

- Life Division - offers a wide range of whole life and term insurance, and pension, annuity, savings and investment products.
- Group and Health Division – offers a wide range of individual medical and group life and health medical insurance.

Segment performance is evaluated based on profit or loss which in certain respects is measured differently from profit or loss in the consolidated financial statements.

No inter-segment transactions occurred in 2009 and 2008. If any transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results would then include those transfers between business segments which would then be eliminated on consolidation.

The segment results for the period ended December 31 are as follows:

	<b>2009</b>		
	<b>Life</b>	<b>Health</b>	<b>Total</b>
<b>INCOME</b>			
Net premium revenue	\$ 58,108,264	\$ 75,293,971	\$ 133,402,235
Net investment income	25,756,735	1,819,521	27,576,256
Other income and fees	701,624	4,480,780	5,182,404
Total revenues	<u>84,566,623</u>	<u>81,594,272</u>	<u>166,160,895</u>
<b>POLICYHOLDER BENEFITS</b>	48,683,556	59,264,012	107,947,568
<b>EXPENSES</b>	<u>27,489,520</u>	<u>16,832,203</u>	<u>44,321,723</u>
<b>NET INCOME</b>	<u>\$ 8,393,547</u>	<u>\$ 5,498,057</u>	<u>\$ 13,891,604</u>
<b>TOTAL ASSETS</b>	<u>\$ 306,539,098</u>	<u>\$ 186,982,912</u>	<u>\$ 493,522,010</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 232,419,606</u>	<u>\$ 162,851,282</u>	<u>\$ 395,270,888</u>

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	<b>2008</b>		
	<b>Life</b>	<b>Health</b>	<b>Total</b>
<b>INCOME</b>			
Net premium revenue	\$ 62,803,884	\$ 72,994,721	\$ 135,798,605
Net investment income	22,202,951	1,445,600	23,648,551
Other income and fees	709,516	3,081,476	3,790,992
Total revenues	<u>85,716,351</u>	<u>77,521,797</u>	<u>163,238,148</u>
<b>POLICYHOLDER BENEFITS EXPENSES</b>			
	49,613,623	58,708,178	108,321,801
	<u>28,423,473</u>	<u>18,022,784</u>	<u>46,446,257</u>
<b>NET INCOME</b>	<u>\$ 7,679,255</u>	<u>\$ 790,835</u>	<u>\$ 8,470,090</u>
<b>TOTAL ASSETS</b>	<u>\$ 290,910,856</u>	<u>\$ 177,442,513</u>	<u>\$ 468,353,369</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 224,932,333</u>	<u>\$ 155,023,517</u>	<u>\$ 379,955,850</u>

**9. Cash and Cash Equivalents**

For the purposes of the consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

	<b>2009</b>	<b>2008</b>
Term deposits	\$ 12,147,223	\$ 15,607,664
Less: Deposits with original maturities of greater than 90 days	<u>(3,520,792)</u>	<u>(6,380,294)</u>
Short-term deposits	8,626,431	9,227,370
Cash and demand balances	12,821,425	12,332,780
Less: Restricted cash balances	(745,626)	(743,980)
Less: Bank overdraft (See Note 23)	<u>(191,493)</u>	<u>(911,402)</u>
Total cash and cash equivalents	<u>\$ 20,510,737</u>	<u>\$ 19,904,768</u>

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

As of the year-end reporting date, the weighted-average interest rate on short-term deposits is 5.50% (2008: 3.00%). These deposits have an average maturity of 80.3 days (2008: 42.9 days). The weighted-average interest rate on deposits with original maturities greater than 90 days is 3.56% (2008: 4.00%).

Included in deposits with original maturities of greater than 90 days is a restricted amount of \$1,588,777 (2008: \$1,538,460). Included in cash and demand balances is a restricted amount of \$745,626 (2008: \$743,980). These restricted balances are held as a letter of credit in favour of a reinsurance company acting as a lead reinsurer for the Company for its participation in certain management years within the reinsurance facilities managed by International Reinsurance Managers, LLC. (See Notes 15 and 26).

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**10. Investment Securities**

Investment securities comprise equity and debt securities classified into the following categories:

	<b>2009</b>	<b>2008</b>
Equity securities		
Fair value through profit or loss	\$ 8,566,408	\$ 10,395,904
Available-for-sale	<u>9,921,375</u>	<u>13,149,573</u>
Total equity securities	<u>18,487,783</u>	<u>23,545,477</u>
Debt securities		
Fair value through profit or loss	13,442,510	6,631,018
Available-for-sale	<u>156,583,836</u>	<u>153,028,250</u>
Total debt securities	<u>170,026,346</u>	<u>159,659,268</u>
Total investment securities	<u>\$ 188,514,129</u>	<u>\$ 183,204,745</u>

Financial assets at fair value through profit or loss are comprised primarily of financial instruments in the Bahamas Investment Fund (See Note 35).

As of the year-end reporting date, government securities mainly comprise variable rate bonds tied to the Bahamian \$ Prime Rate issued by The Bahamas Government with interest rates ranging from 5.53% to 8.75% per annum (2008: from 5.56% to 8.75% per annum) and scheduled maturities between 2010 and 2039 (2008: between 2009 and 2037).

The movements in the categories of investment securities are as follows:

	<b>FVPL</b>	<b>Available- for-sale</b>	<b>Total</b>
At December 31, 2007	\$ 15,633,185	\$ 170,948,269	\$ 186,581,454
Additions	1,942,486	15,412,488	17,354,974
Acquisition of Global Funds	2,106,505	750,962	2,857,467
Disposals and maturities	(1,839,721)	(19,343,619)	(21,183,340)
Net fair value losses	<u>(815,533)</u>	<u>(1,590,277)</u>	<u>(2,405,810)</u>
At December 31, 2008	17,026,922	166,177,823	183,204,745
Additions	12,041,719	27,959,109	40,000,828
Disposals and maturities	(5,919,021)	(26,094,885)	(32,013,906)
Net fair value losses	(1,140,702)	(1,286,836)	(2,427,538)
Transfers, net	<u>-</u>	<u>(250,000)</u>	<u>(250,000)</u>
Balance, end of year	<u>\$ 22,008,918</u>	<u>\$ 166,505,211</u>	<u>\$ 188,514,129</u>

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*Determination of fair value and fair values hierarchy*

The use of fair value to measure certain assets with resulting unrealized gains or losses is pervasive within the Company's financial statements, and is a critical accounting policy and estimate for the Company. The following is the fair value hierarchy used by the Company that prioritizes the inputs to the respective valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identifiable assets or liabilities, and a lower priority to less observable inputs. The three levels of the fair value hierarchy are described below:

- Fair values determined by Level 1 inputs utilize unadjusted quoted prices obtained from active markets for identical assets or liabilities for which the Company has access. Fair value is determined by multiplying the quoted price by the quantity held by the Company.
- Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices.
- Level 3 inputs are based on unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. In these cases, significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

There have been no material changes in the Company's valuation techniques in the period represented by these consolidated financial statements.

The following table shows an analysis of financial instruments recorded at fair value by level within the fair value hierarchy:

<b>At December 31, 2009</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total Fair Value</b>
<i>Financial assets designated at fair value through profit or loss:</i>			
Equity securities	\$ 8,237,395	\$ 165,577	\$ 8,402,972
Shares in investment funds	-	163,436	163,436
Government securities	7,682,732	-	7,682,732
Preferred shares	-	1,786,326	1,786,326
Other debt securities	-	<u>3,973,452</u>	<u>3,973,452</u>
Total	<u>\$ 15,920,127</u>	<u>\$ 6,088,791</u>	<u>\$ 22,008,918</u>
<i>Available-for-sale financial assets:</i>			
Equity securities	\$ 8,794,911	\$ 428,289	\$ 9,223,200
Shares in investment funds	-	698,175	698,175
Government securities	128,915,109	-	128,915,109
Preferred shares	-	9,151,946	9,151,946
Other debt securities	-	<u>18,516,781</u>	<u>18,516,781</u>
Total	<u>\$ 137,710,020</u>	<u>\$ 28,795,191</u>	<u>\$ 166,505,211</u>

The Company did not have any financial instruments classified as Level 3 as at December 31, 2009.

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<b>At December 31, 2008</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total Fair Value</b>
<i>Financial assets designated at fair value through profit or loss:</i>			
Equity securities	\$ 9,669,176	\$ 683,107	\$ 10,352,283
Shares in investment funds	-	43,621	43,621
Government securities	5,116,960	-	5,116,960
Preferred shares	-	367,000	367,000
Other debt securities	-	1,147,058	1,147,058
<b>Total</b>	<b>\$ 14,786,136</b>	<b>\$ 2,240,786</b>	<b>\$ 17,026,922</b>
<i>Available-for-sale financial assets:</i>			
Equity securities	\$ 11,111,433	\$ 897,613	\$ 12,009,046
Shares in investment funds	-	1,140,527	1,140,527
Government securities	137,153,228	-	137,153,228
Preferred shares	-	4,095,892	4,095,892
Other debt securities	-	11,779,130	11,779,130
<b>Total</b>	<b>\$ 148,264,661</b>	<b>\$ 17,913,162</b>	<b>\$ 166,177,823</b>

The Company did not have any financial instruments classified as Level 3 as at December 31, 2008.

**11. Mortgages and Commercial Loans**

Mortgages and commercial loans are comprised of the following:

	<b>2009</b>	<b>2008</b>
Mortgages and commercial loans	\$ 79,371,756	\$ 74,486,683
Accrued interest	6,674,451	5,729,449
<b>Subtotal</b>	<b>86,046,207</b>	<b>80,216,132</b>
Less: Provisions	(9,186,303)	(6,357,264)
<b>Mortgages and commercial loans, net</b>	<b>\$ 76,859,904</b>	<b>\$ 73,858,868</b>

Included in accrued interest is \$5,598,712 (2008: \$4,202,255) which has been fully provided for.

Mortgages and commercial loans are classified into the following categories:

	<b>2009</b>	<b>2008</b>
Residential mortgages	\$ 44,551,473	\$ 41,324,226
Commercial mortgages	31,199,089	28,847,057
Commercial paper	3,621,194	4,315,400
<b>Subtotal</b>	<b>79,371,756</b>	<b>74,486,683</b>
Accrued interest	6,674,451	5,729,449
<b>Total</b>	<b>\$ 86,046,207</b>	<b>\$ 80,216,132</b>

The totals above represent the Company's gross exposure on mortgages and commercial loans. It is the Company's policy not to lend more than 75% of collateralized values pledged reducing the Company's overall net exposure.

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Included in residential mortgages at December 31, 2009 are loans to employees and agents amounting to \$5,837,941 (2008: \$6,921,540).

Provisions on mortgages and commercial loans are as follows:

	<b>2009</b>	<b>2008</b>
Residential mortgages	\$ 996,477	\$ 903,910
Commercial mortgages	1,801,756	687,382
Commercial paper	789,358	563,717
Accrued interest	<u>5,598,712</u>	<u>4,202,255</u>
Total provisions on mortgages and commercial loans	<u>\$ 9,186,303</u>	<u>\$ 6,357,264</u>

The movement in loan loss provisions is as follows:

	<b>2009</b>	<b>2008</b>
Balance, beginning of year	\$ 6,357,264	\$ 4,694,563
Increase in provisions	3,516,087	2,425,789
Provisions written back to income	<u>(687,048)</u>	<u>(763,088)</u>
Balance, end of year	<u>\$ 9,186,303</u>	<u>\$ 6,357,264</u>

As of the year-end reporting date, the approximate weighted average interest rates on mortgages and commercial loans are as follows:

	<b>2009</b>	<b>2008</b>
Residential mortgages	7.93%	8.09%
Commercial mortgages	10.81%	9.52%
Commercial paper	8.25%	8.26%

**12. Policy Loans**

Policy loans are comprised of:

	<b>2009</b>	<b>2008</b>
Policy loans	\$ 68,606,685	\$ 71,043,058
Accrued interest on policy loans	<u>4,186,439</u>	<u>3,333,283</u>
Subtotal	72,793,124	74,376,341
Less: Provisions	<u>(1,050,129)</u>	<u>(1,207,692)</u>
Policy loans, net	<u>\$ 71,742,995</u>	<u>\$ 73,168,649</u>

Policy loans are secured by the cash surrender values of the policies on which the loans are made with the exception of \$1,050,129 (2008: \$1,207,692) in policy overloans. Policy overloans represent policy loans in excess of the cash surrender values of the policies on which the loans are made. These overloans are not secured by cash surrender values; however, the related policies remain in force. The policy overloans have been fully provided for at December 31, 2009. Interest is accrued on a monthly basis and the loans are settled on termination of the policy, if not repaid while the policy remains in force. The approximate effective interest rate on policy loans is 11.7% (2008: 11.9%).

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**13. Investment Properties**

	<b>2009</b>	<b>2008</b>
Balance, beginning of year	\$ 40,130,000	\$ 35,226,821
Acquisition of investment property	11,559,000	-
Additions	29,442	4,374,343
Net gains from fair value adjustments	<u>1,008,000</u>	<u>528,836</u>
Balance, end of year	<u>\$ 52,726,442</u>	<u>\$ 40,130,000</u>

Land and buildings have been purchased for investment purposes and are carried at fair value. Investment properties, with carrying values totaling approximately \$39.6 million, have been mortgaged in support of bank borrowings (See Note 22). Income from investment properties, which amounted to \$4,103,569 (2008: \$2,937,047), is included in rental income in net investment income. Direct expenses related to generating rental income from investment properties, amounting to \$1,596,962 (2008: \$897,078), are included in general and administrative expenses.

**14. Investment in Associates**

Investment in Associates is comprised of:

	<b>2009</b>	<b>2008</b>
Walk-In Holdings Limited	\$ 3,882,427	\$ 3,708,442
SBL Ltd.	<u>4,641,134</u>	<u>-</u>
	<u>\$ 8,523,561</u>	<u>\$ 3,708,442</u>

*Walk-In Holdings Limited*

In November 2007, the Company, through its wholly-owned subsidiary, PRO Health Holdings Ltd., acquired a 30% interest in Walk-In Holdings Limited ("WIHL"), a privately-held company incorporated in The Bahamas at a cost of \$3,402,631. WIHL owns and operates two medical clinics in addition to its investment properties.

The investment in WIHL is as follows:

	<b>2009</b>	<b>2008</b>
Total assets	\$ 7,976,071	\$ 5,129,205
Total liabilities	<u>(2,476,983)</u>	<u>(210,068)</u>
Net assets of WIHL	<u>5,499,088</u>	<u>4,919,137</u>
Company's share of WIHL's balance sheet	1,649,726	1,475,741
Goodwill	<u>2,232,701</u>	<u>2,232,701</u>
Total investment in WIHL	<u>\$ 3,882,427</u>	<u>\$ 3,708,442</u>

Management estimates that the carrying value of the investment in WIHL approximates its fair value at the balance sheet date.

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The Company's share of WIHL's profit is as follows:

	<b>12 Months Ended Dec. 31, 2009</b>	<b>12 Months Ended Dec. 31, 2008</b>
Total revenue	\$ <u>4,586,646</u>	\$ <u>4,597,661</u>
Total profit for the period	\$ <u>579,951</u>	\$ <u>1,019,369</u>
Share of WIHL's profit	\$ <u>173,985</u>	\$ <u>305,811</u>

The Company's share of WIHL's profit is included in net investment income in the consolidated statement of income (See Note 29).

*SBL Ltd.*

In July 2009, Colina Insurance Limited, purchased 12% of SBL Ltd. ("SBL") at a cost of \$5 million. The Company's parent, Colina Holdings Bahamas Limited purchased 7% of SBL at a cost of \$3 million. In considering the classification of its equity holding in SBL, the Company has classified its investment in SBL as an investment in associate as two of the ten Board members of SBL Ltd. are also Directors of CHBL and the Company. SBL Ltd. in May 2009 acquired the issued and outstanding shares of Ansbacher (Bahamas) Limited ("ABL") and merged ABL subsequently with Sentinel Bank & Trust ("SBT") in July 2009 with the surviving entity retaining the name Ansbacher (Bahamas) Limited. ABL's principal activities comprise private and specialist banking, wealth protection and management, and fiduciary services.

The investment in SBL at December 31, 2009 is as follows:

	<b>2009</b>
Total assets	\$ 207,651,645
Total liabilities	<u>(179,602,527)</u>
Net assets of SBL	\$ <u>28,049,118</u>
Company's share of SBL's balance sheet	\$ 3,365,894
Goodwill	847,474
Intangible assets	<u>427,766</u>
Total investment in SBL	\$ <u>4,641,134</u>

Management estimates that the carrying value of the investment in SBL approximates its fair value at the balance sheet date.

The Company's share of investment in SBL's loss is as follows:

	<b>5 Months Ended Dec. 31, 2009</b>
Total revenue	\$ <u>4,882,828</u>
Total loss for the period	\$ <u>(2,999,467)</u>
Share of SBL's loss	\$ <u>(358,878)</u>

The Company's share of SBL's loss is included in net investment income in the consolidated statement of income (See Note 29).

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The following table shows an analysis of goodwill and other intangible assets included in investment in associates for the years ending December 31, 2009 and 2008.

	<b>Goodwill</b>	<b>Other Intangible Assets</b>	<b>Total</b>
Balance as of December 31, 2007	\$ 2,232,701	\$ -	\$ 2,232,701
Acquired during the year	-	-	-
Amortization	-	-	-
Impairment losses	-	-	-
Balance as of December 31, 2008	2,232,701	-	2,232,701
Acquired during the year	847,474	473,280	1,320,754
Amortization	-	(45,514)	(45,514)
Impairment losses	-	-	-
Balance as of December 31, 2009	<u>\$ 3,080,175</u>	<u>\$ 427,766</u>	<u>\$ 3,507,941</u>

The gross carrying value and accumulated amortization by major category of other intangible assets as of December 31, 2009, is shown below.

	<b>Other Intangible Assets</b>		
	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>	<b>Total</b>
Customer relationships	\$ 329,760	\$ (19,236)	\$ 310,524
Non-competitive agreement	54,480	(15,890)	38,590
Trade name	89,040	(10,388)	78,652
Total Other Intangible Assets	<u>\$ 473,280</u>	<u>\$ (45,514)</u>	<u>\$ 427,766</u>

The useful life of intangible assets with finite lives ranges from 2 to 10 years, with a weighted average amortization period of 9 years. Expected amortization of the intangible assets is shown below:

	<b>Other intangible assets included in investment in associates</b>
2010	78,024
2011	62,134
2012	50,784
2013	50,784
2014 and thereafter	186,040
	<u>427,766</u>

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**15. Receivables and Other Assets**

Receivables and other assets are comprised of the following:

	<b>2009</b>	<b>2008</b>
Financial assets		
Premiums receivable	\$ 21,831,257	\$ 16,575,556
Less: Provision on premiums receivable	(3,091,557)	(1,861,526)
Reinsurance recoveries receivable	6,468,271	5,945,524
Agents' balances	1,519,889	1,292,888
Less: Provision on agents' balances	(1,473,804)	(1,290,093)
Accrued interest income	2,647,934	2,920,366
Receivables from related parties (See Note 36)	354,772	449,864
Participation in IRM reinsurance facilities	2,374,152	3,212,745
Non-financial assets		
Prepayments and other assets	9,539,035	8,343,341
Leasehold improvements recoverable from tenants	-	42,215
	<u>                    </u>	<u>                    </u>
Total receivables and other assets	<u>\$ 40,169,949</u>	<u>\$ 35,630,880</u>

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

Included in 'prepayments and other assets' at December 31, 2009 is property repossessed by the Company on a mortgage default being held for sale and carried at estimated realizable value of \$500,000 (2008: \$500,000).

The Company participates in reinsurance facilities managed by International Reinsurance Managers, LLC ("IRM"), an underwriting management company domiciled in the United States of America which provides group health reinsurance services to small and medium sized insurance companies in the Caribbean and Latin America. The Company's participation in these facilities varies from 5% to 80% for differing underwriting years and its interest is included above. The underlying assets of the reinsurance facilities are principally comprised of US Treasury money market instruments.

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**16. Property and Equipment**

	Land, land improvements and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
Cost:					
At December 31, 2008	\$ 19,989,558	\$ 1,555,698	\$ 7,222,480	\$ 36,095	\$ 28,803,831
Acquired in purchase of subsidiary	31,967	-	508,899	13,037	553,903
Additions	577,713	257,198	390,232	11,840	1,236,983
Disposals	-	-	(1,937,416)	-	(1,937,416)
At December 31, 2009	<u>\$ 20,599,238</u>	<u>\$ 1,812,896</u>	<u>\$ 6,184,195</u>	<u>\$ 60,972</u>	<u>\$ 28,657,301</u>
Accumulated depreciation:					
At December 31, 2008	\$ 2,156,719	\$ 475,068	\$ 4,756,635	\$ 23,083	\$ 7,411,505
Acquired in purchase of subsidiary	1,921	-	378,800	13,037	393,758
Depreciation charge	568,237	155,191	1,129,102	6,944	1,859,474
Disposals	-	-	(1,945,288)	-	(1,945,288)
At December 31, 2009	<u>\$ 2,726,877</u>	<u>\$ 630,259</u>	<u>\$ 4,319,249</u>	<u>\$ 43,064</u>	<u>\$ 7,719,449</u>
Net book value:					
At December 31, 2009	<u>\$ 17,872,361</u>	<u>\$ 1,182,637</u>	<u>\$ 1,864,946</u>	<u>\$ 17,908</u>	<u>\$ 20,937,852</u>
At December 31, 2008	<u>\$ 17,832,839</u>	<u>\$ 1,080,630</u>	<u>\$ 2,465,845</u>	<u>\$ 13,012</u>	<u>\$ 21,392,326</u>

The cost of land, land improvements and buildings is comprised of the following:

	2009	2008
Land and land improvements	\$ 4,860,523	\$ 4,860,523
Buildings	<u>15,738,715</u>	<u>15,129,035</u>
Total cost	<u>\$ 20,599,238</u>	<u>\$ 19,989,558</u>

Properties are stated at their revalued amounts, as assessed by qualified independent property appraisers. The revalued amount is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses.

If land, land improvements and buildings were stated on a historical cost basis, the carrying amount would be \$11.1 million (2008: \$12.8 million).

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**17. Goodwill**

	<b>2009</b>	<b>2008</b>
Cost	\$ 10,473,068	\$ 10,473,068
Accumulated impairment charges	<u>(1,807,994)</u>	<u>(1,807,994)</u>
Net book amount	<u>\$ 8,665,074</u>	<u>\$ 8,665,074</u>
Balance, beginning of year	\$ 8,665,074	\$ 8,665,074
Impairment charge	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 8,665,074</u>	<u>\$ 8,665,074</u>

**18. Other Intangible Assets**

	<b>2009</b>	<b>2008</b>
Cost	\$ 2,418,851	\$ 2,219,334
Accumulated amortization	<u>(2,151,966)</u>	<u>(1,720,508)</u>
Net book amount	<u>\$ 266,885</u>	<u>\$ 498,826</u>
Balance, beginning of year	\$ 498,826	\$ 320,962
Additions	55,616	726,484
Amortization charge	<u>(287,557)</u>	<u>(548,620)</u>
Balance, end of year	<u>\$ 266,885</u>	<u>\$ 498,826</u>

**19. Investment in Parent**

The investment in Parent comprises 28,543 ordinary shares (2008: 28,543) of the Parent that are held by the Company and is stated at cost. The fair value of this quoted investment based on the year-end bid price was \$77,637 (2008: \$80,777).

**20. Due from Parent**

The balance due from Parent of \$64,956 (2008: \$73,500) arise from payments made by the Company on behalf of the Parent for expenses. This balance is unsecured and repayable on demand.

**21. Provision for Future Policy Benefits**

The provision for future policy benefits is calculated using expected future policy lapse rates, mortality, morbidity, investment yield and policy maintenance expense assumptions and any other relevant contingency.

The provisions for adverse deviation recognize uncertainty in establishing these best estimates and allow for possible deterioration in experience. As the best estimate assumption is realized, the provisions for adverse deviations will be released in future income to the extent that they are no longer required to cover adverse experience.

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The assumptions used in determining the provision for future policy benefits are reviewed regularly, compared to emerging experience and updated when appropriate. The assumptions that are most sensitive to change are investment yields, expenses, policy lapse rates, and mortality and morbidity.

*Margins for Adverse Deviation Assumptions*

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and decrease the income that would be recognized on inception of the policy. The Canadian Institute of Actuaries prescribes a range of allowable margins. The Company uses assumptions which take into account the risk profiles of the business. The Closed Participating Fund ("Closed Par Fund"), discussed below, has the lowest margins, as the risk is passed back to the policyholders by dividend distributions.

*Investment yields*

The computation of policy liabilities takes into account projected net investment income on assets supporting policy liabilities and income expected to be earned or forgone on reinvestment or financing of mismatched cash flows. Uncertainties exist with respect to projections of interest rates and the magnitude of losses from asset defaults. The Company accounts for such uncertainties by incorporating provisions for losses into projections of investment income. A margin for adverse deviation is calculated by interest rate scenario testing under the CALM methodology. The margin in the most adverse scenario can be interpreted as deducting 75 basis points from current rates and assuming future interest rates level off at 5.3% in 20 years. If future interest rates were to differ by 100 basis points from that assumed in the valuation, without changing the policyholder dividend scale, the liability would increase by \$56.8 million or decrease by \$42.1 million.

*Expenses*

The administration expense assumption is based on an expense study conducted by the Company for 2009; the expenses are allocated by line of business using allocation factors developed by the Company. Such expense studies are conducted annually, and are subject to changes in the Company's cost structure as well as the rate of inflation. Expenses are assumed to increase with inflation of 2.29% in 2011 decreasing to 1.49% by 2027. Expenses are increased by a range of 0% to 6.25%, where the Closed Par Fund has no margin. If future expenses are to differ by 10% from that assumed, the liability would increase by \$6.3 million or decrease by \$6.3 million.

*Policy lapse rates*

Policyholders may allow their policies to lapse by choosing not to continue to pay premiums. The Company bases its estimate of future lapse rates on previous experience for a block of policies. A margin for adverse deviation is added by increasing or decreasing lapse rates, whichever is adverse, by a range of 4% to 20%. If future lapse rates are to differ by 10% from that assumed, the liability would increase by \$7.4 million or decrease by \$7.1 million.

*Mortality and Morbidity*

Assumptions for life business are based on Company and industry experience. A margin is added for adverse deviation in the range of 4.0 to 11.25 per 1000 divided by the expectation of life for mortality, and between 15% and 20% for morbidity. The Closed Par Fund has the lowest margin added. If future mortality and morbidity are to differ by 10% from that assumed, the liability would increase by \$5.5 million or decrease by \$5.4 million.

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*Medical claims costs*

The principal assumption underlying the estimate of the medical claims reserve is the Company's past claims development experience. This includes assumptions in respect of average claim costs and claims inflation factors. If the average claim costs were to increase by 10%, gross liabilities would increase by \$0.8 million, with the net liabilities increasing by \$0.8 million. If the average claim costs were to decrease by 10%, gross liabilities would decrease by \$0.8 million, with the net liabilities decreasing by \$0.7 million.

*Analysis of provision for future policy benefits*

The following is a summary of the provision for future policy benefits by product line:

	<b>2009</b>	<b>2008</b>
Life insurance	\$ 252,578,397	\$ 238,187,208
Annuities	22,933,878	19,302,036
Accident and health/IBNR	18,424,319	17,784,818
Colina Investment Plan (See Note 35)	<u>10,791,710</u>	<u>16,930,882</u>
Total provision for future policy benefits	<u>\$ 304,728,304</u>	<u>\$ 292,204,944</u>

The following is a summary of the provision for future policy benefits by contract category:

	<b>2009</b>	<b>2008</b>
Short-term insurance contracts	\$ 19,127,381	\$ 18,409,558
Long-term insurance and other contracts		
-with fixed and guaranteed terms	60,225,981	60,760,008
-with fixed and guaranteed terms and with DPF	180,142,173	168,656,780
-without fixed and guaranteed terms	22,162,490	18,302,571
-without fixed and guaranteed terms and with DPF	12,278,569	9,145,145
Long-term investment contracts with DPF	<u>10,791,710</u>	<u>16,930,882</u>
Total provision for future policy benefits	<u>\$ 304,728,304</u>	<u>\$ 292,204,944</u>

*Analysis of change in provision for future policy benefits*

	<b>2009</b>	<b>2008</b>
Balance, beginning of year	\$ 292,204,944	\$ 284,084,514
Normal changes in policy liabilities	14,869,441	8,340,605
Changes in assumptions and refinement of estimates	<u>(2,346,081)</u>	<u>(220,175)</u>
Balance, end of year	<u>\$ 304,728,304</u>	<u>\$ 292,204,944</u>

*Closed Participating Fund*

Included in the provision for future policy benefits as of December 31, 2009 are actuarial reserves totalling \$29.2 million (2008: \$28.9 million) relating to Colina's commitment to maintain and operate a Closed Participating Fund ("Closed Par Fund") covering the individual participating business (both life and annuity) of the Canada Life portfolio of business acquired on January 1, 2004. The objective of this Closed Par Fund is to finance the participating policyholders' reasonable expectations that Colina will: (i) pay the benefits guaranteed by each participating policy according to its terms; (ii) pay dividends according to the current dividend scale

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provided that current experience continues; and (iii) make an equitable adjustment to the dividend scale in future years to reflect any deviations from the current experience, in accordance with the insurer's dividend policy as well as applicable actuarial standards. Future profits that may emerge within the Closed Par Fund are for the sole benefit of the participating policyholders.

The Appointed Actuary's valuation of the Closed Par Fund as of December 31, 2009 shows that it had the following asset mix: government securities – 36.7%; policy loans – 28.3%; mortgage loans – 18.4%; corporate bonds – 6.2%; equity securities – 6.1%; and preference shares – 4.3% (2008: government securities – 48.3%; policy loans – 31.0%; mortgage loans – 12.3%; equity securities – 7.7%; corporate bonds – 0.7%).

**22. Bank Loans**

Bank Loans are comprised of the following:

	<b>2009</b>	<b>2008</b>
RND Loan	\$ 2,903,756	\$ -
GBDC Loan	<u>-</u>	<u>678,923</u>
	<u>\$ 2,903,756</u>	<u>\$ 678,923</u>

Principal amounts due on bank loans are as follows:

	<b>2009</b>	<b>2008</b>
Within 1 year	\$ 503,699	\$ 678,923
Later than 1 year and not later than 5 years	<u>2,400,057</u>	<u>-</u>
	<u>\$ 2,903,756</u>	<u>\$ 678,923</u>

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

*RND Loan*

The RND loan was obtained by the Company's subsidiary, RND Holdings Ltd. (RND) in April 2007 to finance the development of its investment property holdings. The loan bears interest at the Bahamian \$ Prime rate of 5.5% per annum plus a margin of 2.0% for an effective rate of 7.50% per annum.

The RND loan is secured by the following:

- Floating charge debenture stamped for \$3,200,000 with power to upstamp giving First Caribbean International Bank Limited a floating charge over all business assets, incorporating a first legal charge over the Marsh Harbour, Abaco and JFK Drive, New Providence properties and second consolidating debenture and further charge stamped to secure \$505,000.
- Registered First Demand Legal Mortgage over Lot 3A, 3B, 3C and 3D, situated in Block O, Freeport, Grand Bahama properties. Stamped to secure \$1,800,000.
- Acknowledged assignment of fire and other perils insurance on the business assets including property, furniture, fixtures and equipment for full replacement value with the Standard Mortgage Clause attached.

*GBDC Loan*

The GBDC loan was obtained by the Company's subsidiary, Goodman's Bay Development Company (GBDC) in April 2000 to finance the development of the Goodman's Bay Corporate Centre. The loan bore interest at the Bahamian \$ Prime rate of 5.5% (2008: 5.5%) per annum plus a margin of 1.75% (2008: 1.75%).

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The GBDC loan was collateralized by the following:

- A debenture creating a first demand legal mortgage over the Goodman's Bay Corporate Centre stamped and recorded to \$12,500,000.
- Assignment of insurance coverage for fire and hurricane loss.
- Assignment of all current and future leases from the tenants of the Goodman's Bay Corporate Centre.

In December 2006, the Company entered into an agreement with GBDC to refinance its bank loan as excess liquidity became available. As of April 2009, the outstanding principal balance of the bank loan was repaid by the Company on behalf of GBDC. The Company's intercompany loan to GBDC bears an interest rate of Bahamian \$ Prime rate of 2.5% per annum, plus a margin of 1.75%. Effective June 29, 2009, GBDC began repayment on the intercompany loan on the same repayment terms and conditions as the bank loan. The principal loan amount and interest earned have been recorded as intercompany balances with GBDC which have been eliminated on consolidation.

**23. Other Liabilities**

	<b>2009</b>	<b>2008</b>
Third party pension liabilities	\$ 24,515,926	\$ 22,855,793
Benefits payable to policyholders	11,590,907	12,912,893
Accrued expenses and other liabilities	17,296,558	14,592,736
Bank overdraft (See Note 9)	191,493	911,402
Reinsurance payables	1,132,337	1,431,125
Guaranteed investment contracts	582,882	582,882
Due to the Company's pension plan	<u>-</u>	<u>1,230</u>
Total other liabilities	<u>\$ 55,310,103</u>	<u>\$ 53,288,061</u>

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

**24. Share Capital**

	<b>2009</b>	<b>2008</b>
Authorized:		
1,000,000 Ordinary shares of B\$1 each (2008: 1,000,000)	\$ 1,000,000	\$ 1,000,000
Issued and fully paid:		
1,000,000 Ordinary shares of B\$1 each (2008: 1,000,000)	\$ 1,000,000	\$ 1,000,000

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**25. Revaluation Reserve**

The revaluation reserve is comprised of the net gain/(loss) on remeasurement of available-for-sale securities to fair value and revaluation adjustments related to land and buildings as of the reporting date.

	<b>2009</b>	<b>2008</b>
Balance, beginning of year	\$ 8,461,703	\$ 6,114,639
Fair value (losses)/gains, net during the year	(1,286,836)	(1,590,277)
Revaluation of land and buildings	-	4,087,598
Transfers to retained earnings	(350,728)	(127,505)
Transfers to net income	<u>(257,635)</u>	<u>(22,752)</u>
Balance, end of year	<u>\$ 6,566,504</u>	<u>\$ 8,461,703</u>

**26. Contingent Liabilities and Commitments**

The Company has the following contingent liabilities and commitments as of the year-end reporting date:

*Legal proceedings and regulations*

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position.

The Company is also subject to insurance solvency regulations in all the jurisdictions in which it operates and has complied with all regulations. There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

*Contingent liabilities*

The Company has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. It is not anticipated that any material loss will arise from the contingent liabilities. The Company has given guarantees to third parties in the ordinary course of business amounting to \$2,334,403 (2008: \$2,282,440).

The Company, like all other insurers, is from time to time, in connection with its operations, named as a defendant in actions for damages and costs allegedly sustained by the plaintiffs. The Board of Directors is of the opinion, based upon the advice of counsel, that the final outcome of such actions will not have a material adverse effect on the financial position of the Company.

*Commitments*

*Lending:* Commitments to extend credit for mortgages and commercial loans amounted to \$1,010,054 (2008: \$2,232,770).

*Purchase of property and equipment:* The Company had no commitments for purchases of capital equipment or services at December 31, 2009 (2008: \$Nil).

*Leases:* The Company leases office and other space for use in its day-to-day business activities pursuant to the terms of non-cancelable operating leases. The expenditures related to these lease arrangements are not considered to be material. The future aggregate minimum lease payments under operating leases as of December 31, 2009 are as follows:

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No later than 1 year	\$ 713,839
Later than 1 year and no later than 5 years	3,362,734
Later than 5 years	<u>602,680</u>
Total	<u>\$ 4,679,253</u>

**27. Future Minimum Lease Payments Receivable**

The Company derives rental income from certain of its investment properties under non-cancellable rental agreements. The future minimum lease payments due to be received under these agreements as of December 31, 2009 are as follows:

No later than 1 year	\$ 2,733,838
Later than 1 year and no later than 5 years	<u>5,527,248</u>
Total	<u>\$ 8,261,086</u>

**28. Net Premium Revenue**

Net premium revenue is comprised of the following:

	<b>2009</b>	<b>2008</b>
Life and health insurance premiums	\$ 139,027,655	\$ 135,713,433
Less: Reinsurance premiums	<u>(16,230,623)</u>	<u>(11,614,216)</u>
Subtotal	122,797,032	124,099,217
Premiums from IRM reinsurance facilities (See Note 15)	<u>10,605,203</u>	<u>11,699,388</u>
Net premium revenue	<u>\$ 133,402,235</u>	<u>\$ 135,798,605</u>

Net premium revenues are classified in the following categories:

	<b>2009</b>	<b>2008</b>
Short-term insurance contracts	\$ 83,159,485	\$ 77,644,110
Long-term insurance and other contracts		
-with fixed and guaranteed terms	16,466,058	15,938,080
-with fixed and guaranteed terms and with DPF	26,639,426	39,583,889
-without fixed and guaranteed terms	4,496,050	184,659
-without fixed and guaranteed terms and with DPF	14,712,909	8,888,073
Long-term investment contracts with DPF	<u>4,158,930</u>	<u>5,174,010</u>
Total premium revenue arising from contracts issued	149,632,858	147,412,821
Premiums ceded to reinsurers	<u>(16,230,623)</u>	<u>(11,614,216)</u>
Net premium revenue	<u>\$ 133,402,235</u>	<u>\$ 135,798,605</u>

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**29. Net Investment Income**

Net investment income is classified as follows:

	<b>2009</b>	<b>2008</b>
Term deposits	\$ 813,755	\$ 713,725
Investment securities	10,425,840	8,173,066
Fair value (losses)/gains, net included in the revaluation reserve (See Note 25)	(1,286,836)	(1,590,277)
Less: Investment management fees (See Note 36)	<u>(939,640)</u>	<u>(911,908)</u>
Net investment return on managed assets	9,013,119	6,384,606
Mortgages and commercial loans	3,053,332	4,551,707
Policy loans	7,958,732	7,445,000
Rental income	4,380,098	3,051,687
Fair value gains on investment properties (See Note 13)	1,008,000	528,836
Gain on business combination (See Note 7)	2,054,036	-
Investment in associates (See Note 14)	(184,893)	305,811
Other fees and income	<u>(993,004)</u>	<u>(209,373)</u>
Total return on invested assets	26,289,420	22,058,274
Less: Fair value losses/(gains) in the revaluation reserve	<u>1,286,836</u>	<u>1,590,277</u>
Total net investment income recognized in income	<u>\$ 27,576,256</u>	<u>\$ 23,648,551</u>

Included in net investment income from investment securities is an impairment charge of \$524,121 (2008: \$1,071,782).

**30. Net Policyholders' Benefits**

Net policyholders' benefits are comprised of the following:

	<b>2009</b>	<b>2008</b>
Life and health policyholder benefits	\$ 94,941,570	\$ 94,557,455
Less: Reinsurance recoveries	<u>(9,087,877)</u>	<u>(4,955,653)</u>
Subtotal	85,853,693	89,601,802
Benefits paid on IRM reinsurance facilities (See Note 15)	<u>9,570,515</u>	<u>10,599,569</u>
Total net policyholders' benefits	<u>\$ 95,424,208</u>	<u>\$ 100,201,371</u>

Included in life and health policyholder benefits is \$1,114,592 related to interest on policy dividends on deposit (2008: \$1,323,986).

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Policyholders' benefits for the year by contract classification were as follows:

	<b>2009</b>	<b>2008</b>
Short-term insurance contracts	\$ 60,935,665	\$ 60,287,905
Long-term insurance and other contracts		
-with fixed and guaranteed terms	11,440,708	11,411,886
-with fixed and guaranteed terms and with DPF	22,705,030	22,118,330
-without fixed and guaranteed terms	2,029,914	2,301,868
-without fixed and guaranteed terms and with DPF	6,192,896	7,482,900
Long-term investment contracts with DPF	<u>1,207,872</u>	<u>1,554,135</u>
Total policyholders' benefits	104,512,085	105,157,024
Reinsurance recoveries	<u>(9,087,877)</u>	<u>(4,955,653)</u>
Net policyholders' benefits	<u>\$ 95,424,208</u>	<u>\$ 100,201,371</u>

**31. General and Administrative Expenses**

General and administrative expenses are comprised of:

	<b>2009</b>	<b>2008</b>
Salaries and employee/agent benefits	\$ 10,937,265	\$ 11,491,544
Fees, insurance and licences	3,458,320	4,805,171
IRM reinsurance facilities expenses (See Note 15)	2,523,687	1,774,793
Advertising and communications expense	2,501,196	2,888,648
Depreciation and amortization	2,147,031	2,756,032
Premises and maintenance	2,413,292	2,459,479
Underwriting fees	934,584	916,034
Other expenses	<u>1,214,494</u>	<u>1,323,756</u>
Total general and administrative expenses	<u>\$ 26,129,869</u>	<u>\$ 28,415,457</u>

**32. Finance Costs**

Finance costs are comprised of:

	<b>2009</b>	<b>2008</b>
Interest on bank overdrafts and loans	\$ 191,280	\$ 309,343
Interest on guaranteed investment and other contracts	<u>30,882</u>	<u>34,843</u>
	<u>\$ 222,162</u>	<u>\$ 344,186</u>

**33. Dividends Per Share**

Dividends to the Company's shareholders are recognized as a liability in the period in which they are declared by the Board of Directors. Dividends paid by the Company to the ordinary shareholder in 2009 totalled \$6,212,277 (\$6.21 per share) (2008: \$3,225,247 (\$3.23 per share)). (See also Note 38).

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**34. Pension Plan**

The Company operates a defined contribution plan for administrative staff and agents. The plan is administered by an affiliated company. Under the plan, all eligible staff and agents contribute 5% of pensionable earnings and the Company contributes 5%. The Company's matching contributions vest fully with the employee after five years. Pension expense for the year was \$543,989 and is included in salaries and employee/agent benefits expense (2008: \$554,634).

**35. Unit Linked Funds and Investment Plans**

Certain policy contracts allow the policyholder to invest in units in a notional fund called the Bahamas Investment Fund (the "BIF"). The value of the units is linked to the performance of the underlying assets of the BIF. These assets may be varied by the Company from time to time and neither the policyholder nor any other person who may be entitled to benefit has any legal or beneficial interest in the BIF or the units or any underlying assets, which are solely the property of the Company.

Certain policy contracts, obtained through the acquisition of the former Colina in 2002, allow the policyholder to acquire units in a notional investment fund known as the Colina Investment Plan (the "CIP"). The value of the units is based on the performance of the underlying assets of the CIP. These assets may be varied from time to time.

Depending on the issue date of their investment, the Company guarantees investors in the CIP a minimum rate of return of either 4% or 4.5% per annum, payable at maturity.

Issuance of new CIP policies was discontinued in January 2001.

The underlying assets of the BIF and CIP that are included in their respective categories in the consolidated balance sheet at December 31 are as follows:

	<b>Bahamas Investment Fund</b>		<b>Colina Investment Plan</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Equities - listed	\$ 7,190,948	\$ 8,592,185	\$ 2,141,408	\$ 3,476,822
Equities - unquoted	165,577	683,107	80,639	100,534
Preferred shares - unquoted	327,000	367,000	50,000	100,000
Shares in investment funds	13,436	43,621	-	-
Government securities	5,704,067	4,529,088	11,597,434	10,696,872
Debt securities - unquoted	715,258	705,416	1,300,000	1,300,000
Term deposits	1,230,576	906,283	508,561	100,000
Policy loans	-	-	1,273,160	1,232,697
Cash	180,926	434,341	82,029	554,506
Due to general fund	(1,601,328)	(440,229)	(6,241,521)	(630,549)
Total assets	<u>\$ 13,926,460</u>	<u>\$ 15,820,812</u>	<u>\$ 10,791,710</u>	<u>\$ 16,930,882</u>

**36. Related Party Balances and Transactions**

Related parties are entities or individuals where there is effective control or significant influence by the Company, its directors, AFH or its shareholders. All significant balances and transactions with AFH and entities or individuals controlled or significantly influenced by AFH or otherwise related to it, are disclosed in these consolidated financial statements as being with related parties.

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*Transactions with related parties*

The following transactions were carried out with related parties:

	AFH	Other affiliates	Other related parties	Total 2009	Total 2008
<b>Revenues</b>					
Group and life insurance	\$ 2,654	\$ 642,356	\$ 656,978	\$ 1,301,988	\$ 926,278
Rental income	-	-	54,000	54,000	54,000
Sub-investment fees	-	-	96,365	96,365	176,369
Total	<u>\$ 2,654</u>	<u>\$ 642,356</u>	<u>\$ 807,343</u>	<u>\$ 1,452,353</u>	<u>\$ 1,156,647</u>
<b>Expenses</b>					
Consulting fees	\$ 15,167	\$ -	\$ -	\$ 15,167	\$ 399,000
Legal fees	-	97,474	-	97,474	236,637
Investment management fees	-	-	939,640	939,640	911,908
Administration, Registrar and Transfer Agent fees	-	-	225,232	225,232	223,142
Property rental	60,000	530,088	50,000	640,088	590,088
Property and casualty insurance	-	-	489,023	489,023	519,022
Other	26,876	1,682,038	30,026	1,738,940	915,958
Total	<u>\$ 102,043</u>	<u>\$ 2,309,600</u>	<u>\$ 1,733,921</u>	<u>\$ 4,145,564</u>	<u>\$ 3,795,755</u>

Consulting fees in 2008 included \$299,000 paid to AFH pursuant to the terms of an agreement dated July 18, 2002 (the "July 2002 Services Agreement") whereby AFH rendered to the Company technical, administrative, financial, advisory and other services. This agreement was terminated in January 2009. Other fees included in this caption relate to consulting fees paid to a related party for advice on various business and strategic planning opportunities.

The investment management fees totaling \$939,640 (2008: \$911,908) were charged by a related party Investment Manager pursuant to the terms of an Investment Management Agreement dated January 1, 2004. Such fees are charged monthly at various basis point rates depending on the class of assets managed. The Investment Manager is a registered broker-dealer and, as such, has custody of a significant portion of the Company's invested assets.

Included in 'other' expenses with other affiliates is \$673,940 (2008: \$504,782) in fees paid to a subsidiary of Walk-In Holdings Limited for medical underwriting fees for the year ended December 31, 2009. Also included are fees totalling \$143,089 (2008: \$57,499) paid to a computer servicing company which is included as a related party due to a common directorship. The computer servicing company is one which has been used by the Company for several years and the terms and conditions for the services provided are on an arms-length basis. The Company also engaged an affiliated Building and Development company during 2009 to renovate certain of its investment property and occupied buildings for fees totaling \$750,798. Other items included in this caption relate to marketing and advertising expenses of \$79,153 (2008: \$210,878) paid to The Nassau Guardian and other amounts related to general administrative expenses.

*Key management personnel compensation*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Compensation for key management personnel for the year ended December 31,

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2009 was \$1,290,495 (2008: \$1,332,135). In addition, termination benefits paid during the year ended December 31, 2009 in respect of former key management personnel totalled \$71,591 (2008: \$364,701).

*Directors fees*

Fees paid to Directors for services rendered on Board and Board Committees for the year ended December 31, 2009 totalled \$238,500 (2008: \$256,637).

*Year-end balances arising from sales/purchases of products and /or services*

The following related party amounts are included in the consolidated balance sheet as at December 31:

	AFH	Other affiliates	Other related parties	Key Management	Total 2009	Total 2008
<b>Assets</b>						
Investment securities	\$ -	\$ 184,926	\$ -	\$ -	\$ 184,926	\$ 184,926
Mortgages and commercial loans, net	\$ -	\$ -	\$ 304,515	\$ 1,260,525	\$ 1,565,040	\$ 981,500
Cash and bank balances	\$ -	\$ -	\$ 31,673	\$ -	\$ 31,673	\$ 121,778
Receivables and other assets	\$ 85,232	\$ 171,016	\$ 98,524	\$ -	\$ 354,772	\$ 449,864
<b>Liabilities</b>						
Other liabilities	\$ 75,167	\$ 153,032	\$ 212,578	\$ 10,000	\$ 450,777	\$ 142,045

Loans advanced to related parties included in mortgages and commercial loans carry interest rates between 5.50% and 6.75% p.a.

The Company advanced funds totaling \$7,874,644 as at December 31, 2009 to its subsidiary, GBDC under an intercompany loan agreement (See Note 22). The intercompany advance and related interest amounts are not included in the balances above as they have been eliminated on consolidation.

**37. Risk Management**

*Governance Framework*

The primary objective of the Company's Corporate Governance framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place. The Company has a clear organizational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and senior managers.

*Regulatory Framework*

Regulators are primarily interested in protecting the rights of the policyholders and have established guidelines and regulations by which the Company is required to comply to ensure that the Company is satisfactorily managing affairs for their benefit. The operations of the Company are subject also to regulatory requirements in the foreign jurisdictions in which it operates. The Company's regulators are interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from changes in the economic environment. Such regulations not only prescribe approval and monitoring of activities but also

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impose certain restrictive provisions to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as they arise.

*Insurance risk*

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim.

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that increase insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

*Frequency and severity of claims*

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The table below indicates the concentration of insured benefits across four bands of insured benefits per coverage insured rounded to the nearest thousand.

	<b>2009</b> <b>(in \$000s)</b>	<b>2008</b> <b>(in \$000s)</b>
\$0 to \$49,999	\$ 886,296	\$ 929,507
\$50,000 to \$99,999	1,104,823	1,123,746
\$100,000 to \$149,999	2,108,814	2,093,911
\$150,000 and over	<u>2,761,881</u>	<u>2,613,738</u>
Total	<u>\$ 6,861,814</u>	<u>\$ 6,760,902</u>

The Company manages risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. Medical selection is also included in the Company's underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. The Company limits the amount of loss on any one policy by reinsuring certain levels of risk in various areas of exposure with other insurers.

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Generally, the Company has retention limits or a maximum exposure on insurance policies as follows:

	<b>2009</b>		<b>2008</b>
Individual life	\$ 150,000	\$	150,000
Individual accidental death and dismemberment	\$ 50,000	\$	50,000
Personal accident	\$ 50,000	\$	50,000
Group accidental death and dismemberment	\$ 50,000	\$	50,000
Individual and Group Medical	\$ 250,000	\$	250,000

Reinsurance ceded does not discharge the Company's liability as the primary insurer and failure of reinsurers to honour their obligations could result in losses to the Company.

*Financial risk*

The Company is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, credit risk and liquidity risk.

These risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk.

The Company manages these positions within an asset liability management ("ALM") framework that has been developed to maximize long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Company's ALM is to match cash flows from assets to the liability cash flows arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The Company's ALM is integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities.

*Interest rate risk*

Colina is vulnerable to periods of declining interest rates given that most of its investments in government bonds and mortgages and commercial loans have floating interest rates tied to the Bahamian \$ Prime rate. The Company manages this risk by attempting to retain a level of assets to liabilities with similar principal values, effective interest rates and maturity dates.

The Company monitors interest rate risk by calculating the duration of the investment portfolio and the liabilities issued. The duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The duration of the liabilities is determined by projecting expected cash flows from the contracts using best estimates of mortality, morbidity and terminations. No future discretionary supplemental benefits are assumed to accrue. The duration of the assets is calculated in a consistent manner. Any gap between the duration of the assets and the duration of the liabilities is minimized by means of buying and selling securities of different durations. The Company's sensitivity to interest rate risk is included in Note 21.

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*Credit risk*

Credit risk arises from the failure of a counterparty to perform according to the terms of the contract. From this perspective, the Company's credit risk exposure is primarily concentrated in its deposits placed with other financial institutions, loans to policyholders and other clients, and amounts due from reinsurers and insurance contract holders.

The Company's deposits are primarily placed with well-known high quality financial institutions. Loans to policyholders are generally collateralized by cash surrender values of the respective policies. Mortgage loans are adequately secured by properly registered legal charges on real property. With respect to the Company's unsecured commercial paper loans and other material unsecured receivables, management is satisfied that the debtors concerned are both financially able and willing to meet their obligations to the Company except in those instances where impairment provisions have been made.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. The Appointed Actuary advises management with respect to the Company's reinsurance placement policy and assists with assessing the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information. The Company's main reinsurer is Munich Reinsurance Company Canada Branch (Life).

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's internal assessments of the credit ratings of counterparties. The table also includes an aging analysis of financial assets, providing information regarding the Company's exposures on amounts current, and past due:

December 31, 2009 (in \$000s)	Balances with		Current		Past due but not impaired		Past due and/or impaired	Total
	no scheduled repayment dates	Investment Grade	Non- Graded	Unit Linked	30 - 90 days	>90 days		
Financial assets								
Term deposits	\$ -	\$ -	\$ 10,408	\$ 1,739	\$ -	\$ -	\$ -	\$ 12,147
FVPL securities	-	1,979	5,914	14,116	-	-	-	22,009
AFS securities	-	117,319	34,017	15,169	-	-	-	166,505
Mortgages and commercial loans	-	-	47,525	-	7,279	12,870	9,186	76,860
Policy loans	69,420	-	-	1,273	-	-	1,050	71,743
Cash and demand balances	12,558	-	-	263	-	-	-	12,821
Premiums receivable	-	-	786	-	3,131	14,823	-	18,740
Reinsurance receivables	-	-	6,468	-	-	-	-	6,468
Other financial assets	2,775	2,648	-	-	-	-	-	5,423
Total financial assets	\$ 84,753	\$ 121,946	\$ 105,118	\$ 32,560	\$ 10,410	\$ 27,693	\$ 10,236	\$ 392,716

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December 31, 2008 (in \$000s)	Balances with		Current	Unit Linked	Past due but not impaired		Past due and/or impaired	Total
	no scheduled repayment dates	Investment Grade	Non- Graded		30 - 90 days	>90 days		
Financial assets								
Term deposits	\$ -	\$ -	\$ 14,602	\$ 1,006	\$ -	\$ -	\$ -	\$ 15,608
FVPL securities	-	2,107	-	14,920	-	-	-	17,027
AFS securities	-	148,484	2,020	15,674	-	-	-	166,178
Mortgages and commercial loans	-	-	46,067	-	10,772	10,663	6,357	73,859
Policy loans	70,728	-	-	1,233	-	-	1,208	73,169
Cash and demand balances	11,344	-	-	989	-	-	-	12,333
Premiums receivable	-	-	947	-	5,590	8,043	134	14,714
Reinsurance receivables	-	-	5,946	-	-	-	-	5,946
Other financial assets	3,666	2,920	-	-	-	-	-	6,586
Total financial assets	\$ 85,738	\$ 153,511	\$ 69,582	\$ 33,822	\$ 16,362	\$ 18,706	\$ 7,699	\$ 385,420

Management's internal credit rating assessment allows for Government Securities and listed equity securities to be included in the 'Investment Grade' classification.

*Liquidity risk*

The Company is exposed to daily calls on its available cash resources, mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover maturities, claims and surrenders at unexpected levels of demand.

The table below summarizes the maturity profile of the financial liabilities of the Company based on remaining contractual obligations (undiscounted cash flow basis):

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December 31, 2009 (in \$000s)	Up to a year	1-5 years	Over 5 years	No Term	Not Classified	Total
Insurance and Investment Contracts						
Short-term insurance contracts	\$ (71)	\$ (243)	\$ (112)	-	\$ 19,244	\$ 18,818
Long-term insurance and other contracts						
-with fixed and guaranteed terms	(15,460)	(52,571)	38,609	-	5,236	(24,186)
-with fixed and guaranteed terms, with DPF	(7,362)	(29,529)	147,579	-	4,494	115,182
-without fixed and guaranteed terms	323	1,389	13,071	-	868	15,651
-without fixed and guaranteed terms, with DPF	(58)	4	7,002	-	(395)	6,553
Long-term investment contracts with DPF	-	-	-	-	10,792	10,792
Financial Liabilities						
Policy dividends on deposit	-	-	-	32,329	-	32,329
Bank loan	504	2,400	-	-	-	2,904
Other financial liabilities	30,794	-	-	24,516	-	55,310
<b>Total</b>	<u>\$ 8,670</u>	<u>\$ (78,550)</u>	<u>\$ 206,149</u>	<u>\$ 56,845</u>	<u>\$ 40,239</u>	<u>\$ 233,353</u>

December 31, 2008 (in \$000s)	Up to a year	1-5 years	Over 5 years	No Term	Not Classified	Total
Insurance and Investment Contracts						
Short-term insurance contracts	\$ (57)	\$ (278)	\$ (178)	-	\$ 18,610	\$ 18,097
Long-term insurance and other contracts						
-with fixed and guaranteed terms	(14,182)	(49,318)	40,665	-	3,599	(19,236)
-with fixed and guaranteed terms, with DPF	(7,729)	(30,604)	142,405	-	5,189	109,261
-without fixed and guaranteed terms	496	2,105	10,493	-	583	13,677
-without fixed and guaranteed terms, with DPF	(3,951)	(11,918)	10,461	-	(275)	(5,683)
Long-term investment contracts with DPF	-	-	-	-	16,931	16,931
Financial Liabilities						
Policy dividends on deposit	-	-	-	33,784	-	33,784
Bank loan	679	-	-	-	-	679
Other financial liabilities	29,850	582	-	22,856	-	53,288
<b>Total</b>	<u>\$ 5,106</u>	<u>\$ (89,431)</u>	<u>\$ 203,846</u>	<u>\$ 56,640</u>	<u>\$ 44,637</u>	<u>\$ 220,798</u>

Due to system limitations, certain balances were not able to be classified and have been included in the caption 'not classified'.

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The table below summarizes the expected recovery or settlement of assets:

<b>December 31, 2009</b> <b>(in \$000s)</b>	<b>Current</b>	<b>Non-Current</b>	<b>Unit Linked</b>	<b>Total</b>
Term deposits	\$ 10,408	\$ -	\$ 1,739	\$ 12,147
Investment securities				
FVPL securities	-	7,893	14,116	22,009
AFS securities	402	150,934	15,169	166,505
Mortgages and commercial loans	115	76,745	-	76,860
Policy loans	-	71,743	-	71,743
Investment properties	-	52,727	-	52,727
Investment in associates	-	8,524	-	8,524
Cash and demand balances	12,558	-	263	12,821
Receivables and other assets	40,170	-	-	40,170
Property and equipment	-	20,938	-	20,938
Goodwill	-	8,665	-	8,665
Other assets	-	413	-	413
<b>Total Assets</b>	<b>\$ 63,653</b>	<b>\$ 398,582</b>	<b>\$ 31,287</b>	<b>\$ 493,522</b>

<b>December 31, 2008</b> <b>(in \$000s)</b>	<b>Current</b>	<b>Non-Current</b>	<b>Unit Linked</b>	<b>Total</b>
Term deposits	\$ 14,602	\$ -	\$ 1,006	\$ 15,608
Investment securities				
FVPL securities	-	2,107	14,920	17,027
AFS securities	2,020	148,484	15,674	166,178
Mortgages and commercial loans	504	73,355	-	73,859
Policy loans	-	71,936	1,233	73,169
Investment properties	-	40,130	-	40,130
Investment in associate	-	3,708	-	3,708
Cash and demand balances	11,344	-	989	12,333
Receivables and other assets	35,631	-	-	35,631
Property and equipment	-	21,392	-	21,392
Goodwill	-	8,665	-	8,665
Other assets	-	654	-	654
<b>Total Assets</b>	<b>\$ 64,101</b>	<b>\$ 370,431</b>	<b>\$ 33,822</b>	<b>\$ 468,354</b>

*Operational risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. Internal processes include activities relating to accounting, reporting, operations, compliance and personnel management. Such risk manifests itself in various breakdowns, errors and business interruptions and can potentially result in financial losses and other damage to the Company. The Company has gone through a series of acquisitions in recent years that make it vulnerable to operational risk associated with the integration of the portfolios purchased. To address these risks the Company has made significant investments in the consolidation and implementation of new systems to further improve its operating platforms.

The Company regularly assesses new systems which will better enable the Company to monitor and control its exposure to operational risk in order to keep operational risk at appropriate levels.

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*Capital Management*

Externally imposed capital requirements for Colina are set and regulated by the Insurance Commission of The Bahamas. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximize shareholders' value. For the purposes of assessing its capital position, Colina uses the capital on its consolidated balance sheet excluding goodwill and with limitations placed on all but the strongest forms of capital.

Colina measures its solvency ratio using Canadian reserving methodologies and solvency standards as measured by the Minimum Continuing Capital and Surplus Requirement ("MCCSR"). The Canadian Insurance regulator has set a MCCSR supervisory target of 150%. At December 31, 2009, Colina's MCCSR exceeded the target.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid or return of capital to the shareholders.

The Company fully complied with all externally imposed capital requirements during the reported financial period and no changes were made to its capital base, objectives, policies and processes from the prior year.

**38. Other Significant Events**

*Dividend to ordinary shareholders*

On March 25, 2010, the Board of Directors approved the payment of an ordinary dividend of \$4.50 per Ordinary Share to Ordinary shareholders of record as of April 15, 2010. The dividends are scheduled to be paid in May 2010.

*Investments subsequent to December 31, 2009*

During January 2010, the Company invested an additional \$3.1 million in the Global Bond Fund, Ltd. ("Global Bond Fund"), a fund incorporated in The Bahamas. The Global Bond Fund invests primarily in a portfolio of bonds and fixed deposit securities and is managed by CFAL Ltd., a related party investment manager.

During January 2010 and March 2010, the Company purchased 2,000,205 and 803,629 additional shares, respectively, in RND Holdings Limited, increasing its equity ownership to 79.8%.

In March 2010, the Board of Directors passed a resolution to authorize an investment of \$3.9 million in a real estate development project in the Western District of New Providence.

*Subsidiary Loan*

In March 2010, the Company entered into an agreement with RND Holdings Limited to refinance its bank loan and issued a mortgage totaling \$3.7 million. The mortgage is for a period of 15 years and was issued at an interest rate of 9.0% per annum.