

**Colina Insurance Limited**

**Audited Consolidated Financial Statements  
Year Ended December 31, 2014  
With Report of Independent Auditors**



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## Independent Auditors' Report

The Directors and Shareholders  
Colina Insurance Limited

We have audited the accompanying financial statements of Colina Insurance Limited and its Subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 9, 2015



**Jacques Tremblay FCIA, MAAA, FSA**  
Partner

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April 9, 2015

Subject: **2014 Certification of actuarial liabilities**

I have valued the actuarial liabilities of Colina Insurance Limited for its consolidated balance sheet as of December 31, 2014, for a total amount of \$369,693,794 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 Limited present fairly the results of the valuation.

Respectfully submitted,

Jacques Tremblay FCIA, MAAA, FSA,

Fellow of Canadian Institute of Actuaries, Member of the American Academy of Actuaries,  
Fellow of Society of Actuaries

Appointed Actuary for Colina Insurance Limited

**COLINA INSURANCE LIMITED**  
**Consolidated Statement of Financial Position**

At December 31, 2014  
(Expressed in Bahamian dollars)

	Notes	2014	2013
<b>ASSETS</b>			
Term deposits	8	\$ 44,579,342	\$ 31,784,777
Investment securities	9	305,428,487	287,281,425
Mortgages and commercial loans	10	48,444,180	54,771,731
Policy loans	11	69,561,430	67,145,774
Investment properties	12	54,165,435	54,998,301
Investment in associates	13	8,453,894	7,808,045
		<u>530,632,768</u>	<u>503,790,053</u>
Total invested assets			
Cash and demand balances	8	20,400,078	27,532,589
Receivables and other assets	14	29,519,764	24,630,297
Property and equipment	15	20,845,315	19,598,759
Goodwill	16	8,153,110	8,153,110
Other intangible assets	17	44,194	422,514
Investment in Parent	18	50,549	50,549
		<u>50,549</u>	<u>50,549</u>
		<u>609,645,778</u>	<u>584,177,871</u>
<b>Total assets</b>			
<b>LIABILITIES</b>			
Provision for future policy benefits	19	\$ 369,693,794	\$ 352,911,498
Policy dividends on deposit		27,685,794	28,209,136
		<u>397,379,588</u>	<u>381,120,634</u>
Total policy liabilities			
Other liabilities	20	73,445,387	71,115,469
Due to Parent	21	1,047,878	1,789,641
		<u>1,047,878</u>	<u>1,789,641</u>
		<u>471,872,853</u>	<u>454,025,744</u>
<b>Total liabilities</b>			
<b>EQUITY</b>			
Ordinary share capital	22	3,000,000	3,000,000
Contributed capital		50,578,976	50,578,976
Revaluation reserve	23	11,017,775	10,286,915
Retained earnings		55,450,158	49,278,581
		<u>55,450,158</u>	<u>49,278,581</u>
Total ordinary shareholders' equity		120,046,909	113,144,472
Non-controlling interests		17,726,016	17,007,655
		<u>17,726,016</u>	<u>17,007,655</u>
		<u>137,772,925</u>	<u>130,152,127</u>
<b>Total equity</b>			
<b>Total liabilities and equity</b>		<u>\$ 609,645,778</u>	<u>\$ 584,177,871</u>

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

Approved by the Board of Directors on April 9, 2015 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, 2014  
(Expressed in Bahamian dollars)

	Notes	2014	2013
<b>Revenues:</b>			
Premium revenue		\$ 141,696,176	\$ 140,742,932
Less: Reinsurance premiums	26	<u>(12,865,989)</u>	<u>(13,201,455)</u>
Net premium revenue	26	128,830,187	127,541,477
Net investment income	27	27,177,603	26,750,268
Share of net gain/(loss) of associates	13	645,851	(572,226)
Other income and fees		<u>6,652,937</u>	<u>6,446,148</u>
Total revenues		<u>163,306,578</u>	<u>160,165,667</u>
<b>Benefits and expenses:</b>			
Policyholders' benefits		99,808,613	97,023,398
Less: Reinsurance recoveries	26	<u>(12,734,083)</u>	<u>(10,010,922)</u>
Net policyholders' benefits	28	87,074,530	87,012,476
Changes in provision for future policy benefits	19	16,782,296	10,305,665
General and administrative expenses	29	30,596,522	31,246,630
Commission expense		10,414,387	11,276,264
Premium and other tax expense		3,828,953	3,683,323
Finance costs and interest	30	<u>1,785,075</u>	<u>1,703,999</u>
Total benefits and expenses		<u>150,481,763</u>	<u>145,228,357</u>
<b>Net income for the year</b>		<b><u>\$ 12,824,815</u></b>	<b><u>\$ 14,937,310</u></b>
Net income attributable to:			
Ordinary shareholder of the Company		\$ 13,219,777	\$ 14,041,054
Non-controlling interests		<u>(394,962)</u>	<u>896,256</u>
<b>Net income for the year</b>		<b><u>\$ 12,824,815</u></b>	<b><u>\$ 14,937,310</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, 2014  
(Expressed in Bahamian dollars)

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	<b>2014</b>	<b>2013</b>
<b>Net income for the year</b>	\$ 12,824,815	\$ 14,937,310
<b>Other comprehensive income:</b>		
Reclassification during the year to profit and loss	492,000	-
Change in available-for-sale financial assets from unrealized available-for-sale net gains	238,860	(157,149)
<b>Other comprehensive income for the year</b>	<u>730,860</u>	<u>(157,149)</u>
<b>Total comprehensive income for the year</b>	<u>\$ 13,555,675</u>	<u>\$ 14,780,161</u>
<b>Attributable to:</b>		
Ordinary shareholder of the Company	\$ 13,950,637	\$ 13,883,905
Non-controlling interests	(394,962)	896,256
<b>Total comprehensive income for the year</b>	<u>\$ 13,555,675</u>	<u>\$ 14,780,161</u>

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, 2014  
(Expressed in Bahamian dollars)

	Ordinary Share Capital	Contributed Capital	Revaluation Reserve	Retained Earnings	Non- controlling Interests	Total Equity
Balance, December 31, 2012	\$ 3,000,000	\$ 50,578,976	\$ 9,735,916	\$ 42,948,727	\$ 14,233,267	\$ 120,496,886
Decrease in treasury shares	-	-	-	-	-	-
Net income for the year	-	-	-	14,041,054	896,256	14,937,310
Net loss on remeasurement of available-for-sale securities to fair value	-	-	(157,149)	-	-	(157,149)
Net fair value gain transferred to income on disposal of available-for-sale securities	-	-	80,297	-	-	80,297
Unrealized gain on purchase of shares in subsidiary	-	-	627,851	-	-	627,851
Changes in non-controlling interests	-	-	-	-	1,878,132	1,878,132
Issuance of preference share capital	-	-	-	-	-	-
Dividends paid to ordinary shareholder (Note 31)	-	-	-	(7,711,200)	-	(7,711,200)
Balance, December 31, 2013	3,000,000	50,578,976	10,286,915	49,278,581	17,007,655	130,152,127
Net income for the year	-	-	-	13,219,777	(394,962)	12,824,815
Net gain on remeasurement of available-for-sale securities to fair value	-	-	238,860	-	-	238,860
Reclassification during the year to profit and loss	-	-	492,000	-	-	492,000
Changes in non-controlling interests	-	-	-	-	1,113,323	1,113,323
Dividends paid to ordinary shareholder (Note 31)	-	-	-	(7,048,200)	-	(7,048,200)
Balance, December 31, 2014	<u>\$ 3,000,000</u>	<u>\$ 50,578,976</u>	<u>\$ 11,017,775</u>	<u>\$ 55,450,158</u>	<u>\$ 17,726,016</u>	<u>\$ 137,772,925</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, 2014  
(Expressed in Bahamian dollars)

	2014	2013
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,824,815	\$ 14,937,310
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Change in unrealized gains on fair value through profit or loss securities	448,701	1,914,126
Increase in provision for future policy benefits	16,782,296	10,305,665
Changes in loss provisions for loans and receivables	2,743,530	2,128,112
Depreciation and impairment/amortization charges	2,122,878	2,256,371
Net realized gains on fair value through profit or loss securities	(2,055,267)	(22,817)
Net realized (gain)/loss on sale of available-for-sale securities	(38,878)	165,080
Interest income	(23,732,817)	(23,425,394)
Dividend income	(2,055,999)	(1,838,638)
Fair value loss/(gain) (net) on investment properties	912,442	(999,140)
Finance costs and interest	1,785,075	1,703,999
Proceeds on disposal of property and equipment, net	-	144,612
	<hr/>	<hr/>
Operating cash flows before changes in operating assets and liabilities	9,736,776	7,269,286
Changes in operating assets and liabilities:		
(Increase)/decrease in other assets	(6,788,585)	18,916,228
Increase/(decrease) in other liabilities	211,237	(7,959,757)
	<hr/>	<hr/>
Net cash provided by operating activities	3,159,428	18,225,757

*(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, 2014  
(Expressed in Bahamian dollars)

	2014	2013
<b>Cash flows from investing activities:</b>		
Unrealized gain on purchase of shares in subsidiary	-	627,851
Decrease/(increase) in term deposits with original maturities greater than 90 days	4,393,706	(11,319,688)
Decrease in restricted cash balances	-	6,625
Fair value through profit or loss securities purchased	(15,943,170)	(18,533,086)
Proceeds on disposal of fair value through profit or loss securities	3,996,174	2,104,449
Available-for-sale securities purchased	(8,801,887)	(21,865,658)
Proceeds on disposal of available-for-sale securities	4,486,125	7,164,941
Reclassification during the year to profit and loss	492,000	-
Decrease in investment in Parent	-	103,982
Net increase in loans to policyholders	(2,288,936)	(1,401,846)
Net decrease in mortgages and commercial loans	5,531,091	2,343,213
Additions to investment property	(79,576)	(235,185)
Interest received	22,802,023	22,548,946
Dividends received	2,055,999	1,838,638
Additions to property and equipment	(2,880,841)	(1,583,521)
Net cash provided by/(used in) investing activities	<u>13,762,708</u>	<u>(18,200,339)</u>
<b>Cash flows from financing activities:</b>		
Changes in non-controlling interests	1,113,323	1,878,132
Interest paid on other contracts	(1,785,075)	(1,703,999)
Dividends paid to ordinary shareholder	(7,048,200)	(7,711,200)
Net cash (used in)/provided by financing activities	<u>(7,719,952)</u>	<u>(7,537,067)</u>
Net increase/(decrease) in cash and cash equivalents	9,202,184	(7,511,649)
Cash and cash equivalents, beginning of year	<u>37,408,481</u>	<u>44,920,130</u>
Cash and cash equivalents, end of year (Note 8)	<u>\$ 46,610,665</u>	<u>\$ 37,408,481</u>

(Concluded)

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

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

For the Year ended December 31, 2014  
(Expressed in Bahamian dollars)

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**1. Corporate Information**

Colina Insurance Limited (“the Company”) was incorporated under the laws of the Commonwealth of The Bahamas.

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, and The Turks and Caicos Islands.

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 the 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 34).

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, 2014 were authorized for issue in accordance with a resolution of the Company’s Board of Directors on April 9, 2015.

**2. Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations. The following accounting policies adopted were amended in the year commencing January 1, 2014:

- IFRS 12 Disclosure of Interest In Other Entities;
- IAS 27 Consolidated Separate Financial Statements (Amendments) – Separate Financial Statements; and
- IAS 32 Financial Instruments: Presentation.

The adoption of these new and amended International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations has not had any material impact on the amounts reported for current and prior years but may affect the accounting for future transactions and arrangements.

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

The Company has not adopted the following IFRS and interpretations issued by the IFRIC that have been issued but are not yet effective.

- IFRS 9 *Financial Instruments - Classification and Measurement*. Effective prospectively for reporting periods beginning on or after January 1, 2018;
- IFRS 15 *Revenue from Contracts with Customers*. Effective for annual periods beginning on or after January 1, 2017;
- Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests* – Amendments to joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business. Effective prospectively for annual periods beginning on or after January 1, 2016;
- Amendments to IAS 16 and IAS38 *Clarification of Acceptable Methods of Depreciation and Amortization*. Amendments to application guidelines on the use of revenue based depreciation methods. The Amendments are effective prospectively for annual periods beginning on or after January 1, 2016;
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*. The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. The Amendments are effective retrospectively for annual periods beginning on or after January 1, 2016; and

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- Amendments to IAS 27 *Equity Method in Separate Financial Statements*. The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures, and associates in their separate financial statements. The Amendments are effective for annual periods beginning on or after January 1, 2016.

Management has not yet assessed the full impact of the relevant adoption of these standards and interpretations in future periods against 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 as issued by the International Accounting Standards Board.

The Company presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 35.

##### **4.2 Basis of preparation**

The consolidated financial statements of the Company 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 statement of financial position 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 the accompanying disclosures and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. 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.

###### **(a) Valuation of long term 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.

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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, 2014 of long term insurance contract liabilities with DPF is \$211,914,259 (2013: \$210,551,988) and of investment contract liabilities with DPF is \$7,356,177 (2013: \$7,968,052).

*(b) Accident & health insurance contract liabilities*

For medical insurance contracts, estimates have to be made for the expected ultimate cost of claims reported at the consolidated statement of financial position date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the consolidated statement of financial position date. 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 consolidated statement of financial position 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.

The carrying value at the consolidated statement of financial position date of accident & health insurance contract liabilities is \$13,984,839 (2013: \$14,685,464).

*(c) Goodwill impairment testing*

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

The carrying value of goodwill is \$8,153,110 (2013: \$8,153,110).

*(d) Revaluation of property and equipment and investment properties*

The Company carries its investment properties at fair value, with changes in fair value being recognized in the consolidated statement of income. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognized in the revaluation reserve. The Company assesses its property holdings through the use of independent valuation specialists on a periodic basis, performing management assessments in the intervening years. For investment properties, a valuation methodology based on a discounted cash flow (DCF) model was used, as there is a lack of comparable market data due to the nature of the properties. Land and buildings were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location, and the condition of the respective property. Key assumptions used to determine the fair value of the properties and sensitivity analysis are discussed in Note 12.

**4.4 Principles of consolidation**

The consolidated financial statements include the accounts of the Company and subsidiaries. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

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- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of equity in the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and potential voting rights.

Where the Company has control, 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. The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

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**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company has an option to measure any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date and any resulting gain or loss is recognized through profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability will be recognized as measurement period adjustments in accordance with the applicable IFRS. If the contingent consideration is classified as equity, it will not be remeasured and its subsequent settlement will be accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of the net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to an appropriate cash-generating unit that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this

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(Expressed in Bahamian dollars)

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circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**4.6 Investment in associates**

The Company's investment in associates is accounted for using the equity method of accounting. 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 considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Company's share of the net assets 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. As goodwill relating to an associate forms part of the carrying amount of an investment in associate and is not separately recognized, it is neither amortized nor individually tested for impairment.

After application of the equity method, the Company assesses at each consolidated statement of financial position date whether there is any objective evidence that the entire carrying amount of the investment in associate is impaired by comparing its carrying value to its recoverable amount. Any impairment losses are recognized immediately in the consolidated statement of income.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits or losses resulting from transactions between the Company and the associate are eliminated to the extent of the Company's interest in the relevant associate.

Upon loss of significant influence over an associate, the Company measures and recognizes any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

**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 consolidated statement of financial position 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 consolidated statement of income 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:

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- 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.

*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.

AFS financial assets and financial assets at FVPL are 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.

**4.10 Fair value measurement**

The Company measures financial instruments and non-financial assets such as investment properties at fair value at each balance sheet date. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or;
- In the absence of a principal market, in the most advantageous and accessible market for the asset or liability.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

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- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

**4.11 Impairment of financial assets**

*Financial assets carried at amortized cost*

The Company assesses at each consolidated statement of financial position 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 consolidated statement of financial position 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



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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.

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.

**4.12 Investment properties**

Investment properties comprise freehold land and buildings, residential rental properties, and commercial properties that are held for long-term yields and capital appreciation. Investment properties are held initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and exclude the costs of day-to-day servicing of an investment property.

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. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

Investment properties are derecognized either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party, or completion of construction or development. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

When the Company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.

**4.13 Property and equipment**

Property and equipment, with the exception of certain land improvements and buildings, 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 consolidated statement of financial position 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.

**4.14 Goodwill and other intangible assets**

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*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. Impairment losses related to goodwill cannot be reversed in future periods. Goodwill is allocated to CGUs 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 CGUs identified according to the nature and type of insurance contract by major block of business.

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 consolidated statement of financial position 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.

*Other intangible assets included in investment in associates*

These intangible assets include customer relationships, non-competitive agreement, trade name, and software and are carried at cost less accumulated amortization. Intangible assets included in investment in associates are amortized on a straight-line basis as follows:

Customer relationships	10 years
Non-competitive agreement	2 years
Trade name	5 to 9 years
Software	3 years

The carrying amount of intangible assets included in investment in associates is reviewed at each consolidated statement of financial position date to assess whether it is recorded in excess of its recoverable amount. Where the carrying value exceeds this estimated value the asset is written down to the recoverable amount.

**4.15 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.

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 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;

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- 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.

*Short-term insurance contracts*

Short duration life insurance contracts protect the Company's customers from the financial consequences of events (such as death, sickness, or disability). 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 consolidated statement of financial position 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 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.

**4.16 Provision for future policy benefits**

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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.

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.

**4.17 Commission expense**

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

**4.18 Pension business**

The pension business consists of third party pension 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 20.

**4.19 Policy dividends on deposit**

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

**4.20 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 consolidated statement of financial position date are dealt with as an event after the consolidated statement of financial position date.

**4.21 Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment will be made. Revenue is measured at the fair value of the consideration received or receivable. 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. Commission income is earned on completion of the sale and is recognized at the effective date of writing the policy. Interest income on financing of premiums to customers is

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recognized over the financing period. The Company's policy for recognition of revenue from operating leases is described in Note 4.27. For the revenue recognition policies surrounding insurance contracts, see Note 4.15.

**4.22 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 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 of recoverable amounts 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.

The Company also assumes reinsurance risk in the normal course of business for non-life insurance contracts. Premiums and claims on assumed reinsurance are recognized as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

**4.23 Defined contribution pension plan**

The Company's subsidiaries operate separate defined contribution pension plans. Contributions are made to the plans 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/salespersons' benefits expense in the year to which they relate.

**4.24 Share-based payments**

The Company operates an Employee Share Ownership Plan ("ESOP"). Under this plans, eligible employees and salespersons 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 salespersons' 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 salesperson after a period of 4 years. These share-based payments to employees and salespersons are measured at the fair value of the equity instruments at the grant date. The cost of matching employee and salespersons' contributions amounted to \$18,906 in 2014 (2013: \$11,232) and is included in employee/salespersons' benefits expense.

**4.25 Taxation**

The Company is subject to tax on taxable gross premium income at the flat rate of 3% (2013: 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.

**4.26 Segregated fund**

With the acquisition of Imperial Life in 2005, certain contracts were acquired which allow unit holders to invest in a segregated fund managed by the Company for their benefit. Substantially all risks and rewards of ownership accrue to the unit holders and, consequently, the assets held in the segregated fund account are excluded from the assets in the Company's general funds. As of December 31, 2014, these assets

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amounted to \$43.7 million (2013: \$43.0 million). The Company has entered into a sub-investment management agreement with CFAL to manage a significant portion of these assets.

**4.27 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.

**4.28 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.

**4.29 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.

**4.30 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 consolidated statement of financial position 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.

**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 IFRS. 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, 2014 are as follows:

<b>Name</b>	<b>Place of Incorporation</b>	<b>Shareholding</b>
<b>Life and Health Insurance Company</b>		
Colina Insurance Limited ("Colina")	The Bahamas	100%
<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%
Colina Real Estate Fund Ltd.	The Bahamas	84%
Collmpco One Ltd.	The Bahamas	100%
Dax Limited	The Bahamas	100%
Goodman's Bay Development Company Limited ("GBDC")	The Bahamas	86%
IMPCO Properties (Bahamas) Limited	The Bahamas	100%
IMPCO Real Estate Holdings (Bahamas) Limited	The Bahamas	100%
NCP Holdings Ltd.	The Bahamas	100%
P.I. Investments Ltd.	The Bahamas	100%
Wednesday Holding Company Ltd.	The Bahamas	100%
<b>Investment Holding Companies</b>		
Fairway Close Development Company Ltd.	The Bahamas	100%
Partner Investment Ltd.	The Bahamas	100%
PRO Health Holdings Ltd.	The Bahamas	100%
Sharp Investment Ltd.	The Bahamas	100%
<b>Investment Funds</b>		
CFAL Global Bond Fund Ltd.	The Bahamas	91%
CFAL Global Equity Fund Ltd.	The Bahamas	32%
Ikonik Fund SAC Limited	The Bahamas	76%

During 2014, the Company acquired 76% of the shares in the IKONIC Fund SAC Limited (the IKONIC Fund). The IKONIC Fund is a fund organized under the International Business Companies Act, 2000 of the Commonwealth of the Bahamas in September 2013 and is registered and licensed by as a Standard Fund by the Securities Commission of The Bahamas. The IKONIC Fund has no investment restrictions and has an investment objective to maximize appreciation of its assets.

**7. Segment Information**

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

- Life Division - offers a wide range of whole life and term insurance, pension, annuity, and savings and investment products.
- Group and Health Division – offers a wide range of individual medical and group life and health medical insurance.
- Other – includes the Company's participation in International Reinsurance Managers, LLC (IRM) reinsurance facilities and the operations of its other subsidiary and associate companies.

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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 2014 and 2013. 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:

	2014			
	Life	Health	Other	Total
<b>INCOME</b>				
Net premium revenue	\$ 56,484,465	\$ 56,995,869	\$ 15,349,853	\$ 128,830,187
Net investment income	25,382,370	920,604	1,520,480	27,823,454
Other income and fees	311,202	6,325,219	16,516	6,652,937
Total revenues	82,178,037	64,241,692	16,886,849	163,306,578
POLICYHOLDER BENEFITS	56,497,153	32,803,818	14,555,855	103,856,826
EXPENSES	23,856,151	18,323,225	4,445,561	46,624,937
NET INCOME / (LOSS)	<u>\$ 1,824,733</u>	<u>\$ 13,114,649</u>	<u>\$ (2,114,567)</u>	<u>\$ 12,824,815</u>
TOTAL ASSETS	<u>\$ 569,966,663</u>	<u>\$ 39,647,562</u>	<u>\$ 31,553</u>	<u>\$ 609,645,778</u>
TOTAL LIABILITIES	<u>\$ 436,574,579</u>	<u>\$ 30,949,758</u>	<u>\$ 4,348,516</u>	<u>\$ 471,872,853</u>

	2013			
	Life	Health	Other	Total
<b>INCOME</b>				
Net premium revenue	\$ 55,778,151	\$ 58,006,919	\$ 13,756,407	\$ 127,541,477
Net investment income	22,289,195	844,375	3,044,472	26,178,042
Net commission income				-
Investment management and other fees				-
Other income and fees	(91,283)	5,521,388	1,016,043	6,446,148
Total revenues	77,976,063	64,372,682	17,816,922	160,165,667
POLICYHOLDER BENEFITS	48,955,474	36,688,187	11,674,480	97,318,141
EXPENSES	23,191,298	17,309,509	7,409,409	47,910,216
NET INCOME	<u>\$ 5,829,291</u>	<u>\$ 10,374,986</u>	<u>\$ (1,266,967)</u>	<u>\$ 14,937,310</u>
TOTAL ASSETS	<u>\$ 487,350,436</u>	<u>\$ 37,771,771</u>	<u>\$ 59,055,664</u>	<u>\$ 584,177,871</u>
TOTAL LIABILITIES	<u>\$ 414,121,229</u>	<u>\$ 32,971,537</u>	<u>\$ 6,932,978</u>	<u>\$ 454,025,744</u>

**8. Cash and Cash Equivalents**



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

	<b>2014</b>	<b>2013</b>
Term deposits	\$ 44,579,342	\$ 31,784,777
Less: Deposits with original maturities of greater than 90 days	<u>(16,702,903)</u>	<u>(21,096,609)</u>
Short-term deposits	27,876,439	10,688,168
Cash and demand balances	20,400,078	27,532,589
Less: Bank overdraft (See Note 20)	<u>(1,665,852)</u>	<u>(812,276)</u>
Total cash and cash equivalents	<u>\$ 46,610,665</u>	<u>\$ 37,408,481</u>

The carrying amounts disclosed above reasonably approximate fair value at the consolidated statement of financial position date.

As of the consolidated statement of financial position date, the weighted-average interest rate on short-term deposits is 1.70% (2013: 2.84%). These deposits have an average maturity of 78 days (2013: 91 days). The weighted-average interest rate on deposits with original maturities greater than 90 days is 1.71% (2013: 2.99%).

Included in deposits with original maturities of greater than 90 days are restricted amounts of \$825,517 (2013: \$824,436). No restricted amounts are included in cash and demand balances (2013: NIL). The restricted balances in 2014 relate to deposits held as support for insurance liabilities in favour of various regulatory bodies.

**9. Investment Securities**

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

	<b>2014</b>	<b>2013</b>
Equity securities		
Fair value through profit or loss	\$ 15,284,288	\$ 10,139,682
Available-for-sale	<u>10,239,778</u>	<u>10,186,448</u>
Total equity securities	<u>25,524,066</u>	<u>20,326,130</u>
Debt securities		
Fair value through profit or loss	71,127,561	62,718,605
Available-for-sale	<u>208,776,860</u>	<u>204,236,690</u>
Total debt securities	<u>279,904,421</u>	<u>266,955,295</u>
Total investment securities	<u>\$ 305,428,487</u>	<u>\$ 287,281,425</u>

Financial assets at fair value through profit or loss are comprised primarily of financial instruments in the Bahamas Investment Fund (See Note 33).

Included in debt securities are government securities which are mainly comprised of variable rate bonds tied to the Bahamian \$ Prime Rate issued by The Bahamas Government. These securities have interest rates ranging from 4.35% to 6.37% per annum (2013: from 4.35% to 6.95% per annum) and scheduled maturities between 2015 and 2044 (2013: between 2014 and 2037).

Included in debt securities is \$2,185,000 (2013: \$2,185,000) representing a restricted balance which is held in favour of the CILStatutory Trust (the "Trust"). The Trust was established in accordance with the Insurance Act, 2005 and Insurance (General) Regulations 2010 (as amended). The aforementioned legislation requires that a minimum of \$2,000,000 in assets be deposited in favour of the Insurance Commission of The Bahamas by registered insurers in respect of any entities which propose to carry on life and/or health insurance business.

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

	FVPL	Available- for-sale	Total
At December 31, 2012	\$ 58,320,959	\$ 199,964,353	\$ 258,285,312
Additions	18,533,086	21,865,658	40,398,744
Disposals and maturities	(2,104,449)	(7,164,941)	(9,269,390)
Net fair value losses	(1,891,309)	(241,932)	(2,133,241)
At December 31, 2013	72,858,287	214,423,138	287,281,425
Additions	15,943,170	8,801,887	24,745,057
Disposals and maturities	(3,996,174)	(4,486,125)	(8,482,299)
Net fair value gains	1,606,566	277,738	1,884,304
At December 31, 2014	<u>\$ 86,411,849</u>	<u>\$ 219,016,638</u>	<u>\$ 305,428,487</u>

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

<b>At December 31, 2014</b>	Level 1	Level 2	Total Fair Value
<i>Financial assets designated at fair value through profit or loss:</i>			
Equity securities	\$ 10,376,742	\$ 2,357,448	\$ 12,734,190
Shares in investment funds	-	2,550,098	2,550,098
Government securities	-	56,627,974	56,627,974
Preferred shares	-	1,550,000	1,550,000
Other debt securities	-	12,949,587	12,949,587
Total	<u>\$ 10,376,742</u>	<u>\$ 76,035,107</u>	<u>\$ 86,411,849</u>
<i>Available-for-sale financial assets:</i>			
Equity securities	\$ 4,335,476	\$ 5,163,695	\$ 9,499,171
Shares in investment funds	-	740,607	740,607
Government securities	-	170,654,148	170,654,148
Preferred shares	-	19,481,343	19,481,343
Other debt securities	-	18,641,369	18,641,369
Total	<u>\$ 4,335,476</u>	<u>\$ 214,681,162</u>	<u>\$ 219,016,638</u>

The Company did not have any financial instruments classified as Level 3 as at December 31, 2014.

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<b>At December 31, 2013</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	\$ 9,107,165	\$ 147,673	\$ 9,254,838
Shares in investment funds	-	884,844	884,844
Government securities	-	46,574,413	46,574,413
Preferred shares	-	1,550,000	1,550,000
Other debt securities	-	14,594,192	14,594,192
<b>Total</b>	<b><u>\$ 9,107,165</u></b>	<b><u>\$ 63,751,122</u></b>	<b><u>\$ 72,858,287</u></b>
<i>Available-for-sale financial assets:</i>			
Equity securities	\$ 9,320,937	\$ 149,556	\$ 9,470,493
Shares in investment funds	-	715,955	715,955
Government securities	-	165,676,072	165,676,072
Preferred shares	-	20,351,050	20,351,050
Other debt securities	-	18,209,568	18,209,568
<b>Total</b>	<b><u>\$ 9,320,937</u></b>	<b><u>\$ 205,102,201</u></b>	<b><u>\$ 214,423,138</u></b>

The Company did not have any financial instruments classified as Level 3 as at December 31, 2013.

**10. Mortgages and Commercial Loans**

Mortgages and commercial loans are comprised of the following:

	<b>2014</b>	<b>2013</b>
Mortgages and commercial loans	\$ 51,649,391	\$ 57,180,482
Accrued interest	7,181,999	6,459,183
Subtotal	58,831,390	63,639,665
Less: Provisions	(10,387,210)	(8,867,934)
<b>Mortgages and commercial loans, net</b>	<b><u>\$ 48,444,180</u></b>	<b><u>\$ 54,771,731</u></b>

Mortgages and commercial loans are classified into the following categories:

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	<b>2014</b>	<b>2013</b>
Residential mortgages	\$ 31,147,169	\$ 34,746,311
Commercial mortgages	17,693,153	19,118,086
Commercial paper	<u>2,809,069</u>	<u>3,316,085</u>
Subtotal	51,649,391	57,180,482
Accrued interest	<u>7,181,999</u>	<u>6,459,183</u>
Total	<u>\$ 58,831,390</u>	<u>\$ 63,639,665</u>

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.

Included in residential mortgages at December 31, 2014 are loans to employees and salespersons amounting to \$5,575,919 (2013: \$6,556,469).

Provisions on mortgages and commercial loans are as follows:

	<b>2014</b>	<b>2013</b>
Residential mortgages	\$ 2,064,937	\$ 1,648,057
Commercial mortgages	3,572,271	2,557,132
Commercial paper	-	519,255
Accrued interest	<u>4,750,002</u>	<u>4,143,490</u>
Total provisions on mortgages and commercial loans	<u>\$ 10,387,210</u>	<u>\$ 8,867,934</u>

The movement in loan loss provisions is as follows:

	<b>2014</b>	<b>2013</b>
Balance, beginning of year	\$ 8,867,934	\$ 7,018,272
Increase in provisions	2,759,034	2,681,231
Provisions written back to income	<u>(1,239,758)</u>	<u>(831,589)</u>
Balance, end of year	<u>\$ 10,387,210</u>	<u>\$ 8,867,934</u>

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

	<b>2014</b>	<b>2013</b>
Residential mortgages	7.51%	7.47%
Commercial mortgages	8.37%	9.14%
Commercial paper	7.94%	8.19%

**11. Policy Loans**

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Policy loans are comprised of:

	2014	2013
Policy loans	\$ 65,851,475	\$ 63,562,539
Accrued interest on policy loans	<u>3,715,952</u>	<u>3,594,677</u>
Subtotal	69,567,427	67,157,216
Less: Provisions	<u>(5,997)</u>	<u>(11,442)</u>
Policy loans, net	<u>\$ 69,561,430</u>	<u>\$ 67,145,774</u>

Policy loans are secured by the cash surrender values of the policies on which the loans are made with the exception of \$5,997 (2013: \$11,442) 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, 2014. 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% (2013: 11.6%).

**12. Investment Properties**

The Company's investment properties consist of land holdings, residential rental properties, and commercial office rental properties and are carried at fair value. All investment properties have been classified as Level 3 in the fair value measurement hierarchy and there were no transfers from or to Level 3 during the period. Movements in investment properties classified by category are as follows:

	Land	Residential	Commercial Office	Total
At December 31, 2012	\$ 650,000	\$ 650,000	\$ 48,176,534	\$ 49,476,534
Additions (subsequent expenditure)	-	-	235,185	235,185
Transfers from other assets	4,287,442	-	-	4,287,442
Net gain from fair value adjustments	-	-	999,140	999,140
At December 31, 2013	4,937,442	650,000	49,410,859	54,998,301
Additions (subsequent expenditure)	-	-	79,576	79,576
Net loss from fair value adjustments	<u>(912,442)</u>	<u>-</u>	<u>-</u>	<u>(912,442)</u>
At December 31, 2014	<u>\$ 4,025,000</u>	<u>\$ 650,000</u>	<u>\$ 49,490,435</u>	<u>\$ 54,165,435</u>

During the period, one of the commercial office properties was valued by R. Brownrigg of Bahamas Realty Ltd., an accredited independent appraiser with experience in the location and category of the investment property valued. In accordance with the Company's policy for the valuation of investment property holdings in intervening periods, the fair values of all other properties at December 31, 2014 were based on valuations performed by management using the Discounted Cash Flow Method (DCF), Cost Approach Method (CA) and the Sales Comparison Method (SC).

Significant unobservable inputs used in the valuations were as follows:

Property Classification	Valuation technique	Significant unobservable inputs	Range (weighted average)

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Land and land lots	DCF	Estimated rental rate/sqft/p.a. Discount rate Rent growth p.a. Expense inflation p.a. Capitalization rate for terminal value Vacancy rate	\$3 (\$3) 8.75% 3.0% 3.0% 9.0% 0.0%
	SC	Sales price / acre	\$13,500-\$300,000 (\$14,800)
Residential	SC	Sales price / sq.ft	\$340
Commercial office	DCF	Estimated rental rate/sqft/p.a. Discount rate  Rent growth p.a. Expense inflation p.a. Capitalization rate for terminal value Vacancy rate	\$9-\$100 8.70%-9.70%  3.0% 3.0% 9.0%-10.0% 0.0%-22%
	CA	Cost / sqft	\$86(\$86)

Under the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. A market-derived discount rate is applied to establish the present value of the income streams associated with the property. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of the inflows and outflows are determined by events such as lease renewals, and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behavior that is a characteristic of the class of property. Periodic cash flows are typically estimated as gross rental income less vacancy, non-recoverable expenses, maintenance and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Under the SC method, fair value is determined by a comparison of recent property sales similar to the subject property. The prices for these properties provide the basis for estimating the value of the subject by comparison. Appropriate adjustments are made for the differences in the properties as they compare to the subject. The adjusted process yields various indicators of value which are analyzed and correlated to provide a value estimate for the subject property.

The CA method provides an analysis showing the fee simple value of the land, the value of site improvements and the cost to construct the building at current building rates. Physical depreciation is then deducted from the construction cost. Functional obsolescence and economic depreciation are also factored in the depreciation if applicable.

Significant increases (decreases) in estimated rental values and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the property. Significant increase (decrease) in long-term vacancy rates and discount rates in isolation would result in a significantly lower (higher) fair value. Increases/(decreases) in the capitalization rate would result in a significantly lower (higher) fair value.

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Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate and an opposite change in the long term vacancy rate.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment property for repair, maintenance and enhancement.

Investment properties, with carrying values totaling approximately \$41.9 million, have been mortgaged in support of loans advanced to subsidiary companies by the Company that have been eliminated on consolidation. Income from investment properties, which amounted to \$4,549,229 (2013: \$4,622,193), is included in rental income in net investment income. Direct expenses related to generating rental income from investment properties, amounting to \$1,039,996 (2013: \$1,594,776), are included in general and administrative expenses.

**13. Investment in Associates**

Investment in Associates is comprised of:

	2014	2013
Walk-In Holdings Limited	\$ 4,640,156	\$ 4,423,560
SBL Ltd.	<u>3,813,738</u>	<u>3,384,485</u>
Total	<u>\$ 8,453,894</u>	<u>\$ 7,808,045</u>

Gains and losses from the Company's investment in associates are comprised of the following:

	2014	2013
Share of profit/(loss) of investment in associate		
Walk-In Holdings Limited	\$ 216,597	\$ 223,534
SBL Ltd.	429,254	(140,304)
Impairment of goodwill - SBL	-	<u>(655,456)</u>
Share of net gain/(loss) of associates	<u>\$ 645,851</u>	<u>\$ (572,226)</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. At the balance sheet date, WIHL owned and operated three medical clinics.

The investment in WIHL is comprised of the following:

	2014	2013
Total assets	\$ 8,771,280	\$ 8,535,104
Total liabilities	<u>(913,665)</u>	<u>(1,232,412)</u>
Net assets of WIHL	<u>\$ 7,857,615</u>	<u>\$ 7,302,692</u>
Company's share of WIHL's balance sheet	\$ 2,407,455	\$ 2,190,859
Goodwill	<u>2,232,701</u>	<u>2,232,701</u>
Total investment in WIHL	<u>\$ 4,640,156</u>	<u>\$ 4,423,560</u>

Management estimates that the carrying value of the investment in WIHL approximates its fair value at the consolidated statement of financial position date.

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

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	<b>12 Months Ended Dec. 31, 2014</b>	<b>12 Months Ended Dec. 31, 2013</b>
Total revenue	\$ 7,017,817	\$ 7,105,044
Total profit for the period	\$ 731,460	\$ 745,114
Share of WIHL's profit	\$ 216,597	\$ 223,534

*SBL Ltd.*

In July 2009, the Company and its Parent, purchased 12% and 7% of SBL Ltd. ("SBL") at a cost of \$5 million and \$3 million respectively. In considering the classification of its 12% 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 are also Directors of the Company. In May 2009, SBL acquired the issued and outstanding shares of Ansbacher (Bahamas) Limited ("ABL") and in July 2009, merged ABL subsequently with Sentinel Bank & Trust Limited ("SBT") 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.

During 2012, the Company and its Parent made additional capital contributions of \$213,382 and \$124,473 respectively in SBL Ltd. The Company and its Parent also made additional capital contributions of \$72,000 and \$42,000 respectively in SBL Ltd. during 2013. The funds were used by SBL's subsidiary, ABL to fund strategic growth opportunities. The Company and the Parent's percentage ownership in SBL Ltd. after the capital contributions remained at 12% and 7% respectively.

The investment in SBL is comprised of the following:

	<b>2014</b>	<b>2013</b>
Total assets	\$ 768,801,903	\$ 398,432,176
Total liabilities	(737,312,553)	(370,563,990)
Net assets of SBL	\$ 31,489,350	\$ 27,868,186
Company's share of SBL's balance sheet	\$ 3,492,370	\$ 3,053,707
Intangible assets	321,368	330,778
Total investment in SBL	\$ 3,813,738	\$ 3,384,485

Management estimates that the carrying value of the investment in SBL approximates its fair value at the consolidated statement of financial position date.

The Company's share of SBL's income is as follows:

	<b>12 Months Ended Dec. 31, 2014</b>	<b>12 Months Ended Dec. 31, 2013</b>
Total revenue	\$ 18,296,097	\$ 9,567,960
Total gain/(loss) for the period	\$ 4,077,109	\$ (896,809)
Share of SBL's gain/(loss)	\$ 429,254	\$ (140,304)



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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, 2014 and 2013:

	Other Intangible		Total
	Goodwill	Assets	
Balance as of December 31, 2012	\$ 2,888,157	\$ 333,485	\$ 3,221,642
Acquired during the year	-	99,241	99,241
Amortization	-	(101,948)	(101,948)
Impairment losses	(655,456)	-	(655,456)
Balance as of December 31, 2013	2,232,701	330,778	2,563,479
Acquired during the year	-	100,863	100,863
Amortization	-	(110,273)	(110,273)
Balance as of December 31, 2014	<u>\$ 2,232,701</u>	<u>\$ 321,368</u>	<u>\$ 2,554,069</u>

The gross carrying value and accumulated amortization by major category of other intangible assets as of December 31, 2014, is shown below.

	Other Intangible Assets		
	Gross Carrying Value	Accumulated Amortization	Total
Customer relationships	\$ 329,760	\$ (184,116)	\$ 145,644
Non-competitive agreement	54,480	(54,480)	-
Trade name	89,040	(89,040)	-
Software	577,269	(401,545)	175,724
Total Other Intangible Assets	<u>\$ 1,050,549</u>	<u>\$ (729,181)</u>	<u>\$ 321,368</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:

	Other intangible assets included in Investment in Associates
2015	100,228
2016	69,894
2017	46,450
2018 and thereafter	104,796
	<u>\$ 321,368</u>

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**14. Receivables and Other Assets**

Receivables and other assets are comprised of the following:

	<b>2014</b>	<b>2013</b>
Financial assets		
Premiums receivable	\$ 9,187,351	\$ 8,856,796
Less: Provision on premiums receivable	(3,705,171)	(2,662,679)
Reinsurance recoveries receivable	8,685,645	5,943,107
Net balances payable on ASO plans	(4,608,475)	(9,074,587)
Agents' balances	1,634,568	1,493,184
Less: Provision on agents' balances	(1,643,197)	(1,455,990)
Accrued interest income	3,544,226	3,457,523
Receivables from related parties (See Note 34)	880,993	504,630
Participation in IRM reinsurance facilities	31,552	1,245,003
Non-financial assets		
Properties assumed under mortgage defaults	2,616,700	2,629,500
Land held for development	5,708,704	3,672,058
Prepayments and other assets	<u>7,186,868</u>	<u>10,021,752</u>
Total receivables and other assets	<u>\$ 29,519,764</u>	<u>\$ 24,630,297</u>

The carrying amounts disclosed above reasonably approximate fair value at the consolidated statement of financial position date.

Included in receivables and other assets are amounts (due to)/from groups to whom the Company provides administrative services only ("ASO").

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 8.3% to 80.0% 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.

**15. Property and Equipment**

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	Land, land improvements and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
Cost:					
At December 31, 2013	\$ 22,016,183	\$ 2,354,328	\$ 3,880,749	\$ 77,014	\$ 28,328,274
Additions	2,350,000	11,349	519,492	-	2,880,841
At December 31, 2014	<u>\$ 24,366,183</u>	<u>\$ 2,365,677</u>	<u>\$ 4,400,241</u>	<u>\$ 77,014</u>	<u>\$ 31,209,115</u>
Accumulated depreciation:					
At December 31, 2013	\$ 5,151,221	\$ 1,156,907	\$ 2,365,526	\$ 55,861	\$ 8,729,515
Depreciation charge	667,617	235,909	719,342	11,417	1,634,285
At December 31, 2014	<u>\$ 5,818,838</u>	<u>\$ 1,392,816</u>	<u>\$ 3,084,868</u>	<u>\$ 67,278</u>	<u>\$ 10,363,800</u>
Net book value:					
At December 31, 2014	<u>\$ 18,547,345</u>	<u>\$ 972,861</u>	<u>\$ 1,315,373</u>	<u>\$ 9,736</u>	<u>\$ 20,845,315</u>
At December 31, 2013	<u>\$ 16,864,962</u>	<u>\$ 1,197,421</u>	<u>\$ 1,515,223</u>	<u>\$ 21,153</u>	<u>\$ 19,598,759</u>

The opening balances have been adjusted for fully depreciated assets.

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

	2014	2013
Land and land improvements	\$ 6,035,523	\$ 4,860,523
Buildings	18,330,660	17,155,660
Total cost	<u>\$ 24,366,183</u>	<u>\$ 22,016,183</u>

Properties are stated at their revalued amounts, as assessed by qualified independent property appraisers or management valuation in intervening periods. 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 \$13.7 million (2013: \$11.9 million).

**16. Goodwill**

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	2014	2013
Cost	\$ 10,473,068	\$ 10,473,068
Accumulated impairment charges	<u>(2,319,958)</u>	<u>(2,319,958)</u>
Net book amount	<u>\$ 8,153,110</u>	<u>\$ 8,153,110</u>
Balance, beginning of year	\$ 8,153,110	\$ 8,153,110
Balance, end of year	<u>\$ 8,153,110</u>	<u>\$ 8,153,110</u>

**17. Other Intangible Assets**

	2014	2013
Cost	\$ 5,512,019	\$ 5,512,019
Accumulated amortization	<u>(5,467,825)</u>	<u>(5,089,505)</u>
Net book amount	<u>\$ 44,194</u>	<u>\$ 422,514</u>
Balance, beginning of year	\$ 422,514	\$ 963,873
Amortization charge	<u>(378,320)</u>	<u>(541,359)</u>
Balance, end of year	<u>\$ 44,194</u>	<u>\$ 422,514</u>

**18. Investment in Parent**

The Investment in Parent comprises 19,982 (2013: 19,982) ordinary shares of the Parent that are held by the Company amounting to \$50,549 (2013: \$50,549). The fair value of this quoted investment based on the year-end bid price was \$80,128 (\$48,556) and would have been classified as Level 1 in the fair value hierarchy.

**19. 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.

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 provisions for future policy benefits 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 provisions are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

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The impact of these margins is to increase provisions 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 provisions 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 35 basis points from the current (Prime) rates immediately and assuming future interest rates remain at that level in the long term. 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 \$57.7 million or decrease by \$43.5 million.

*Expenses*

The administration expense assumption is based on an expense study conducted by the Company. 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. Best estimate expenses are assumed to increase with inflation of 2.11% in all years. 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 \$7.0 million or decrease by \$6.9 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 5% to 20%. If future lapse rates are to differ by 10% from that assumed, the liability would increase by \$8.9 million or decrease by \$8.5 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 \$3.6 million or decrease by \$3.3 million.

*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 \$1.0 million, with the net liabilities increasing by \$0.9 million. If the average claim costs were to decrease by 10%, gross liabilities would decrease by \$1.0 million, with the net liabilities decreasing by \$0.9 million.

*Analysis of provision for future policy benefits*

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

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	2014	2013
Life insurance	\$ 326,958,909	\$ 308,501,979
Annuities	21,393,869	21,756,003
Accident and health	13,984,839	14,685,464
Colina Investment Plan (See Note 33)	<u>7,356,177</u>	<u>7,968,052</u>
Total provision for future policy benefits	<u>\$ 369,693,794</u>	<u>\$ 352,911,498</u>

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

	2014	2013
Short-term insurance contracts	\$ 14,318,572	\$ 14,995,188
Long-term insurance and other contracts		
-with fixed and guaranteed terms	114,850,969	98,113,794
-with fixed and guaranteed terms and with DPF	195,750,519	195,847,346
-without fixed and guaranteed terms	21,253,817	21,282,476
-without fixed and guaranteed terms and with DPF	16,163,740	14,704,642
Long-term investment contracts with DPF	<u>7,356,177</u>	<u>7,968,052</u>
Total provision for future policy benefits	<u>\$ 369,693,794</u>	<u>\$ 352,911,498</u>

*Analysis of change in provision for future policy benefits*

	2014	2013
Balance, beginning of year	\$ 352,911,498	\$ 342,605,833
Changes in discretionary participation features	(8,712,256)	-
Normal changes in policy liabilities	10,090,575	8,980,745
Changes in assumptions and refinement of estimates	<u>15,403,977</u>	<u>1,324,920</u>
Balance, end of year	<u>\$ 369,693,794</u>	<u>\$ 352,911,498</u>

*Closed Participating Fund*

Included in the provision for future policy benefits as of December 31, 2014 are actuarial reserves totaling \$31.8 million (2013: \$31.6 million) relating to the Company'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 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, 2014 shows that it had the following asset mix: government securities – 51.5%; policy loans – 25.2%; mortgage loans – 8.4%; corporate bonds – 1.3%; equity securities – 8.8%; preference shares – 4.1%; and cash and cash equivalents – 0.7% (2013:

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government securities – 49.2%; policy loans – 23.5%; mortgage loans – 11.0%; corporate bonds – 1.2%; equity securities – 7.8%; preference shares – 3.9%; and cash and cash equivalents – 3.4%).

**20. Other Liabilities**

	<b>2014</b>	<b>2013</b>
Third party pension liabilities	\$ 26,584,541	\$ 24,945,777
Benefits payable to policyholders	17,582,205	17,427,658
Accrued expenses and other liabilities	25,002,781	26,203,835
Bank overdraft (See Note 8)	1,665,852	812,276
Reinsurance payables	<u>2,610,008</u>	<u>1,725,923</u>
Total other liabilities	<u>\$ 73,445,387</u>	<u>\$ 71,115,469</u>

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

**21. Due to Parent**

The balance Due to Parent of \$1,047,878 (2013: \$1,789,641) is as a result of a net dividend liability.

**22. Share Capital**

	<b>2014</b>	<b>2013</b>
Authorized:		
1,000,000 Ordinary shares of B\$1 each (2013: 1,000,000)	\$ 1,000,000	\$ 1,000,000
20,000 Ordinary shares of B\$0.01 each (2013: 20,000)	\$ 200	\$ 200
Issued and fully paid:		
1,000,000 Ordinary shares of B\$1 each (2013: 1,000,000)	\$ 1,000,000	\$ 1,000,000
20,000 Ordinary shares of B\$0.01 each (2013: 20,000)	\$ 200	\$ 200
Share Premium	<u>1,999,800</u>	<u>1,999,800</u>
	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

In August 2010, the Board of Directors by resolution authorized an additional 20,000 Ordinary Shares with a par value of \$0.01 to be offered at a share premium of \$99.99 each.

The Company then immediately offered to its Parent these additional 20,000 Ordinary Shares by converting \$2,000,000 of its share premium into paid up share capital of \$2,000,000 in the Company, resulting in the additional issued shares with a value of \$200 and the accompanying share premium of \$1,999,800.

**23. Revaluation Reserve**

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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. Also included in the revaluation reserve are unrealized gains related to the purchase of additional equity in a subsidiary company subsequent to the date control was first established.

	2014	2013
Balance, beginning of year	\$ 10,286,915	\$ 9,735,916
Net fair value gains/(losses) during the year	238,860	(76,852)
Unrealized gain on purchase of shares in subsidiary	<u>492,000</u>	<u>627,851</u>
Balance, end of year	<u>\$ 11,017,775</u>	<u>\$ 10,286,915</u>

**24. 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 and financial services 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 may have 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. As at December 31, 2014, the Company did not provide any guarantees to third parties in the ordinary course of business. (2013: NIL).

The Company, is from time to time, in connection with its normal 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 \$271,161 (2013: \$235,911).

*Purchase of property and equipment:* The Company had no commitments for the purchase of capital equipment or services at December 31, 2014 (2013: 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, 2014 are as follows:

No later than 1 year	\$ 801,612
Later than 1 year and no later than 5 years	1,436,563
Later than 5 years	<u>616,050</u>
Total	<u>\$ 2,854,225</u>

**25. Future Minimum Lease Payments Receivable**



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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, 2014 are as follows:

No later than 1 year	\$ 2,920,267
Later than 1 year and no later than 5 years	<u>4,903,730</u>
Total	<u>\$ 7,823,997</u>

**26. Net Premium Revenue**

Net premium revenue is comprised of the following:

	2014	2013
Life and health insurance premiums	\$ 126,332,302	\$ 126,953,736
Less: Reinsurance premiums	<u>(12,865,989)</u>	<u>(13,201,455)</u>
Subtotal	113,466,313	113,752,281
Premiums from IRM reinsurance facilities (See Note 14)	<u>15,363,874</u>	<u>13,789,196</u>
Net premium revenue	<u>\$ 128,830,187</u>	<u>\$ 127,541,477</u>

Net premium revenues are classified in the following categories:

	2014	2013
Short-term insurance contracts	\$ 78,868,749	\$ 77,727,281
Long-term insurance and other contracts		
-with fixed and guaranteed terms	29,978,543	27,466,043
-with fixed and guaranteed terms and with DPF	21,251,063	21,729,026
-without fixed and guaranteed terms	140,367	139,717
-without fixed and guaranteed terms and with DPF	8,723,941	13,458,860
Long-term investment contracts with DPF	<u>2,733,513</u>	<u>222,005</u>
Total premium revenue arising from contracts issued	141,696,176	140,742,932
Premiums ceded to reinsurers	<u>(12,865,989)</u>	<u>(13,201,455)</u>
Net premium revenue	<u>\$ 128,830,187</u>	<u>\$ 127,541,477</u>

**27. Net Investment Income**

Net investment income is classified as follows:

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	<b>2014</b>	<b>2013</b>
Term deposits	\$ 1,035,739	\$ 895,208
Investment securities	14,233,322	13,468,322
Net fair value gains/(losses) included in the revaluation reserve (See Note 23)	238,860	(76,852)
Less: Investment management fees (See Note 34)	<u>(1,727,881)</u>	<u>(1,723,063)</u>
Net investment return on managed assets	13,780,040	12,563,615
Mortgages and commercial loans	2,490,095	3,381,407
Policy loans	7,566,115	7,251,163
Rental income	4,951,397	4,724,344
Net fair value (losses)/gains on investment properties (See Note 12)	(912,442)	999,140
Fair value losses on property assumed under mortgage default	-	(1,663,000)
Other fees and income	<u>(458,742)</u>	<u>(583,253)</u>
Total return on invested assets	27,416,463	26,673,416
Less: Fair value (gains)/losses in the revaluation reserve	<u>(238,860)</u>	<u>76,852</u>
Total net investment income recognized in income	<u>\$ 27,177,603</u>	<u>\$ 26,750,268</u>

There are no impairment charges included in net investment income from investment securities (2013: NIL).

**28. Net Policyholders' Benefits**

Net policyholders' benefits are comprised of the following:

	<b>2014</b>	<b>2013</b>
Life and health policyholder benefits	\$ 85,932,346	\$ 83,073,001
Less: Reinsurance recoveries	<u>(12,734,083)</u>	<u>(10,010,922)</u>
Subtotal	73,198,263	73,062,079
Benefits paid on IRM reinsurance facilities (See Note 14)	<u>13,876,267</u>	<u>13,950,397</u>
Total net policyholders' benefits	<u>\$ 87,074,530</u>	<u>\$ 87,012,476</u>

Included in life and health policyholder benefits is \$839,879 (2013: \$868,416) related to interest on policy dividends on deposit.

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

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	2014	2013
Short-term insurance contracts	\$ 50,315,998	\$ 51,782,930
Long-term insurance and other contracts		
-with fixed and guaranteed terms	15,846,475	11,946,176
-with fixed and guaranteed terms and with DPF	21,772,896	23,554,659
-without fixed and guaranteed terms	1,747,771	2,062,542
-without fixed and guaranteed terms and with DPF	9,093,091	6,535,492
Long-term investment contracts with DPF	<u>1,032,382</u>	<u>1,141,599</u>
Total policyholders' benefits	99,808,613	97,023,398
Reinsurance recoveries	<u>(12,734,083)</u>	<u>(10,010,922)</u>
Net policyholders' benefits	<u>\$ 87,074,530</u>	<u>\$ 87,012,476</u>

**29. General and Administrative Expenses**

General and administrative expenses are comprised of:

	2014	2013
Salaries and employee/salesperson benefits	\$ 14,253,137	\$ 13,426,487
Fees, insurance and licences	5,118,193	4,742,144
IRM reinsurance facilities expenses (See Note 14)	1,974,874	2,117,489
Advertising and communications expense	2,656,848	3,550,957
Depreciation and amortization	2,012,605	2,154,423
Premises and maintenance	3,577,991	3,423,640
Underwriting fees	563,001	823,531
Other(income)/expenses	<u>439,873</u>	<u>1,007,959</u>
Total general and administrative expenses	<u>\$ 30,596,522</u>	<u>\$ 31,246,630</u>

**30. Finance Costs and Interest**

Finance costs and interest are comprised of:

	2014	2013
Interest on third party pension liabilities	\$ 1,230,189	\$ 1,193,232
Interest on liabilities due to ASO groups	<u>554,886</u>	<u>510,767</u>
Total finance costs and interest	<u>\$ 1,785,075</u>	<u>\$ 1,703,999</u>

**31. Dividends Per Share**

Dividends to the Parent are recognized as a liability in the period in which they are declared by the Board of Directors. Dividends paid by the Company to its ordinary shareholder in 2014 totalled \$7,048,200 or \$6.91 per share (2013: \$7,711,200 or \$7.56 per share).

The Company does not have any dilutive shares.

**32. Pension Plan**

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The Company operates a defined contribution plan for eligible administrative employees and salespersons which is administered by a related party. Under the plan, eligible staff and salespersons contribute 5% of pensionable earnings with the Company contributing 5%. The Company's matching contributions vest with the employee/salesperson after five years. Pension expense for the year was \$649,540 (2013: \$619,594) and is included in salaries and employee/salespersons' benefits expense.

**33. 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 policy, the Company may have guaranteed investors in the CIP a minimum rate of return of either 4% or 4.5% per annum, payable at maturity. The liabilities in relation to these guarantees are included in the provision for future policy benefits.

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 statement of financial position at December 31, 2014 are as follows:

	<b>Bahamas Investment Fund</b>		<b>Colina Investment Plan</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Equities - listed	\$ 7,442,934	\$ 6,725,334	\$ 2,295,893	\$ 2,166,286
Equities - unquoted	66,894	66,894	15,000	15,000
Preferred shares - unquoted	550,000	550,000	318,000	168,000
Government securities	6,102,800	6,092,800	6,340,721	6,160,497
Debt securities - unquoted	528,572	539,286	42,858	46,429
Term deposits	1,184,630	1,165,434	539,155	529,736
Policy loans	-	-	807,280	789,683
Cash	258,129	162,782	114,230	265,204
Due to general fund	(2,245,997)	(3,173,638)	(3,116,960)	(2,172,783)
<b>Total assets</b>	<b>\$ 13,887,962</b>	<b>\$ 12,128,892</b>	<b>\$ 7,356,177</b>	<b>\$ 7,968,052</b>

**34. 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.

*Transactions with related parties*

The following transactions were carried out with related parties:

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	AFH	Other affiliates	Other related parties	Total 2014	Total 2013
<b>Revenues</b>					
Group and life insurance	\$ 10,387	\$ 962,921	\$ 1,099,782	\$ 2,073,090	\$ 1,922,619
Rental and other income	-	24,000	155,097	179,097	169,616
Sub-investment fees	-	-	71,662	71,662	69,823
Total	<u>\$ 10,387</u>	<u>\$ 986,921</u>	<u>\$ 1,326,541</u>	<u>\$ 2,323,849</u>	<u>\$ 2,162,058</u>
<b>Expenses</b>					
Legal fees	\$ 52,292	\$ 635,299	-	\$ 687,591	\$ 491,534
Investment management fees	-	-	1,727,881	1,727,881	1,723,063
Administration, Registrar and Transfer Agent fees	-	64,969	224,623	289,592	141,568
Property management fees	-	61,920	-	61,920	61,920
Advertising and Marketing	-	232,866	-	232,866	271,616
Property rental	-	436,593	4,064	440,657	549,505
Medical lab expenses	-	-	494,260	494,260	632,300
Other	-	250,000	-	250,000	281,152
Total	<u>\$ 52,292</u>	<u>\$ 1,681,647</u>	<u>\$ 2,450,828</u>	<u>\$ 4,184,767</u>	<u>\$ 4,152,658</u>

Investment and sub-investment management fee transactions between the Company and CFAL for the period subsequent to the acquisition date of September 30, 2013 have been eliminated on consolidation and consequently, are not presented in the above table.

*Key management personnel compensation*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and its subsidiaries, directly or indirectly, including any director (whether executive or otherwise) of the Company. Compensation for key management personnel for the year ended December 31, 2014 was \$2,276,993 (2013: \$2,230,410).

*Directors' fees*

The Board of Directors for the Company also serve as the Directors for the Company's Parent and receive their compensation in aggregate at the Parent level. Fees paid to Directors for services rendered on the Company's Board and Board Committees for the year ended December 31, 2014 totaled \$283,658 (2013: \$299,125).

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

The following related party amounts are included in the consolidated statement of financial position as at December 31:

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	AFH	Other affiliates	Other related parties	Key Management / Directors	Total 2014	Total 2013
<b>Assets</b>						
Investment securities	\$ -	\$ 116,126	\$ -	\$ -	\$ 116,126	\$ 117,857
Mortgages and and commercial loans, net	\$ -	\$ -	\$ -	\$ 1,607,240	\$ 1,607,240	\$ 2,542,249
Cash and bank balances	\$ -	\$ -	\$ 7,525,926	\$ -	\$ 7,525,926	\$ 4,591,561
Receivables and other assets	\$ -	\$ 80,211	\$ 800,782	\$ -	\$ 880,993	\$ 162,741
<b>Liabilities</b>						
Other liabilities	\$ -	\$ 52,480	\$ 320,724	\$ -	\$ 373,204	\$ 141,661

Loans advanced to related parties included in mortgages and commercial loans carry interest rates between 5.50% and 8.50% p.a. (2013: 5.50% and 6.50% p.a.).

**35. 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 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*

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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.

	2014 (in \$000s)	2013 (in \$000s)
\$0 to \$49,999	\$ 483,214	\$ 508,652
\$50,000 to \$99,999	968,045	1,002,420
\$100,000 to \$149,999	2,154,493	2,200,515
\$150,000 and over	3,163,176	3,156,838
Total	<u>\$ 6,768,929</u>	<u>\$ 6,868,425</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.

Generally, the Company has retention limits on insurance policies as follows:

	2014	2013
Individual life	\$ 50,000	\$ 50,000
Individual accidental death and dismemberment	\$ 50,000	\$ 50,000
Individual 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.

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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*

The Company is vulnerable to periods of declining interest rates given that most of its investments in government bonds 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 19.

*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:



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December 31, 2014 (in \$000s)	Balances with no scheduled repayment dates	Current			Past due but not impaired		Past due and/or impaired	Total
		Investment Grade	Non- Graded	Unit Linked	30 - 90 days	>90 days		
Financial assets								
Term deposits	\$ 42,856	\$ -	\$ -	\$ 1,724	\$ -	\$ -	\$ -	\$ 44,579
FVPL securities	-	2,935	68,786	14,691	-	-	-	86,412
AFS securities	-	2,039	207,966	9,012	-	-	-	219,017
Mortgages and commercial loans	-	-	25,655	-	2,943	19,846	-	48,444
Policy loans	68,754	-	-	807	-	-	-	69,561
Cash and demand balances	20,028	-	-	372	-	-	-	20,400
Premiums receivable	-	-	2,532	-	1,956	994	-	5,482
Reinsurance receivables	-	-	1,443	-	3,948	3,295	-	8,686
Other financial assets	395	3,544	(4,608)	-	-	-	-	(669)
Total financial assets	\$ 132,033	\$ 8,517	\$ 301,772	\$ 26,607	\$ 8,847	\$ 24,135	\$ -	\$ 501,912

December 31, 2013 (in \$000s)	Balances with no scheduled repayment dates	Current			Past due but not impaired		Past due and/or impaired	Total
		Investment Grade	Non- Graded	Unit Linked	30 - 90 days	>90 days		
Financial assets								
Term deposits	\$ 30,090	\$ -	\$ -	\$ 1,695	\$ -	\$ -	\$ -	\$ 31,785
FVPL securities	-	2,383	56,501	13,974	-	-	-	72,858
AFS securities	-	7,154	198,713	8,556	-	-	-	214,423
Mortgages and commercial loans	-	-	25,574	-	7,809	21,389	-	54,772
Policy loans	66,356	-	-	790	-	-	-	67,146
Cash and demand balances	27,105	-	-	428	-	-	-	27,533
Premiums receivable	-	-	3,569	-	2,528	97	-	6,194
Reinsurance receivables	-	-	1,391	-	2,706	1,846	-	5,943
Other financial assets	1,445	3,457	(9,075)	-	-	-	-	(4,173)
Total financial assets	\$ 124,996	\$ 12,994	\$ 276,673	\$ 25,443	\$ 13,043	\$ 23,332	\$ -	\$ 476,481

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, 2014 (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	\$ 6,801	\$ 122	\$ 73	\$ -	\$ 7,204	\$ 14,200
Long-term insurance and other contracts						
-with fixed and guaranteed terms	(11,394)	(23,329)	551,679	-	6,945	523,901
-with fixed and guaranteed terms, with DPF	7,707	41,030	548,698	-	6,912	604,347
-without fixed and guaranteed terms	1,808	6,916	21,582	-	382	30,688
-without fixed and guaranteed terms, with DPF	2,715	7,208	13,321	-	(632)	22,612
Long-term investment contracts with DPF	-	-	-	-	7,356	7,356
Financial Liabilities						
Policy dividends on deposit	-	-	-	27,686	-	27,686
Other financial liabilities	-	-	-	73,445	-	73,445
<b>Total</b>	<b>\$ 7,637</b>	<b>\$ 31,947</b>	<b>\$ 1,135,353</b>	<b>\$ 101,131</b>	<b>\$ 28,167</b>	<b>\$ 1,304,235</b>

December 31, 2013 (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	\$ 7,878	\$ 34	\$ 27	\$ -	\$ 6,899	\$ 14,838
Long-term insurance and other contracts						
-with fixed and guaranteed terms	(11,962)	(25,091)	528,028	-	5,936	496,911
-with fixed and guaranteed terms, with DPF	7,015	38,952	606,060	-	7,679	659,706
-without fixed and guaranteed terms	1,768	6,858	22,949	-	365	31,940
-without fixed and guaranteed terms, with DPF	2,062	5,868	13,575	-	(105)	21,400
Long-term investment contracts with DPF	-	-	-	-	7,968	7,968
Financial Liabilities						
Policy dividends on deposit	-	-	-	28,209	-	28,209
Other financial liabilities	-	-	-	71,115	-	71,115
<b>Total</b>	<b>\$ 6,761</b>	<b>\$ 26,621</b>	<b>\$ 1,170,639</b>	<b>\$ 99,324</b>	<b>\$ 28,742</b>	<b>\$ 1,332,087</b>

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

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

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<b>December 31, 2014</b> <b>(in \$000s)</b>	<b>Current</b>	<b>Non-Current</b>	<b>Unit Linked</b>	<b>Total</b>
Term deposits	\$ 42,855	\$ -	\$ 1,724	\$ 44,579
Investment securities				
FVPL securities	-	71,721	14,691	86,412
AFS securities	-	210,005	9,012	219,017
Mortgages and commercial loans	1,694	46,750	-	48,444
Policy loans	-	68,754	807	69,561
Investment properties	-	54,165	-	54,165
Investment in associates	8,454	-	-	8,454
Cash and demand balances	20,028	-	372	20,400
Receivables and other assets	29,520	-	-	29,520
Property and equipment	-	20,845	-	20,845
Goodwill	-	8,153	-	8,153
Other intangible assets	-	44	-	44
<b>Total Assets</b>	<b>\$ 102,551</b>	<b>\$ 480,437</b>	<b>\$ 26,607</b>	<b>\$ 609,595</b>

<b>December 31, 2013</b> <b>(in \$000s)</b>	<b>Current</b>	<b>Non-Current</b>	<b>Unit Linked</b>	<b>Total</b>
Term deposits	\$ 30,090	\$ -	\$ 1,695	\$ 31,785
Investment securities				
FVPL securities	-	58,884	13,974	72,858
AFS securities	-	205,867	8,556	214,423
Mortgages and commercial loans	1,317	53,455	-	54,772
Policy loans	-	66,356	790	67,146
Investment properties	-	54,998	-	54,998
Investment in associates	7,808	-	-	7,808
Cash and demand balances	27,105	-	428	27,533
Receivables and other assets	24,630	-	-	24,630
Property and equipment	-	19,599	-	19,599
Goodwill	-	8,153	-	8,153
Other intangible assets	-	423	-	423
<b>Total Assets</b>	<b>\$ 90,950</b>	<b>\$ 467,735</b>	<b>\$ 25,443</b>	<b>\$ 584,128</b>

*Price risk*

The Company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company has a relatively small investment in local equities which are exposed to market price risk arising from uncertainties about the future values of the investment. A sensitivity analysis has therefore not been presented. Securities reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors and/or respective Board Committees review and approve equity investment decisions meeting thresholds established in each respective subsidiary's Investment guidelines.

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*Settlement Risk*

The Company's trading activities may give rise to the risk that at the time of settlement of those trades. Settlement risk is the risk of loss due to the failure of counterparty to honor its obligations to deliver cash, securities, or other assets as contractually agreed.

For those transactions, the Company mitigates settlement risk by the simultaneous commencement of the payment and the delivery parts of the transaction.

*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 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.

*Capital Management*

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 the Company's capital base, objectives, policies and processes from the prior year.

Externally imposed capital requirements for the Company are set and regulated by the Insurance Commission of The Bahamas. These requirements are put in place to ensure sufficient solvency margins. At December 31, 2014, the Company exceeded both the statutory margin requirement and the minimum ratio requirement of qualifying to admissible assets. Further objectives are set by management and the Board 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, the Company uses the capital on its consolidated statement of financial position excluding goodwill and with limitations placed on all but the strongest forms of capital.

In addition to the solvency margins as required by statute, the Company 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, 2014, the Company's MCCSR exceeded the target.