



# NAVIGATING Change

2011 ANNUAL REPORT

# NAVIGATING Change

The first step in any journey is always “charting the course”, but sometimes the process of travelling from Point A to Point B requires a considerable amount of change in direction. Navigating change requires at the outset a clear strategy that can adapt to maintaining the goal despite any change in passage or momentum.





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Terence Hiltz / Chairman

## Dear Shareholders,

I am pleased to report that Colina met the challenges of 2011 from a position of considerable financial strength and remains in solid fiscal standing despite a challenging economic environment and the extraordinary impact of the reduction in the Bahamian \$ Prime Rate.

Net income was affected by decreased individual life sales volumes in 2011 relative to our banner year in 2010 as the continued effects of the depressed economic environment reduced discretionary income for a number of our clients. Despite these challenges, Colina was able to achieve net income of \$5.6 million at December 31, 2011. Total comprehensive income was similarly moderated, closing at \$5.9 million.

Total equity stands at \$119.7 million and easily exceeds solvency requirements set out in the Insurance (General) Regulations, 2010 (as amended), providing testament to our conservative investment strategy and balance sheet management. A continued distinctive advantage, our balance sheet continues to grow and strengthen, exceeding half a billion dollars for the first time in 2010 and growing to \$550.0 million at the end of 2011.

## Navigating Change

Results reflected positive growth in key financial indicators including net income, shareholder equity and gross revenue

for the first three months of the year. Second quarter results for the Company were notably impacted by a reduction in the Bahamian \$ Prime Rate, which required long-term insurers like Colina to increase its actuarial reserves to support future policy benefits and, subsequently, resulted in reduced total net income and investment earnings at the close of the first half of 2011. However, the Company was in the unique position to withstand these changes in the economic landscape, providing fully for this extraordinary change in actuarial reserves in our second quarter and sustaining profitability through the third and fourth quarters.

Colina's diversified product mix provided the Company the flexibility to implement a number of mitigating measures to compensate for the changes in the policyholder reserves to factor in the reduction of future net investment returns.

## Dividends

Preference share dividends paid to Class A Preference Shareholders totaled \$1.7 million during 2011. Ordinary dividends of \$0.16 per share totaling \$3.9 million were paid to Ordinary Shareholders.

## Restore

At the end of the first quarter, the Company made history with the launch of **Restore**, the first Critical Illness insurance

While not unmindful of the challenging economic times we are operating in, the Board remains confident that the Company will be able to meet the challenges and opportunities of the coming year.

product in the country. Our group Critical Illness coverage allows employers the opportunity to help their employees safeguard financial security in the face of major illness. Critical Illness insurance helps to alleviate the financial gaps caused by life-threatening illness by paying a lump sum directly to an insured diagnosed with a life-threatening illness covered under the plan. Restore is an innovation that changes the landscape of insurance products available to the Bahamian public. We are excited at the opportunities that this product will bring to the market and are confident of its long-term success.

#### Distribution Channels

In April, Colina enhanced its visibility and accessibility in south-western New Providence by opening its newest office at Carmichael to meet the life and health insurance needs of individuals living and working in this thriving community. With the diversity of businesses that currently exist there, Colina's opening has been a boost to the community's economic landscape.

#### Landmark Agreement

We were pleased to announce in May that the Company signed an historic agreement with The International Medicine Institute (IMI) of the University of Miami (UM) to provide advanced education and training programmes for healthcare practitioners and administrators within Colina's network. This new knowledge and technology transfer relationship gives Bahamian physicians, nurses and group health plan administrators access to medical and administrative resources and facilities available at the university teaching hospital through funding by Colina. The agreement with Colina is IMI's first in The Bahamas and the region. Our affiliation with this world-class teaching and research institution will enable local providers to be exposed to cutting edge trends that will enable them to better serve our community. It also allows Colina the deeper educational resources to develop more informed clients who will then have the knowledge to be more proactive when it comes to their health and wellness.

#### CGIA Acquisition

In December the Company acquired Colina General Insurance Agency Limited (CGIA), a general insurance agent and broker. The purchase is part of the Company's strategy to unify various financial service product offerings under a single brand that enhances the Company's ability to deliver "confidence for

life" for many generations. The Board looks forward to the contributions that CGIA will make over the long-term.

#### Outlook

While not unmindful of the challenging economic times we are operating in, the Board remains confident that the Company will be able to meet the challenges and opportunities of the coming year. The Company's strategy to further leverage its position as the largest provider of life and health insurance and related financial planning products in The Bahamas with a view to expansion outside these borders provides it with a clear avenue to deliver sustained, profitable growth. I am confident that management has the skills, energy and ambition to capitalise on the many growth opportunities that lie before the Company.

#### Acknowledgements

2011 was an eventful year and I would like to commend our executives, employees and sales team on the considerable progress achieved during the course of the year. The changes that followed the reduction in the Bahamian \$ Prime Rate and the challenges of the global and domestic economies required swift and decisive action by an integrated team of professionals looking out for the best interests of our Company, our shareholders and our policyholders. The Board is most grateful to these individuals for ensuring our change of course was seamless.

I thank my fellow Directors for their strategic input as the Company navigated the challenges presented to us during the second quarter and onward.

In addition, I am grateful for the support of our regulators throughout 2011.

Finally, thank you to our shareholders for your continued confidence in our Company. I look forward to reporting to you on our successes and progress next year.

On behalf of the Board of Directors,



**Terence Hilts**  
Chairman



# looking back on 2011

interview with the executive team



Emanuel M. Alexiou / Executive Vice Chairman



### In a word, how would you characterize 2011?

<b>EMA:</b>	Unexpected	<b>CW:</b>	Challenging
<b>WB:</b>	Progressive	<b>EK:</b>	Dynamic
<b>LN:</b>	Uncertain	<b>IC:</b>	Buoyant
<b>MB:</b>	Demanding		

### What were the highlights of the last year?

**EMA:** The highlight for me came in the wake of our biggest challenge – the reduction of the Prime Rate late in the second quarter which had a significant but manageable impact on our results at the close of the first half of the year. Our depth of experience in-house and on-hand helped us chart a course to a positive result notwithstanding this unexpected turn of events and a sluggish economy.

**CW:** I think the opening of our Carmichael branch was a key event of 2011. It allowed us to expand our reach to a number of

clients throughout that growing area. This development and our renewed energy toward enhancing our overall service excellence initiatives really re-invigorated our team.

**EK:** There were quite a number of highlights for the Company during 2011 as we maintained our competitive edge. However, Colina’s “priceless” ability to absorb the unexpected Prime Rate reduction, our successful implementation of the Insurance (General) Regulations, and the implementation of the final phase of our Enterprise Risk Management (ERM) framework readily come to mind.

**IC:** A highlight of last year might be the quarterly gatherings which brought together all employees. This was truly a great effort that provided the opportunity to focus on our human capital in a social setting.

Marcus J. Bosland / Resident Actuary



Formerly, Assistant Vice President and Appointed Actuary, Guardian Life of the Caribbean (2005-2007)

**MB:** The speed and flexibility showed by our team in handling the changes required by the reduction in the Prime Interest Rate and the launch of Restore, the first group Critical Illness product in The Bahamas, were high points of 2011.

### Were you pleased with the Company's performance last year?

**EMA:** We had a curve ball thrown at the industry last year and, as a Company, we were able to stay ahead of that curve. Colina has been disciplined over the years and this allows us to withstand the impact of external shock. There remain a number of measures to be implemented to enable us to continue to manage this impact in the future but I am confident that we have the resources to meet this obligation.

**CW:** From a financial perspective, we were disappointed that we didn't reach our financial targets; however, were very fortunate to be able to withstand fluctuations in income as a result of long-term investment strategies that have built our strong balance sheet. Our strategy to focus on the long-term and to strengthen our balance sheet through seeking out investments in high quality assets to produce stable returns over time will continue to be key for us as we move through 2012 and beyond.

**EK:** I was rather encouraged by the Company's performance in relation to its ability to absorb shocks and manage its risks effectively during 2011. In terms of financial performance, admittedly, we have achieved better results, but we can be proud of the Company's resilience and profitability in a challenging economy.

**LN:** In light of what we now know was increasing unemployment, yes.

**MB:** Under the circumstances, the full year's financial results were gratifying. As Colina provides more long-term insurance than any other local life insurer, it was affected significantly by the reduction in the Prime Interest Rate. I am pleased that we were able to finish the year in a strong financial position.

### What kept you awake at night in 2011?

**CW:** News of continued instability in the global economy as a whole and, in particular, the changing US economic landscape given the impact that such volatility may have on our local economic conditions.

**EK:** In my role, effective risk management and compliance are of the utmost importance to me. CHBL and its subsidiaries are regulated by several regulatory agencies and keeping up with changing regulatory requirements while remaining compliant were foremost in my list of priorities. Nevertheless, our commitment to compliance ensured that I was still able to sleep at night during 2011.

### How did 2011 differ from previous years?

**EK:** The Company was evolving with the introduction of new technology during an otherwise depressed period for the local economy. We were able to grow in the dark in spite of the slow recovery and unfavourable macroeconomic indicators within the Bahamian economy.





Formerly, Financial Controller (2005-2010)

**LN:** Global economic uncertainty. The world is so interconnected that like most people, I am sure, I was often fixed on the television or a news magazine trying to glean what was going on and how The Bahamas might be impacted.

**IC:** In 2011, there was a need for Colina to demonstrate its ability to manage the Company strategically during a period of unexpected and undesirable change brought about by external factors. In so doing, the Company showed a resilience that perhaps has not been displayed in times before.

### What was the most satisfying moment for you in 2011?

**EMA:** Colina is a fiscally conservative company with a strong balance sheet that continues to grow. However, we adhere to the philosophy that our holdings would mean little without a talented workforce. I am pleased that in 2011 we kept our commitment to avoid layoffs and maintain a productive team of employees.

**WB:** The successful October launch of CONNECT, the Company's sustainable insurance literacy and financial planning programme.

**EK:** The successful automation of our new business process, which provided efficiency gains to enhance our customers' experiences.

### Outline the progress have you made with your most significant challenge since the last Report.

**CW:** This would definitely be the successful installation of our



new reinsurance administration system. As a result of our legacy acquisitions, we inherited a number of reinsurance treaties on our life business which have been very difficult to administer on our existing systems. I'm very excited that we are now able to consolidate all of our life reinsurance information within one platform, which will provide enhanced data capabilities with respect to retention and claims management. We will have better information to quickly identify exposures that may otherwise pose material risks for the Company.

**WB:** Our Customer Service and Actuarial departments spent considerable effort on improving the management of over-loaned policies. Our collaboration has led to a significant reduction in our impaired policy loans.

**EK:** The success of any risk management program hinges on the buy-in of all stakeholders in the process. During 2011, we were able to fully implement our ERM framework due to the commitment and support of all members of staff. We have seen an increased level of joint responsibility and individual accountability throughout the Company. This has in turn made our transition a smooth one. Additionally, with the automation of significant aspects of the New Business Process, we have improved our accuracy, efficiency and service delivery to both our internal and external clients.

### What sets Colina apart?

**CW:** Colina has a unique position in the industry as a result of how it came to be. We have benefitted from significant growth over a very short period of time as a result of our legacy acquisitions – a unique benefit from this merger of former



Formerly, Vice President, Sales and Group and Health Benefits (2010-2012)  
Formerly, Vice President, Sales and Customer Service (2009-2010)  
Formerly, President, Colina General Insurance Agency (2007-2009)

companies is that we have retained a great group of experienced staff and salespersons from companies that have been in business in The Bahamas for a number of years. I think that having such a group of people to work with gives us the ability to challenge each other to find the best way of doing things, as we can compare practices and, from our collective experience, work together to use those experiences to continually improve.

**WB:** Colina represents a fusion of diverse skill sets and experience in the life and health Insurance industry and has gained the competitive edge in providing service quality along with the use of technology to improve our business processes for greater performance.

**EK:** In my view, Colina is ahead of its peers due to its dedication to continuous innovation, resiliency built into its business model and the flawless execution of strategies by its gifted team of professionals.

**LN:** In-house expertise, collaboration and a clear vision to exceed our clients' needs.

**Where do you expect to place your focus in 2012?**

**EMA:** As a sales-oriented company, our focus will continue to be on sales and innovation in our expansion of service to our clients.

**CW:** The focus in 2012 for the Company will be on achieving our sales targets and, as always, reviewing our internal operating procedures to ensure that we are being efficient at managing our costs. Now that the reinsurance administrative system conversion has been implemented, we will be focusing

on other modules of the system that will further enhance our ability to integrate our reinsurance processing and administration throughout the entire life insurance cycle.

**WB:** The Customer Service Department will work to further enhance Colina's service quality and corporate image in the eyes of our customers and the wider community with the aim of strengthening consumer confidence in Colina as the leader in life and health insurance and related financial planning products.

**EK:** In Risk & Compliance, our focus in 2012 will be on efficiency, effectiveness and adding value to the Company. In order to sustain growth and maintain success, we must have an ongoing commitment to improvement. We will continue to review our processes to better serve our clients and foster a risk management and compliance culture.

**IC:** I think that 2011 has taught us all how important it is to be prepared to combat all internal and external factors that could have a negative impact on our Company in the future. To this end, the Company must support a Risk Programme that is dynamic and provides us with those indicators that would place the Company on a solid footing.

**MB:** I expect to spend some time reviewing some of our life insurance products with a view to ensuring that they remain the best options available to our clients. We will be giving our clients more information about their policies and doing outreach to the general public to help them to be better educated consumers of insurance. We think that the more the public knows about insurance, the more likely they are to do business with Colina.



Formerly, Head of Risk and Compliance, Ansbacher (Bahamas) Limited (2007-2009)  
Formerly, Group Compliance Officer, AF Holdings Ltd. (2007)  
Formerly, Policy Officer, Bank Supervision, Central Bank of The Bahamas (2005-2007)

### What do you hope Colina will look like in 10 years?

**EMA:** Our goal has always been for Colina to establish itself as a multi-national company. We are continually focused on positioning the Company for growth and expansion through technology and development of our human capital.

**CW:** Over that span of time, I believe Colina will have expanded its distribution system to include online access, and enhanced its product offering to be able to address any unmet consumer needs in the local and international markets.

**EK:** It is my belief that Colina can within the next 10 years broaden its reach, double its assets (at a minimum) and have a more pronounced presence regionally and globally.

**LN:** My vision for Colina is that in ten years it will be a full-service financial institution that is in touch with its clients 24/7 no matter where they are on the planet.

**IC:** I envision an organization which uses cutting edge technology, provides products and services that suit the needs of all Bahamians and international markets it reaches and has profitability and stability trends that far out perform its competitors. At the same time, this vision includes a Company which is the most desirable public company to invest in and is steeped in social development activities.

**MB:** I think that Colina has a lot of room for continued growth. We do things the right way at Colina and our customers know that we are stable, secure and trustworthy. In ten years, Colina should be much larger than it is today, with more engaged and excited

salespersons and staff and with more knowledgeable customers.

### How is Colina preparing for the future?

**EMA:** We are developing the tools and the people that will lead us to continued improvement in the future. As a Bahamian-owned company with a view to international growth, our technology and technicians will need continual upgrading and training. We are currently the only Bahamian life and health insurer with an in-house team of qualified actuaries. Their collective expertise and on-the-ground advantage support the global experience of our consultants to colour the full picture of our daily operations, obstacles and strategies for success.

**CW:** Colina has always been forward-looking when it comes to investment in technology and systems. This has always been a top priority in Colina's long-term strategic objectives and so, even in years with fluctuating net income, we have ensured that we continued to direct resources towards these investments given the long-term benefits that they are expected to provide.

**EK:** We are preparing for the future by our investment in process management, workflow analyses, technology and our most vital asset – our people.

**MB:** Over the last several years, Colina has made significant investments in technology. We now have a solid foundation and are working to leverage these investments to substantially improve our client communications. Despite the economic downturn, we have not stopped investing in our people, and our staff and salespersons are ready and able to meet the challenges that lie ahead.





# management discussion & analysis

### Forward-Looking Statements

This report provides an analysis of the Company's financial condition and results of operations. Historical information is presented and discussed and, where appropriate, the report may contain forward-looking statements about the Company, including its business operations, strategies, and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions,

provide financial services solutions through the production, distribution, and administration of insurance and investment products. CHBL's flagship company is Colina Insurance Limited, a wholly-owned life and health insurer whose principal operations are conducted largely in The Bahamas and which is also registered to operate in the Cayman Islands and The Turks and Caicos Islands.

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Colina's strong capital and reserve base have proven to be to our distinct advantage and allow the Company to navigate external shocks and withstand fluctuations in net income.

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and that indicate or imply future results, performance or achievements. Such forward-looking statements may include words like “believes”, “expects”, “estimates”, “intends”, “projects”, “anticipates”, “plans”, and other words, phrases or expressions with similar meaning. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties, and assumptions about the Company that may cause actual results to differ significantly from those expressed or implied. As a result of these uncertainties, such forward-looking statements are not guarantees of future performance. Given these risks and uncertainties, readers should not place undue reliance on forward-looking statements as a prediction of actual results.

### Overview

Colina Holdings Bahamas Limited (“CHBL” or “the Company”) is a holding company incorporated in 1993. CHBL subsidiaries

### Basis of Presentation and Summary of Accounting Policies

The Consolidated Financial Statements of the Company, on which the information presented in this report is based, have been prepared in accordance with International Financial Reporting Standards. This report should be read in conjunction with the annual consolidated financial statements and accompanying note disclosures.

### Critical Accounting Policies and Estimates

The Company's accounting policies require the use of judgments relating to a variety of assumptions and estimates that affect amounts reported in the Consolidated Financial Statements. In particular, these assumptions and estimates include expectations of current and future mortality, morbidity, persistency, expenses and interest rates. In applying its accounting policies, management makes subjective and complex judgments that frequently estimate matters which are inherently

# overall performance

Colina Holdings Bahamas Limited  
Statistical Financial Reporting Data  
(All data in B\$000s with the exception of \$ per share amounts)  
For the year ended December 31, 2011

	2011	2010	2009*	2008*	2007*
Net income for the year	\$ 5,588	\$ 14,064	\$ 13,373	\$ 8,129	\$ 4,366
Net income for equity shareholders	\$ 5,030	\$ 12,956	\$ 12,376	\$ 7,699	\$ 3,807
Net income for ordinary shareholders	\$ 3,322	\$ 11,343	\$ 10,963	\$ 6,149	\$ 2,257
Gross premium revenue*	\$ 132,085	\$ 131,843	\$ 128,390	\$ 127,567	\$ 135,580
Net premium revenue*	\$ 117,449	\$ 118,173	\$ 112,159	\$ 115,953	\$ 123,610
Total assets	\$ 549,961	\$ 525,597	\$ 498,534	\$ 470,568	\$ 462,772
Total invested assets*	\$ 457,682	\$ 421,310	\$ 409,016	\$ 385,420	\$ 384,083
Total ordinary shareholders' equity	\$ 77,327	\$ 76,999	\$ 70,281	\$ 62,346	\$ 54,793
Total equity	\$ 119,664	\$ 115,499	\$ 103,263	\$ 90,612	\$ 80,885
Return as % of total assets	1.0%	2.7%	2.7%	1.7%	0.9%
Return on total equity	4.8%	13.6%	14.8%	10.1%	5.7%
Earnings per ordinary share	\$ 0.13	\$ 0.46	\$ 0.44	\$ 0.25	\$ 0.09
Cash dividends declared per share by class					
Class A Preference Shares	\$ 0.06	\$ 0.07	\$ 0.07	\$ 0.08	\$ 0.08
Ordinary Shares	\$ 0.16	\$ 0.23	\$ 0.06	\$ 0.04	\$ 0.04

\* Corresponding figures have been reclassified to facilitate a more comparative basis of the financial information based on current year presentation

uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Company's business and operations. Due to the inherent uncertainty of using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be materially different from those reported in the Consolidated Financial Statements. A discussion of the most significant accounting policies follows:

## Intangible assets

Intangible assets on the Company's consolidated balance sheet include goodwill and other intangible assets. The assessment of goodwill requires an annual estimate of the future cash flows of the respective cash-generating units. Revisions to the estimates that result in the impairment of the carrying value of these assets cause the amounts to be expensed in the reporting period in which the revisions are made.

## Provision for future policy benefits

The establishment of adequate reserves to meet the Company's obligations to its policyholders involve estimating liabilities for future policy benefits on life and health insurance products and requires the use of assumptions such as those relative to future investment yields, mortality, morbidity, longevity, persistency, expenses, and other appropriate assumptions based on historical experience modified as necessary to reflect anticipated trends and to include margins for risk and possible adverse deviation.

## Changes in Accounting Policies including Initial Adoption

A description of changes in accounting policies and disclosures is included in Note 2 to the Consolidated Financial Statements.



# 2011 review

## Economic and Market Conditions

The global financial crisis has greatly impacted the Bahamian economy over the past three years. Although the economic effects of the recession in 2011 and 2010 were not as pronounced as in 2009, the sluggish Bahamian economy continues to test primary industries like tourism and construction, while narrowing growth estimates and expanding unemployment figures.

The result has been extraordinary levels of spending on the part of the Bahamian Government to stimulate economic activity. This increasing government debt, especially over the last 12 months, has caused international ratings agencies Moody's and Standard & Poor's to revise The Bahamas' economic outlook from stable to negative in light of the global downturn. However, the economy is showing signs of improvement with key domestic indicators pointing to slow recovery over the next year.

Several public and private sector initiatives are planned or underway, including a multi-million dollar road improvement project, the \$2.6 billion tourism development at Cable Beach, phase two of a luxury resort community at south-western New Providence, completion of the new U.S. departures terminal and the construction of a new arrival terminal at the Lynden Pindling International Airport, which have significant implications for domestic employment activity.

It is estimated that the economy grew by 1.3% in 2011. The Central Bank of The Bahamas predicts "mild and modest recovery momentum" of 2% in the domestic economy in 2012, based on moderate gains in tourism, the ongoing construction sector projects and foreign direct investment activity.

While there have been some promising improvements in 2011 with these much-needed infrastructural projects and the government's employee training initiatives, there remain significant challenges to overcome in 2012.

## Reduction in Bahamian \$ Prime Rate

In June 2011 The Central Bank cut the discount rate by 75 basis points, reducing it to 4.5%. Immediately following suit, the Clearing Banks Association of The Bahamas announced the drop in the Bahamian \$ Prime Rate from 5.5% to 4.75% in a move intended to bring relief in existing loan rates and future borrowing.

While the reduction in Prime was calculated to have a positive effect on the banking sector and was designed to stimulate the Bahamian economy, any reduction in interest rates requires long-term insurers to increase actuarial reserves to support future policy benefits.

Given the expected significance of these reserve changes, Colina's actuaries and consulting actuaries worked closely to assess the impact of the change and reflected the effects of the Prime Rate adjustment within the Company's second quarter financial statements, which resulted in reduced total net income and investment earnings at the close of the first half of the year.

However, Colina's strong capital and reserve base have proven to be to our distinct advantage and allow the Company to navigate external shocks and withstand fluctuations in net income.



Sapna Chatlani / Actuary



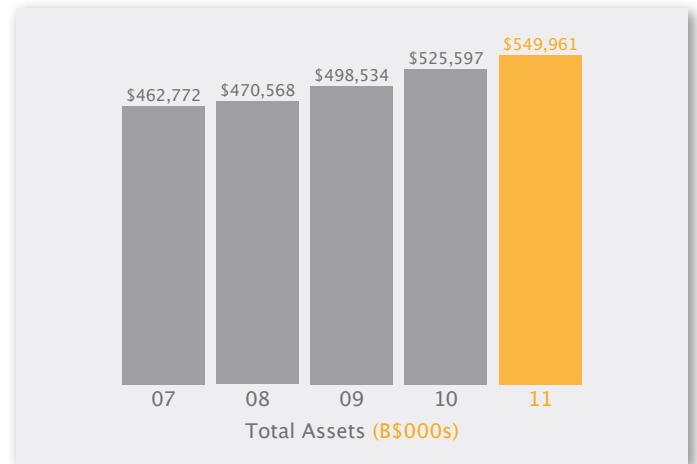
DeAndrea Lewis / Actuary

## Summary of Financial Performance

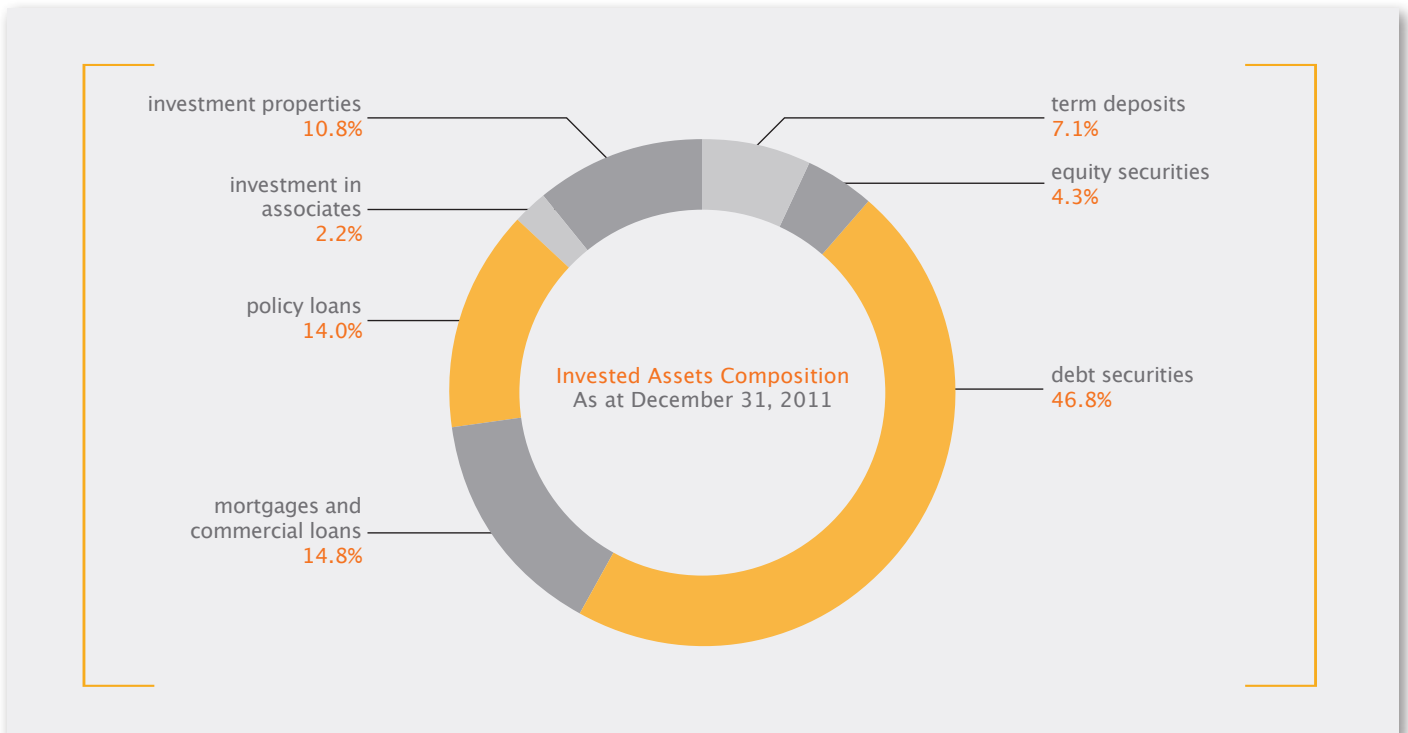
The depressed economic conditions of 2011 had an impact on reducing sales volumes in the Company's Life Division. This combined with an increase in policyholder benefits experience to produce a decrease in total net income to \$5.6 million compared to \$14.1 million in the prior year.

Gross premium revenues were generally flat against prior year, totalling \$132.1 million for the 12 months ended December 31, 2011 compared to \$131.8 million in the prior year.

The Company continued to achieve its objective of balance sheet growth, increasing total assets by \$24.4 million to \$550.0 million at year end. The majority of this asset growth was as a result of the Company's strategy to direct investment funds towards fixed income securities during the year. The focus on fixed income securities has resulted in an overall increase in net investment income as returns over these security instruments was significantly less volatile than returns experienced in equities over 2011.



General and Administrative expenses remained at approximately 22.5% of gross premium revenues, reflecting management's careful actions to ensure that expenditure remains focused on those activities considered necessary to provide the level of service that our policyholders have come to anticipate.



Antoinette Moxey / Financial Controller



The Company's primary operating divisions are Life and Health, respectively. We discuss highlights that affected those divisions' operating results:

### Life Division

The Life Division's revenues were negatively impacted by a decrease in net premium revenues of 4.8% to \$55.5 million from \$58.2 million in the prior year. However, the Company has already instituted a number of initiatives that are expected to bring this Division to historical levels of profitability over the short-term.

In Q2, the Company established a Quality Control Unit to enhance and improve throughput in the settlement of new business. Several workflow changes were instituted to take advantage of new electronic document processing capabilities that are designed to enhance the turnaround time of new applications from initial contact to policy approval while ensuring that important policy information is properly captured to help appropriately manage risk.

To enhance the Company's footprint and reach, additional sales branches were established in Q4. The efforts of these branches alongside our existing sales force are expected to result in combating the challenges experienced in 2011. The Company in February 2012 also welcomed a highly experienced sales executive to its team who will bring renewed energy to successfully achieving 2012 sales objectives, and re-evaluating the Company's long-term strategic sales goals.

Net investment income for the Life Division increased by 2.2% to \$28.6 million from \$28.0 million due largely to the successful

Simone Coakley / Financial Reporting Officer



strategy to divert new investment funds towards fixed income securities, chiefly investments in Bahamas Government Registered Stock or quasi-government offers.

As the Company does not expect to change its investment strategy in the short-term, it believes that net investment income returns for 2012 should be at similar levels to those experienced in 2011 given the expected composition of its portfolio.

Policyholder benefits have increased relative to prior year by \$1.9 million or 3.8%, principally due to some unusually high reinsurance recoveries booked in 2010 as a result of a focus in early 2010 to realize recoveries on some significantly aged reinsurance claims. Adjusting for these unusual recoveries, gross life policyholder benefits remained largely consistent against prior year.

Expenses generally remained within the Company's expected range relative to gross premium volumes.

### Health Division

The Company's Health Division results include the contributions and results of the Company's participation in health reinsurance facilities managed by International Reinsurance Managers, LLC.

The Health Division essentially met its sales volume targets during 2011 with net premium revenues increasing by 3.4% over prior year. The increase is as a result of new group business and price adjustments for inflation and claims experience.

The increase in gross premiums, however, was outpaced by the increase in medical claims experience. Due to the short-term

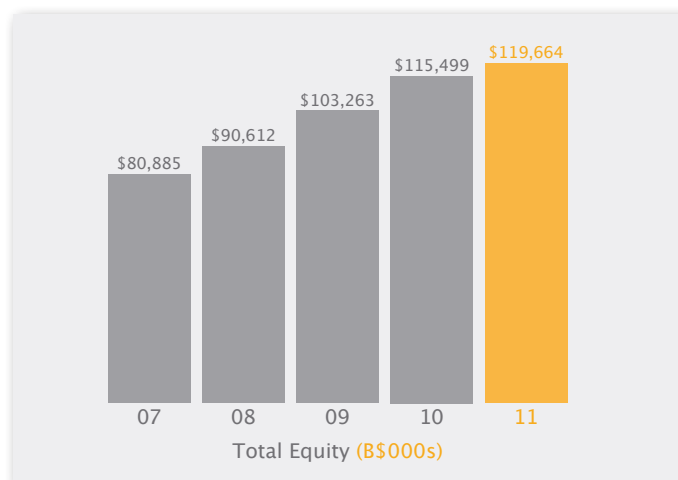


nature of the health insurance business, it is not unexpected that such volatility in claims experience would surface from time to time. The Company has been proactive where possible by ensuring that renewals of existing business include critical assessments of appropriate price adjustments to adequately reflect perceived risk exposure and changes in claims experience.

For 2012, the Company intends to ensure that it maintains its pricing discipline as this strategy has proven to be effective over the long-term and has enabled the Company to limit losses in high claims years. The Company has plans to re-launch its group Critical Illness product as it believes that the product meets a specific need in the market.

### Capital Management

The Company has grown its equity base by 3.6% to \$119.7 million in total equity, from \$115.5 million in the prior year. Shareholders' equity has increased by \$4.3 million from \$103.0 million to \$107.3 million as at December 31, 2011. Capital was enhanced as a result of additional preference share capital issued during 2011 to provide the Company with capital to address planned initiatives for 2012. The Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio, the objective calculation of a company's financial strength, was 191.2% at December 31, 2011 compared to 197.9% at December 31, 2010. The Company also exceeded all statutory solvency margin requirements as required by the Insurance Act (2005) and the Insurance (General) Regulations, 2010 throughout the year.



### Summary of Quarterly Results and Analysis of Q4 Results

Net premium revenue for the fourth quarter in 2011 totaled \$29.0 million compared to \$34.1 million in the same period in the prior year as a result of lower than planned sales volumes in aggregate. Average quarterly net premium revenues, however, declined only slightly to \$29.4 million in 2011 from \$29.5 million in the prior year.

The second quarter's results in 2011 show a substantial loss to ordinary shareholders totaling \$1.3 million as a result of the Company accounting for the full impact of the Bahamian \$ Prime

Colina Holdings Bahamas Limited  
Quarterly Financial Information  
(All data in B\$000s with the exception of \$ per share amounts)

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net premium revenue	\$ 29,035	\$ 28,983	\$ 30,713	\$ 28,718	\$ 34,112	\$ 28,232	\$ 22,295	\$ 33,534
Total revenue	\$ 37,726	\$ 38,146	\$ 39,712	\$ 37,434	\$ 40,135	\$ 37,635	\$ 31,774	\$ 43,081
Net Earnings by Quarter								
Total Net income/(loss)	\$ 2,696	\$ 1,260	\$ (710)	\$ 2,342	\$ 626	\$ 2,556	\$ 8,121	\$ 2,761
Net income/(loss) attributable to equity shareholders	\$ 2,461	\$ 1,325	\$ (861)	\$ 2,105	\$ 358	\$ 2,231	\$ 7,842	\$ 2,525
Net income/(loss) attributable to ordinary shareholders	\$ 2,041	\$ 908	\$ (1,272)	\$ 1,645	\$ (97)	\$ 1,807	\$ 7,472	\$ 2,161
Quarterly Earnings per Ordinary Share	\$ 0.08	\$ 0.04	\$ (0.05)	\$ 0.07	\$ (0.00)	\$ 0.07	\$ 0.30	\$ 0.09

Charmaine Parker / Manager, Premium Accounting



Karen Hawkins / Manager, Accounts Payable



Rate reduction on its policyholder reserves. However, during Q3 and Q4, the Company implemented a number of mitigating measures which had the result of significantly offsetting some of the effects of the reserve increase that had been booked in Q2. Such mitigating measures would not have been possible had it not been for the Company's long-term strategy to ensure that it maintained a diverse product mix and a well balanced investment portfolio that provided flexibility to respond quickly to minimize the impact of such a material change.

### Liquidity Analysis

The Company's current and short-term cash needs are adequately funded through cash generated from its regular operations. Cash in excess of short-term needs are invested in a managed portfolio where the Company also maintains adequate levels of liquid investments in accordance with established liquidity margin requirements as per the Company's investment mandate. At December 31, 2011, the Company held cash and liquid short-term investments of \$45.8 million (\$35.2 million in 2010). The Company and its subsidiaries held over \$214.0 million in fixed income securities, over 80% of which were investments in Bahamas Government Registered Stock. The Company believes that it holds a sufficient amount of liquid assets to meet unanticipated cash flow requirements prior to their maturity.

An analysis of the maturity profile of the financial liabilities of the Company based on remaining contractual obligations on an undiscounted cash flow basis is summarized in Note 34 to the Consolidated Financial Statements.

### Off-Balance Sheet Arrangements

The Company has restricted cash balances totalling \$1.7 million, which include a letter of credit in favour of a reinsurance company acting as a lead reinsurer for the Company for its participation in certain management years within the reinsurance facilities managed by International Reinsurance Managers, LLC as well as deposits and bonds held as support for insurance liabilities in favour of regulatory bodies in jurisdictions in which the Company operates.

Other contingent liabilities and commitments are discussed in Note 23 to the Consolidated Financial Statements.

### Financial Instruments and Other Instruments

Risk exposures that arise as a result of the financial instruments that the Company invests in – such as financial, interest rate, credit and liquidity risks – are discussed in Note 34 to the Consolidated Financial Statements.

The Company has no investments in instruments that would be settled by the delivery of non-financial assets. Such instruments would include, but are not limited to, futures, hedges and interest rate swaps.

### Transactions with Related Parties

In the normal course of business, the Company has entered into transactions with related parties and affiliates. These balances and transactions are identified and discussed in Note 33 to the Consolidated Financial Statements.



# operational overview

01 **Lavaughn Fernander** / Manager, Customer Services  
 02 **Julie Dean** / Manager, Customer Services



“

CONNECT allows Colina an opportunity to make a long-term commitment to educating individuals of their rights and responsibilities as policyowners and helping them make informed financial planning decisions.

”

## customer service

### Now Open

The Company's newest location at Carmichael opened its doors to the public on April 4, offering full-service convenience to our customers in that region. Saturday service hours, previously available only at our sales office at 21 Collins Avenue, were extended to the Carmichael office and continue to give the Company a distinct competitive edge over other life and health insurers, as it remains the only such company to offer this service to the Bahamian Public.



- 01 **Millicent Wong** / Assistant Manager, Life Claims
- 02 **Karen Sweeting** / Manager, Agency Services
- 03 **Kenray Marsh** / Manager, New Business and Senior Underwriter
- 04 **Pearl Sylvester** / Manager, Underwriting
- 05 **Angela Taylor** / Director, Underwriting and New Business
- 06 **Janice Butler** / Manager, Central Processing Unit

## CONNECT

The company launched its sustainable financial planning and insurance literacy campaign, CONNECT, in October. CONNECT allows Colina an opportunity to make a long-term commitment to educating individuals of their rights and responsibilities as policyowners and helping them make informed financial planning decisions.

Driven by studies conducted by several leading global research firms which have shown that consumers find insurance terminology and information relative to insurance the most difficult to comprehend when compared to other sectors, these forums present topics that will help our clients and the public improve their knowledge of the products they are purchasing or considering, and give them opportunities and resources to take control of their finances. The second in the quarterly series was held in January 2012.



# client communications



Melanie Hutcheson / Corporate Communications Officer

## Multiple Communication Channels. One Solution.

This past summer, Colina embarked on a programme to transition the Company's customer communications to a single platform that would offer multimedia output – from print to electronic delivery channels to drive new revenue opportunities, reduce costs, and deliver communications that are consistent, up-to-date, compliant, and relevant to our customers' needs.

This solution offers multiple formats for print, email and mobile devices to create more user-friendly, informative and conveniently delivered communications for our customers. Operationally, the

solution streamlines business processes, reducing complexity, and increasing effectiveness and efficiency of customer communication across all communication channels.

## Silver Quill

The Company earned its second Silver Quill Award from the International Association of Business Communicators (IABC), this time for its 2011 calendar, *The Art of Charity*. The calendar featured the work of 12 local charitable organizations who, through service, have contributed to nation building. Featured groups included the Bahamas Red Cross, Bahamas AIDS Foundation, Rotary Clubs of Nassau and the Bahamas National

Trust, among others. Sales of first-edition prints of the artwork featured in the calendar raised \$8,000 for the organizations and helped promote awareness of the groups.

The Silver Quill ceremony is held annually in conjunction with annual regional conferences of the IABC and honors excellence in communication management, branding, public relations, advertising and publication design. Colina's entry was submitted as a part of the IABC Southern Region, which includes 28 chapters in the United States and four Caribbean countries.



# strategic alignment

## Landmark Agreement

Colina signed an historic agreement in May with The International Medicine Institute (IMI) of the University of Miami (UM), designed to foster collaboration via exchange of knowledge and technologies between IMI and local physicians. Under the terms of this agreement, affiliated physicians will have an opportunity to travel to the South Florida medical campus of the Miller School of Medicine of the University of Miami for an interactive and dynamic learning experience observing the advanced application of specialty-specific procedures and techniques in close collaboration with a UM attending physician.

The agreement also includes programme certification, physician access to Continuing Medical Education (CME) conferences and research collaborations. Administrators similarly benefit from exchange visits and support staff training.

The agreement with Colina is IMI's first in The Bahamas and the region. It has similar arrangements in South America. Practitioners and health plan administrators who participate in the programme, gain advanced knowledge in their specialty and are available to transfer knowledge to their local cohorts, thus elevating the overall national administrative and medical practice standard.

The University of Miami is a leader among medical facilities in the southern United States and a major provider of healthcare services to The Bahamas and the Caribbean.

In November, the Company hosted its annual medical symposium in collaboration with IMI to bring to The Bahamas the university's leading experts on diabetes, obesity, bariatric surgery and prostate cancer to discuss and shed light on the global implications of screening and diagnosing these conditions, as well as available modern treatment and preventive methods.

## CGIA Acquisition

Pursuant to an agreement entered into on December 1, 2011, Colina Holdings Bahamas Limited acquired all of the issued and outstanding shares of Colina General Insurance Agency Limited (CGIA). The purchase of CGIA is part of CHBL's strategy to unify various product offerings under a single brand that enhances the Company's ability to deliver "confidence for life" for many generations. CGIA is a company licensed as an insurance intermediary by the Insurance Commission of The Bahamas.



- 01 **Charlene Rodgers** / Assistant Vice President, Group and Health Benefits
- 02 **Sandra Thomas** / Manager, Administration and Claims, Group and Health Benefits
- 03 **Charles Nevins III** / General Manager, CMCO
- 04 **Ken Donathan** / President, Colina Real Estate Fund Ltd.
- 05 **Beverley Ferguson** / Manager, Credit Collections, CMCO

“

The purchase of CGIA is part of CHBL's strategy to unify various product offerings under a single brand that enhances the Company's ability to deliver “confidence for life” for many generations.

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# a sustainable competitive advantage

01



Information technology has continued to play a major role in Colina's commitment to enhancing service quality through innovation. At the end of 2011, the Company's Information Technology teams had successfully completed the implementation of systems for the following operational functions:

## Reinsurance

Specialized reinsurance administration system that has advanced capabilities to fully administer all aspects of life reinsurance administration throughout the reinsurance life cycle from retention management, cession creation/administration, reinsurance billings/recovery management, and tools for reinsurance risk exposure management.

## Client Communications

A single platform offering multiple formats for print, email and mobile devices for creating and deploying more effective customer communications of all types for high-volume and on-demand delivery. The solution easily integrates with the Company's back office systems, data and applications and will simplify and streamline document processes, improving effectiveness of client communication.

## Document Management

Upgrade provides benefits such as user-friendly access to major documents, integration with third party applications, improved business process monitoring, optimum security and data efficiency.

- 01 **Lennox Phillip** / Sr. Manager, Information Technology  
 02 **Enrique Pyfrom** / Manager, IT Operations  
 03 **Nickara Roberts** / Manager, IT Systems  
 04 **Paula-Maria Hospedales** / Manager, Reinsurance Administration



### Health Administration

In December, testing was completed on the latest version of our health administration system continue to improve operating efficiencies in the Group Health Division.

### Business Continuity

Information security and disaster recovery also continue to be a critical component of the departments' focus. Server virtualization software enables back-ups for mission-critical applications, allowing the Company to convert a physical server into multiple virtual machines, with each virtual server acting like a unique physical device, capable of running its own operating system (OS), thereby backing up data, reducing the amount of physical servers required and the corresponding maintenance costs.

All of the systems noted above resulted in technological enhancements that will continue to deliver a more unified approach to customer service delivery that integrates more fully with our administration systems.

Information technology has continued to play a major role in Colina's commitment to enhancing service quality through innovation.



# human resources

## Promoting a Healthy Workforce

Recognizing that a healthy workforce is vital to the success of our organization, in September, the Human Resources Department began a wellness initiative to promote good health and fitness, identify health risks among workers, and provide educational support to make necessary lifestyle changes.

The “Wellness 101” programme began with a fun-run and continued with weekly weight loss counseling. The programme had the goals of improving productivity, reducing absenteeism and trimming healthcare costs. Wellness 101 is expected to continue throughout 2012 and beyond.

## Job Readiness

Colina signed on as one of several companies partnering with The Bahamas government in its National Job Training and Skills Initiative to enhance the skills and job readiness of unemployed persons. Twenty participants began working across the Company in Information Technology, Customer Service, Group Health and other departments where they will receive training and skills upgrades to prepare them for entry or re-entry into the labour market.





01 **Leotha Nixon** / Manager, Human Resources  
 02 **Richard Coleby** / Manager, Properties



**DeAndrea Lewis**



**Leah Major**



**Todney Marsh**

## Fully Qualified

With most insurance companies in The Bahamas outsourcing their actuarial and underwriting functions to companies in North America, Colina continues to strengthen its in-house actuarial and underwriting teams, with an employee earning the right to be called a fully qualified actuary and two others earning associateships in the professional bodies both of actuaries and underwriters.

**DeAndrea Lewis** was named a fully qualified actuary on becoming a Fellow of the Society of Actuaries (FSA). The FSA designation is the actuarial profession's highest distinction, and is earned through practical experience and a rigorous examination and educational process. DeAndrea has over 14 years of experience in the insurance industry and has held responsibility for pricing group and individual medical products and valuation of life and medical insurance liabilities.

Recognizing an early affinity for science and mathematics, DeAndrea wanted to become a doctor until she was introduced to actuarial science by her College of The Bahamas math professor. A Lyford Cay Foundation and Tomlinson Foundation scholar, DeAndrea graduated from COB with an Associate of Arts degree in Biology and subsequently earned a Bachelor of Science degree in Mathematics from the University of Western Ontario.

**Leah Major** earned the designation of Associate of the Society of Actuaries (ASA), proving knowledge of the fundamental concepts and techniques required for modelling and managing risk. As an Associate, Leah has also demonstrated proficiency in the basic methods of applying those concepts and techniques to common problems involving future events, especially those with financial implications. The designation is typically earned over the course of 4-6 years of independent study in which one sits five exams and gains practical experience.

**Todney Marsh** became an Associate of the Academy of Life Underwriters (AALU), completing three parts of a four-part programme of advanced study in the principles of home office life underwriting. Todney is currently pursuing the fourth and final part of the programme, which paves the way for Fellowship in the Academy, the highest designation in the underwriting profession. In 2010 she became a Fellow of the Life Management Institute (FLMI), earning the highest standard in life and health insurance education. In September Todney was promoted to Quality Control Supervisor in the newly formed Quality Control Unit.



# sales leadership



Doneth Brown-Reid / Director of Sales \*

The Company's six branches have a management team comprising eleven sales and branch managers. Three persons were added to the management team in October.

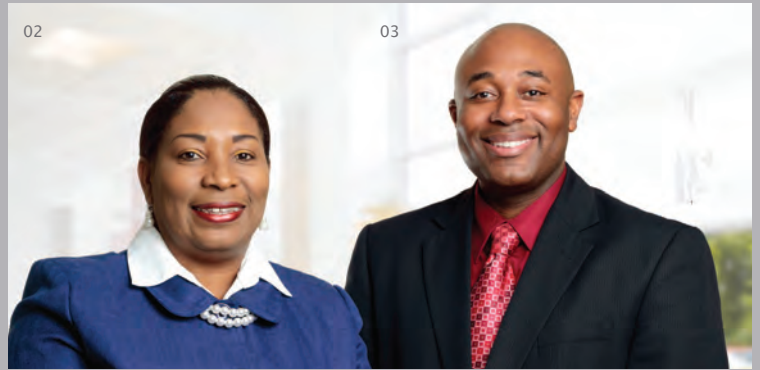
During 2011, four managers attended the LAMP Conference and two attended the Bahamas Insurance Brokers Association Conference. LAMP is GAMA International's annual Leadership and Management Programme and is the premier professional development event of the year. The conference provides a

neutral educational and networking environment for industry professionals and acts as a resource center. Both conferences provided the managers with the leadership and development skills needed to complement their management styles.



01

01 Julie McIntosh  
Branch Manager, Village



02

03

02 Sandra Walkes / Sales Manager, Collins  
03 Kino McCartney / Branch Manager, Collins



04



05

04 Joseph Sweeting  
Sales Manager, Rosetta

05 Sandra Smith  
Branch Manager, Rosetta



06

07

06 Yvonne Gibson-Sands / Sales Manager, Blair  
07 Gary Cooper / Branch Manager, Blair



08

09

08 Leslie Gelin / Branch Manager, Northern Region  
09 Elrod Outten / Sales Manager, Northern Region



10



11

10 Lynette Thompson  
Sales Manager, Montagu  
11 Bradley Ferguson  
Branch Manager, Village





# community



## 18th ANNUAL *RR* Red Ribbon Ball



### Removing the Mask

The Company continues to support The Bahamas AIDS Foundation through its principal sponsorship of the Annual Red Ribbon Ball which, in its 18-year history has raised more than \$850,000 for the Foundation. In 2011, the Ball proceeded under the theme "Removing the Mask" so dubbed to highlight the importance of eliminating the continued stigma attached to HIV/AIDS. The Ball is the largest fundraiser for the Foundation.

Funds raised by the Red Ribbon Ball and its partners have been used to:

- Provide medication to indigent HIV-positive pregnant mothers and their babies, significantly reducing the rate of transmission from mother to baby;
- House children orphaned by AIDS;
- Refurbish a resource and counseling centre for at risk adolescents;
- Transport HIV-positive children in the Family Islands to New Providence for treatment;
- Fund education and training programmes;
- Increase awareness programmes and public service announcements; and
- Provide help and support to persons living with HIV/AIDS.



The Camp is an initiative of our Adventures in Science & Mathematics programme geared toward increasing knowledge and generating interest in careers related to science, technology, engineering and mathematics.

### Conservation for Future Generations

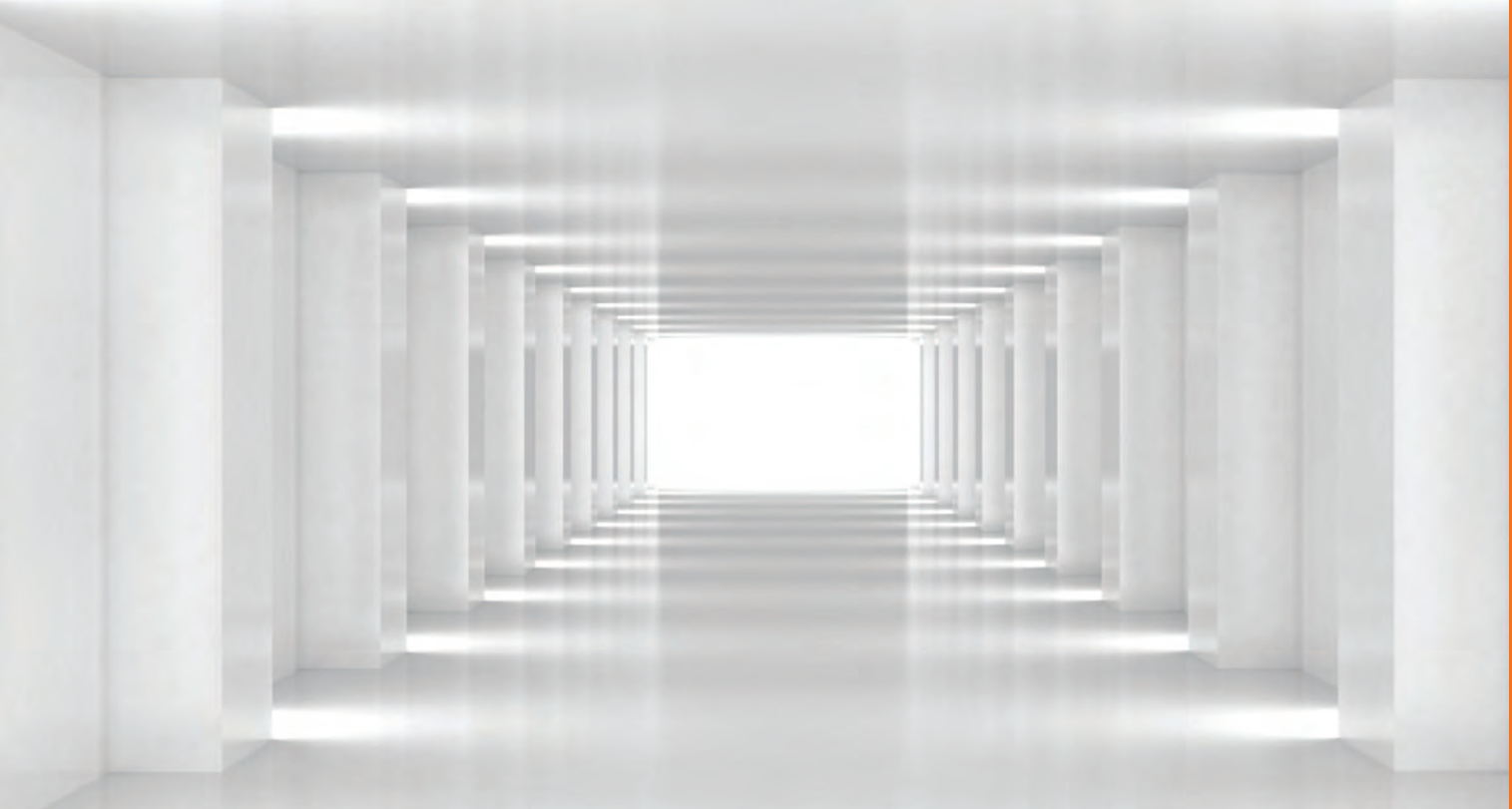
In 2011 the Company fulfilled its 5-year commitment to the Bahamas National Trust, donating a total of \$100,000 since the grant was established in 2007. The Company worked to support the efforts of the Trust in the preservation and conservation of historic sites, land areas and marine parks throughout the islands of The Bahamas. Colina continues to be an avid supporter of the Trust.

### Sun, Sand & Synergy

Colina's Science Summer & Mathematics Camp captures the imagination of budding young scientists from around The Bahamas. The Camp is an initiative of our Adventures in Science

& Mathematics programme geared toward increasing knowledge and generating interest in careers related to science, technology, engineering and mathematics. The new Camp curriculum was rolled out in 2011 with a focus on small island sustainability. Areas of research included harnessing the concepts of agriculture, hydroponics, utilizing solar energy, generating energy from the wind and sustaining living machines systems with a view to its sustainability in The Bahamas. The Camp brings together students with a passion for science and mentors from The College of The Bahamas utilizing the laboratories and other resources of St. Andrews School, another valued partner in this initiative.





# corporate governance

Terence Hilts / Chairman



Retired Banking Executive / New Providence, Bahamas

Emanuel M. Alexiou / Executive Vice Chairman

EVC, Colina Insurance Limited  
Partner, Alexiou, Knowles & Co. / New Providence, Bahamas

The Directors remain committed to the upholding of high standards of corporate governance in the execution of their duties and in the delivery of sustainable value to shareholders.

### Philosophy

It is the philosophy of the Board that good corporate governance is a pre-requisite to the achievement of the Company's goals and objectives. The Directors remain committed to the upholding of high standards of corporate governance in the execution of their duties and in the delivery of sustainable value to shareholders.

### Leadership

The roles of the Chairman of the Board and Executive Vice Chairman ("EVC") are distinct and clearly defined to ensure appropriate balance and to dilute the powers of decision between both offices. The Chairman is responsible for the long-term strategic development of the Company as well as the leadership and governance of the Board. The EVC is responsible for the development of business plans, the management of the daily affairs of the Company and the implementation of the Board's strategy. The EVC is advised and assisted in

the discharge of his duties as delegated by the Board by an executive management team which comprises functional specialists and professionals.

### Role of the Board

The Board is responsible for the stewardship of the Company, including supervising its activities and managing its investments and affairs. The management of the daily operations of the Company in this regard is done by proxy through the EVC and the executive management team. However, the Board's Charter sets out matters that are exclusively and specifically reserved to it for decision to ensure that the Board exercises effective control over the affairs of the Company. These matters include but are not limited to, the approval of dividend payments, annual and interim financial results, significant transactions, material changes, strategic plans and matters affecting the Company's share capital.

Anthony R. Ferguson / Director



President, CFAL / New Providence, Bahamas

Sandra J. Knowles / Director



Chairperson, Cable Cares Foundation  
Formerly, General Manager, The Nassau Guardian (1844) Ltd. (2009-2010)  
Formerly, Sr. Executive, Colina Insurance Limited (2008-2009) / New Providence, Bahamas

## Board Composition

The composition of the Board has been designed to include individuals with a broad range of skills, expertise, knowledge and valuable experience to ensure effective oversight of the Company's business. Directors are also expected to possess high standards of integrity, honesty and loyalty to the Company.

As of December 31, 2011, the Board comprised ten Directors including the Chairman, one executive Director and eight non-executive Directors. The size of the Board is commensurate to the complexity, geographical spread and nature of the Company. In May, attorney Andrew A. Alexiou succeeded Sandra J. Knowles as Corporate Secretary.

## Board Committees

In order to effectively discharge its duties and fulfil its mandate, the Board has established the following Standing Committees to oversee and debate important issues of policy outside of main Board meetings:

### Audit & Finance Committee

Chaired by Macgregor Robertson, the Committee's principal role is to assist the Board of Directors in its oversight of the integrity of the Company's financial statements, strategy and objectives. This Committee supervises the qualification, independence and performance of the external auditor and internal auditors of the Company. The Committee met four times in 2011 at appropriate points in the reporting and audit cycle.

### Compensation, Nominating and Corporate Governance Committee

Chaired by Terence Hilts, the Committee's principal role is to assist in the review and oversight of the evaluation of the performance of the executives of the Company, including setting their compensation (including benefits, compensation plans, policies and programs) and succession planning. The Committee annually reviews the Board's performance and develops criteria for selecting new Board members and identifying and considering candidates. The Committee met once in 2011.

### Complaints Review Committee

Chaired by Emanuel M. Alexiou, the Committee reviews and approves policies and procedures concerning customer complaints, and reviews trends identified in relation to complaints received with a view to recommending and implementing corrective actions. The Committee oversees the investigation of any discrepancies, complaints and regulatory concerns emanating from customer complaints or grievances. The Committee met seven times in 2011.

### Conduct Review Committee

Formerly the Related Party Transaction Committee, this Committee is chaired by Macgregor Robertson with its principal role being to ensure management establishes procedures for identifying and approving transactions with related parties of the Company that may have a material effect on the stability or solvency of the Company. The Committee is charged with

Earle Bethell / Director



Director of Marketing, Baha Mar Ltd. / New Providence, Bahamas

reviewing established procedures to ensure compliance with rules on related party transactions. The Committee ensures compliance with the provisions of the Insurance (General) Regulations 2010 (in relation to related party transactions) and the Company's Related Party Transactions Policy. The Committee met four times in 2011 at appropriate points in the reporting and audit cycle.

#### Information Technology Committee

Chaired by John Farmer, the Committee serves as an oversight committee on matters of Information Technology and is responsible for setting the Company's overall IT strategic direction. The Committee is charged with recommending and reviewing companywide IT policies, procedures and standards for operational efficiency and system security. The Committee assumes responsibility for developing and approving an effective and robust IT Risk Management Framework and reviews IT risk assessments as conducted by management or external consultants. The Committee also determines priorities for the implementation of applications and capital requests. The Committee met four times in 2011.

#### Investment Committee

Chaired by Emanuel M. Alexiou, the Committee establishes the Company's policies, standards and procedures, and reviews, approves and monitors the Company's investment strategy, portfolio and results. The Investment Committee designates an Investment Manager(s) and is responsible for the Investment Manager's compliance with the investment policy at all times. The Committee met seven times in 2011.

Glenn V. Bannister / Director



General Manager, Morton Salt (Bahamas) / Inagua, Bahamas

#### Participating Policy Monitoring Committee

Chaired by Emanuel M. Alexiou, the Committee is mandated to review and approve policies governing participating policies issued or proposed by the Company, periodically reviewing the rate of premium for participating policies as approved by the Company's actuary for participating policies. The Company's dividend policy vis-à-vis participating policies is also reviewed by this Committee, which oversees the investigation of any discrepancies, complaints and regulatory concerns affecting participating policies issued by the Company. The Committee met twice in 2011.

#### Risk Management Committee

Chaired by Anthony Ferguson, the Committee is charged with identifying and monitoring the key risks to which the Company is exposed (including operational, credit, liquidity, regulatory, legal and reputational risk) and assessing the Company's business strategies and plans from a risk perspective. The Committee approves risk management policies that establish the appropriate approval levels for decisions and other checks and balances to manage risk. The Committee is not responsible for planning or conducting audits. The Committee met seven times in 2011.

#### Sales & New Business Committee

Chaired by Ednol Farquharson, the Committee is mandated to develop and promote sales and marketing initiatives that provide the Company with a competitive advantage in attracting and retaining customers. The Committee reviews and approves policies governing the Sales, Underwriting and New



Ednol Farquharson / Director



President, Colina General Insurance Agency / New Providence, Bahamas

Macgregor Robertson / Director



Retired Chartered Accountant / New Providence, Bahamas

Business functions, periodically reviewing the data relating to sales, issued policies, in-force policies and lapsed policies as provided by management. The Committee has responsibility for developing the strategic plan in conjunction with senior management for the Sales, Underwriting and New Business departments. The Committee met twice in 2011.

All Board Committees operate within defined terms of reference as contained in the Company's Corporate Governance Manual. The Chairpersons of the aforementioned Committees reported to the Board at regular intervals during 2011. Additionally, minutes of the Committees' meetings were readily available to all members of the Board for review.

The full remit of each Committee of the Board is available for review on the Company's website [www.colina.com](http://www.colina.com).

### Board Meeting Attendance

The Board and its Directors meet regularly, according to an agreed timetable of scheduled meetings. The attendance of Directors at Board meetings held in 2011 is shown in the following table:



Andrew Alexiou / Corporate Secretary

No. of Meetings	6
Terence Hilts	5
Emanuel M. Alexiou	6
Anthony R. Ferguson	5
Sandra J. Knowles	6
Earle Bethell	6
Glenn V. Bannister	3
Ednol Farquharson	4
Macgregor Robertson	5
Willie A. Moss	5
John Farmer	6

Willie A. Moss / Director



Partner, Graham, Thompson & Co. / Grand Bahama, Bahamas

John Farmer / Director



President, Custom Computers Ltd. / New Providence, Bahamas

The Directors as of December 31, 2011 were:

**Terence Hilts** <sup>2(c),6,10</sup>  
Director since 2004

**Sandra J. Knowles** <sup>8</sup>  
Director since 2004

**Ednol Farquharson** <sup>3,9(c)</sup>  
Director since 2005

**Willie A. Moss** <sup>1,4,7</sup>  
Director since 2007

**Emanuel M. Alexiou** <sup>2,3(c),6(c),7(c),9</sup>  
Director since 2002

**Earle Bethell** <sup>3,5</sup>  
Director since 2006

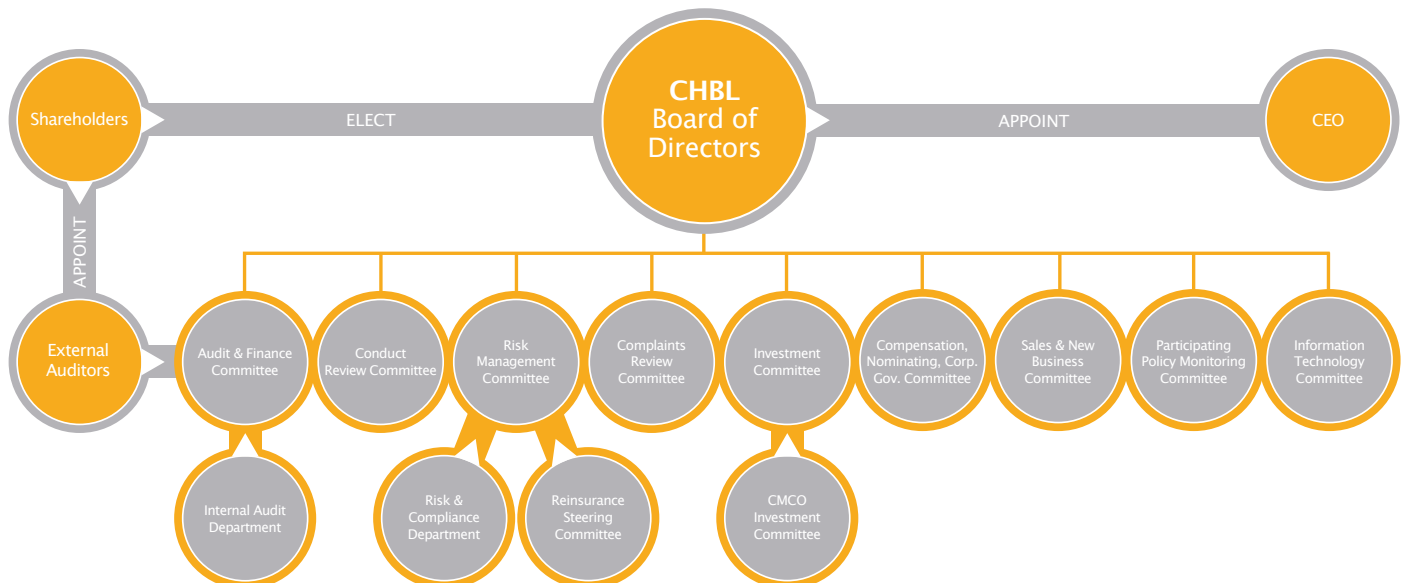
**Macgregor Robertson** <sup>1(c),4(c)</sup>  
Director since 2005

**John Farmer** <sup>5(c),8</sup>  
Director since 2007

**Anthony R. Ferguson** <sup>2,3,5,8(c),9</sup>  
Director since 2002

**Glenn V. Bannister** <sup>1,2,4,6</sup>  
Director since 2005

- 1 Audit & Finance Committee
- 2 Compensation Nominating & Corporate Governance Committee
- 3 Complaints Review Committee
- 4 Conduct Review Committee
- 5 Information Technology Committee
- 6 Investment Committee
- 7 Participating Policy Committee
- 8 Risk Management Committee
- 9 Sales & New Business Committee
- 10 Chairman of the Board of Directors
- (c) Committee Chairman



# colina holdings bahamas limited

## 9 OFFICES

on 4 Bahamian islands and a presence in both the Turks & Caicos Islands and the Cayman Islands.

## 218 EMPLOYEES + 104 CAREER SALESPERSONS

plus a wide network of independent salespersons and qualified brokers.

## LIFE DIVISION

Life Insurance, Retirement & Investment Planning Products  
Life products include Whole Life, Term and Endowment plans that meet a variety of needs over one's lifetime and which can be built into one's financial plan for final expenses, income protection, investments or retirement.

## HEALTH DIVISION

Individual & Group Health Coverage

Our flexible and cost effective comprehensive health plans offer individuals and groups access to vital medical services, preventive care, prescription drugs and the country's largest overseas health network to guarantee access to top medical facilities in The Bahamas and North America. Restore Group Critical Illness coverage is the first of its kind in The Bahamas.

## COLINA MORTGAGE CORPORATION

Residential Mortgage Lending

Our Mortgage specialists can tailor a highly competitive residential loan solution or home equity refinancing option to help clients make their dream of owning a home a reality.

## COLINA GENERAL INSURANCE AGENCY LIMITED

Property and Casualty

Colina General Insurance Agency Limited is a wholly owned subsidiary of CHBL which offers general insurance coverage for home, business and auto that safeguard the financial well-being of our clients by providing insurance solutions that best suit their needs and financial position.

## 1899

Imperial Life Assurance Company of Canada establishes agency in The Bahamas.

## 1965

Insurance Company of North America (INA) (later CIGNA International), begins operations in The Bahamas.

## 1997

Colina Insurance Company Limited is purchased from CIGNA by Bahamian consortium INVESCO.

## 2002

Colina merges with Global Life Assurance Bahamas Limited. The newly formed Colina Holdings Bahamas Limited (CHBL) is registered on the Bahamas International Stock Exchange (BISX).

## 2004

Colina's intended acquisition of The Bahamas operations of Imperial Life Financial is announced. Colina finalizes acquisition of Canada Life insurance Company. The Company earns an A- (Excellent) rating from A.M. Best Company.

## 2005

Colina and Imperial Life Financial merge, forming the largest life and health insurer in The Bahamas – ColinaImperial Insurance Limited.

## 2009

The name "Imperial" is retired. The Company is now known as Colina Insurance Limited and adopts a new logo.

## 2010

Colina acquires majority interest in RND Holdings Limited, which later changed its name to Colina Real Estate Fund Limited.

## 2011

Colina acquires all issued and outstanding shares in Colina General Insurance Agency Limited (CGIA).

# shareholder information

As required by the Company's Corporate Governance guidelines, Colina reviews its relationships with key service providers on an annual basis and from time to time may rotate appointments.

The Company's key professional relationships are summarized below:

## Corporate Headquarters

308 East Bay Street  
Second Floor  
PO Box N-4728  
Nassau, Bahamas

## General Enquiries

242.396.2000  
info@colina.com  
www.colina.com

## Listing

Bahamas International Securities Exchange  
Symbol: CHL

## Registrar and Transfer Agent

Bahamas Central Securities Depository Ltd.  
50 Exchange Place  
Bay Street  
PO Box EE-15672  
Nassau, Bahamas

## Auditors

Deloitte & Touche

## Legal Counsel

Alexiou, Knowles & Co.  
Callenders & Co.

## Bankers

CIBC FirstCaribbean International Bank Ltd.  
Citibank, N.A.

## Reinsurers

Munich Reinsurance Company Canada Branch (Life)  
International Reinsurance Managers, LLC  
Swiss Re Life and Health Canada  
Optimum Re Insurance Company  
RGA Life Reinsurance Company of Canada  
Manulife Reinsurance  
Custom Disability Solutions

## Actuarial Consultants

Oliver Wyman

## Communication with Shareholders

The following reports are available on our website  
www.colina.com:  
Annual Report  
Quarterly Reports





# consolidated financial statements

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

Independent Auditors' Report

Appointed Actuary's Report

Consolidated Statement of Financial Position

Consolidated Statement of Income

Consolidated Statement of Comprehensive Income

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes to Consolidated Financial Statements

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Colina Holdings Bahamas Limited:

We have audited the accompanying consolidated financial statements of Colina Holdings Bahamas Limited (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2011, 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 Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

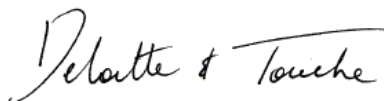
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

### ***Opinion***

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



February 29, 2012

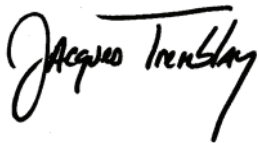
29 February 2012

**Subject: 2011 certification of actuarial liabilities**

The majority of the assets of Colina Holdings Bahamas Limited is in its wholly owned subsidiary, Colina Insurance Limited, for which I am also the Appointed Actuary. I have valued the actuarial liabilities of Colina Insurance Limited for its consolidated balance sheet as of 31st December 2011, for a total amount of \$326,094,058, 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  
Fellow of Canadian Institute of Actuaries, Fellow of Society of Actuaries  
Appointed Actuary for Colina Insurance Limited

**COLINA HOLDINGS BAHAMAS LIMITED**  
**Consolidated Statement of Financial Position**

At December 31, 2011  
(Expressed in Bahamian dollars)

	Notes	2011	2010
<b>ASSETS</b>			
Term deposits	9	\$ 32,641,513	\$ 15,172,686
Investment securities	10	233,713,661	207,683,148
Mortgages and commercial loans	11	67,662,693	68,877,119
Policy loans	12	64,263,516	69,581,644
Investment properties	13	49,207,360	49,248,407
Investment in associates	14	10,193,720	10,747,280
		<u>457,682,463</u>	<u>421,310,284</u>
Total invested assets			
Cash and demand balances	9	13,143,815	20,011,805
Receivables and other assets	15	44,740,763	52,296,830
Property and equipment	16	20,102,630	19,835,270
Goodwill	17	12,921,910	10,931,580
Other intangible assets	18	1,369,011	1,211,359
		<u>132,281,934</u>	<u>104,286,844</u>
<b>Total assets</b>		<b>\$ 549,960,592</b>	<b>\$ 525,597,128</b>
<b>LIABILITIES</b>			
Provision for future policy benefits	19	\$ 326,094,058	\$ 311,797,811
Policy dividends on deposit		30,695,059	31,488,577
		<u>356,789,117</u>	<u>343,286,388</u>
Total policy liabilities			
Other liabilities	20	73,507,148	66,812,145
		<u>73,507,148</u>	<u>66,812,145</u>
<b>Total liabilities</b>		<b>430,296,265</b>	<b>410,098,533</b>
<b>EQUITY</b>			
Ordinary shares	21	24,729,613	24,729,613
Treasury shares	21	(162,254)	(331,614)
Share premium		5,960,299	5,960,299
Revaluation reserve	22	7,815,781	6,985,968
Retained earnings		38,983,366	39,655,010
		<u>77,326,805</u>	<u>76,999,276</u>
Total ordinary shareholders' equity			
Preference shares	21	30,000,000	26,027,000
		<u>30,000,000</u>	<u>26,027,000</u>
Total shareholders' equity		<u>107,326,805</u>	<u>103,026,276</u>
Non-controlling interests		12,337,522	12,472,319
		<u>12,337,522</u>	<u>12,472,319</u>
<b>Total equity</b>		<b>119,664,327</b>	<b>115,498,595</b>
<b>Total liabilities and equity</b>		<b>\$ 549,960,592</b>	<b>\$ 525,597,128</b>

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

Approved by the Board of Directors on February 29, 2012 and signed on its behalf by:

  
T. Hilts - Chairman

  
E. M. Alexiou – Executive Vice-Chairman



**COLINA HOLDINGS BAHAMAS LIMITED**  
**Consolidated Statement of Income**

For the Year Ended December 31, 2011  
(Expressed in Bahamian dollars)

	Notes	2011	2010
<b>Revenues:</b>			
Premium revenue		\$ 132,084,755	\$ 131,842,822
Less: Reinsurance premiums	25	(14,635,344)	(13,669,376)
Net premium revenue	25	117,449,411	118,173,446
Net investment income	26	30,075,134	29,528,576
Share of loss of associates	14	(599,806)	(674,649)
Other income and fees		6,093,004	5,597,167
Total revenues		153,017,743	152,624,540
<b>Benefits and expenses:</b>			
Policyholders' benefits		96,525,935	87,872,347
Less: Reinsurance recoveries	27	(9,131,590)	(11,238,582)
Net policyholders' benefits	27	87,394,345	76,633,765
Changes in provision for future policy benefits	19	14,296,247	14,963,278
General and administrative expenses	28	29,777,187	29,952,409
Commissions		10,282,855	11,825,797
Premium and other tax expense		3,283,281	3,640,339
Finance costs and interest	29	118,660	52,860
Goodwill impairment	17	-	102,803
Other expenses		2,277,119	1,389,057
Total benefits and expenses		147,429,694	138,560,308
<b>Net income for the year</b>		<b>\$ 5,588,049</b>	<b>\$ 14,064,232</b>
Net income attributable to:			
Equity shareholders of the Company	30	\$ 5,030,207	\$ 12,955,662
Non-controlling interests		557,842	1,108,570
<b>Net income for the year</b>		<b>\$ 5,588,049</b>	<b>\$ 14,064,232</b>
<b>Basic earnings per ordinary share</b>	30	<b>\$ 0.13</b>	<b>\$ 0.46</b>

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

**COLINA HOLDINGS BAHAMAS LIMITED**  
**Consolidated Statement of Comprehensive Income**

For the Year Ended December 31, 2011  
(Expressed in Bahamian dollars)

	<b>2011</b>	<b>2010</b>
<b>Net income for the year</b>	\$ 5,588,049	\$ 14,064,232
<b>Other comprehensive income:</b>		
Change in available-for-sale financial assets	306,733	304,228
<b>Total comprehensive income for the year</b>	<b>\$ 5,894,782</b>	<b>\$ 14,368,460</b>
<b>Attributable to:</b>		
Equity shareholders of the Company	\$ 5,336,940	\$ 13,259,890
Non-controlling interests	557,842	1,108,570
<b>Total comprehensive income for the year</b>	<b>\$ 5,894,782</b>	<b>\$ 14,368,460</b>

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

**COLINA HOLDINGS BAHAMAS LIMITED**  
**Consolidated Statement of Changes in Equity**

For the Year ended December 31, 2011  
(Expressed in Bahamian dollars)

	Ordinary Share Capital	Treasury Shares
Balance, December 31, 2009	\$ 24,729,613	\$ (81,615)
Increase in treasury shares	-	(249,999)
Net income for the year	-	-
Net gain on remeasurement of available-for-sale securities to fair value	-	-
Net fair value gain transferred to income on disposal of available-for-sale securities	-	-
Sale of shares in subsidiary	-	-
Unrealized gain on purchase of shares in subsidiary (Note 22)	-	-
Acquisition of subsidiaries	-	-
Distributions by subsidiaries	-	-
Issuance of preference share capital	-	-
Dividends paid to ordinary shareholders (Note 30)	-	-
Preference share dividends (Note 30)	-	-
Balance, December 31, 2010	24,729,613	(331,614)
Decrease in treasury shares	-	169,360
Net income for the year	-	-
Net gain on remeasurement of available-for-sale securities to fair value	-	-
Net fair value gain transferred to income on disposal of available-for-sale securities	-	-
Unrealized gain on purchase of shares in subsidiary (Note 22)	-	-
Distributions by subsidiaries	-	-
Issuance of preference share capital	-	-
Dividends paid to ordinary shareholders (Note 30)	-	-
Preference share dividends (Note 30)	-	-
Balance, December 31, 2011	<u>\$ 24,729,613</u>	<u>\$ (162,254)</u>

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

	Share Premium	Revaluation Reserve	Preference Share Capital	Retained Earnings	Non- controlling Interests	Total Equity
\$	5,960,299	\$ 5,567,530	\$ 20,000,000	\$ 34,105,176	\$ 12,981,905	\$ 103,262,908
	-	-	-	-	-	(249,999)
	-	-	-	12,955,662	1,108,570	14,064,232
	-	304,228	-	-	-	304,228
	-	(117)	-	-	-	(117)
	-	-	-	-	2,625,000	2,625,000
	-	1,114,327	-	-	-	1,114,327
	-	-	-	-	(4,042,456)	(4,042,456)
	-	-	-	-	(200,700)	(200,700)
	-	-	6,027,000	(105,000)	-	5,922,000
	-	-	-	(5,687,811)	-	(5,687,811)
	-	-	-	(1,613,017)	-	(1,613,017)
	5,960,299	6,985,968	26,027,000	39,655,010	12,472,319	115,498,595
	-	-	-	-	-	169,360
	-	-	-	5,030,207	557,842	5,588,049
	-	306,733	-	-	-	306,733
	-	(3,332)	-	-	-	(3,332)
	-	526,412	-	-	-	526,412
	-	-	-	-	(692,639)	(692,639)
	-	-	3,973,000	(37,129)	-	3,935,871
	-	-	-	(3,956,738)	-	(3,956,738)
	-	-	-	(1,707,984)	-	(1,707,984)
<b>\$</b>	<b>5,960,299</b>	<b>\$ 7,815,781</b>	<b>\$ 30,000,000</b>	<b>\$ 38,983,366</b>	<b>\$ 12,337,522</b>	<b>\$ 119,664,327</b>



**COLINA HOLDINGS BAHAMAS LIMITED**  
**Consolidated Statement of Cash Flows**

For the Year ended December 31, 2011  
(Expressed in Bahamian dollars)

	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,588,049	\$ 14,064,232
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	(247,849)	(1,147,244)
Increase in provision for future policy benefits	14,296,247	14,963,278
Changes in loss provisions for loans and receivables	(747,661)	890,509
Depreciation and impairment/amortization charges	2,087,748	2,492,181
Net realized loss on fair value through profit or loss securities	57,008	581,122
Net realized gain on sale of available-for-sale securities	(3,332)	(117)
Interest income	(24,023,551)	(24,701,908)
Dividend income	(1,383,461)	(1,303,532)
Fair value losses/(gains) on investment properties	512,221	(809,407)
Finance costs and interest	<u>118,660</u>	<u>52,860</u>
Operating cash flows before changes in operating assets and liabilities	(3,745,921)	5,081,974
Changes in operating assets and liabilities:		
Decrease/(increase) in other assets	7,548,135	(8,198,514)
Increase in other liabilities	<u>5,073,898</u>	<u>2,502,166</u>
Net cash provided by/(used in) operating activities	<u>8,876,112</u>	<u>(614,374)</u>

*(Continued)*

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

**COLINA HOLDINGS BAHAMAS LIMITED**  
**Consolidated Statement of Cash Flows**

For the Year ended December 31, 2011  
(Expressed in Bahamian dollars)

	<b>2011</b>	<b>2010</b>
<b>Cash flows from investing activities:</b>		
Acquisition of subsidiaries, net of cash acquired	(1,679,535)	(303,129)
Increase in term deposits with original maturities greater than 90 days	(6,232,405)	(819,905)
Increase in restricted cash balances	(2,559)	(257,062)
Fair value through profit or loss securities purchased	(23,366,203)	(28,512,577)
Proceeds on disposal of fair value through profit or loss securities	6,702,536	18,538,129
Available-for-sale securities purchased	(44,157,785)	(18,322,347)
Proceeds on disposal of available-for-sale securities	35,296,419	9,998,126
Disposal/(acquisition) of treasury shares	169,360	(249,999)
Net decrease in loans to policyholders	5,879,413	1,859,749
Net decrease in mortgages and commercial loans	1,501,867	8,187,981
Additions to investment property	(471,174)	-
Interest received	24,359,236	24,687,040
Dividends received	1,383,461	1,303,532
Proceeds on disposal of property and equipment, net	(399)	57,249
Additions to property and equipment	(1,396,937)	(406,323)
Additions to other intangible assets	(782,971)	(1,737,097)
Net cash (used in)/provided by investing activities	<u>(2,797,676)</u>	<u>14,023,367</u>
<b>Cash flows from financing activities:</b>		
Distributions by subsidiaries	(692,639)	(200,700)
Interest paid on other contracts	(118,660)	(16,464)
Payment of interest on bank loan	-	(36,396)
Repayment of principal on bank loan	-	(2,903,756)
Net proceeds of preference share offering	3,935,871	5,922,000
Dividends paid to ordinary shareholders	(3,956,738)	(5,687,811)
Dividends paid to preference shareholders	(1,707,984)	(1,613,017)
Net cash used in financing activities	<u>(2,540,150)</u>	<u>(4,536,144)</u>
Net increase in cash and cash equivalents	3,538,286	8,872,849
Cash and cash equivalents, beginning of year	<u>29,383,586</u>	<u>20,510,737</u>
Cash and cash equivalents, end of year (Note 9)	<b><u>\$ 32,921,872</u></b>	<b><u>\$ 29,383,586</u></b>

(Concluded)

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

## COLINA HOLDINGS BAHAMAS LIMITED

### Notes to Consolidated Financial Statements

For the Year ended December 31, 2011  
(Expressed in Bahamian dollars)

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#### 1. Corporate Information

Colina Holdings Bahamas Limited ("the Company") was incorporated under the laws of the Commonwealth of The Bahamas on July 6, 1993.

The Company acts principally as the holding company of Colina Insurance Limited ("Colina"), formerly ColinaImperial Insurance Ltd., a wholly-owned life and health insurer incorporated in The Bahamas. Colina is registered to operate as a life and health insurer in The Bahamas, The Cayman Islands, and The Turks and Caicos Islands. Effective December 4, 2009, the name of the Company's principal operating subsidiary, ColinaImperial Insurance Ltd., was changed to Colina Insurance Limited.

The ordinary shares of the Company are listed on the Bahamas International Securities Exchange. At December 31, 2011, approximately 58.2% (2010: 58.4%) of the Company's issued ordinary shares were owned by AF Holdings Ltd. ("AFH") and 41.8% (2010: 41.6%) by the Bahamian public. All significant balances and transactions with AFH and parties related to AFH are disclosed in these consolidated financial statements (See Note 33).

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, 2011 were authorized for issue in accordance with a resolution of the Company's Board of Directors on February 29, 2012.

#### 2. Changes in Accounting Policy 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 effective as of January 1, 2011 which the Company has adopted:

- IAS 1 *Presentation of Financial Statements (Amendment)*: Amendments resulting from May 2010 Annual Improvements to IFRSs. Effective prospectively for reporting periods beginning on or after January 1, 2011;
- IAS 24 *Related Party Disclosures (Amendment)*: Effective prospectively for reporting periods beginning on or after January 1, 2011; and
- IFRIC 14 *Prepayments of a minimum funding requirement (Amendment)*: Effective prospectively for reporting periods beginning on or after January 1, 2011.

The adoption of these new and amended International Financial Reporting Standards (IFRS) and International 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 7 *Financial Instruments: Disclosures* – Amendments resulting from May 2010 Annual Improvements to IFRSs. Effective prospectively for reporting periods beginning on or after January 1, 2011.
- IFRS 9 *Financial Instruments - Classification and Measurement*: Effective prospectively for reporting periods beginning on or after January 1, 2015;
- IFRS 10 *Consolidated Financial Statements* - Effective prospectively for reporting periods beginning on or after January 1, 2013;
- IFRS 11 *Joint Arrangements* - Effective prospectively for reporting periods beginning on or after January 1, 2013;

**COLINA HOLDINGS BAHAMAS LIMITED**  
**Notes to Consolidated Financial Statements**

For the Year ended December 31, 2011  
(Expressed in Bahamian dollars)

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- IFRS 12 *Disclosure of Interest In Other Entities* - Effective prospectively for reporting periods beginning on or after January 1, 2013;
- IFRS 13 *Fair Value Measurement* - Effective prospectively for reporting periods beginning on or after January 1, 2013;
- IAS 19 *Employee Benefits (Amendments)* - Effective prospectively for reporting periods beginning on or after January 1, 2013;
- IAS 27 *Consolidated Separate Financial Statements (Amendments) – Separate Financial Statements*: Effective prospectively for periods beginning on or after January 1, 2013;
- IAS 28 *Investment In Associates (Amendments) – Investment In Associates and Joint Ventures* - Effective prospectively for periods beginning on or after January 1, 2013; and
- IAS 32 *Financial Instruments: Presentation* – Amendments to application guidelines on the offsetting of financial assets and financial liabilities. Effective prospectively for reporting periods beginning on or after January 1, 2014.

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

**4. Summary of Significant Accounting Policies**

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

**4.1 Statement of compliance**

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

The Company presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) is presented in Note 34.

**4.2 Basis of preparation**

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

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

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

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

*Estimates and assumptions*

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



**COLINA HOLDINGS BAHAMAS LIMITED**  
**Notes to Consolidated Financial Statements**

For the Year ended December 31, 2011  
(Expressed in Bahamian dollars)

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- (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.

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, 2011 of long term insurance contract liabilities is \$202,087,021 (2010: \$199,519,172) and of investment contract liabilities with DPF is \$9,018,040 (2010: \$9,659,290).

- (b) Medical insurance contract liabilities

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

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

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

The carrying value at the balance sheet date of non-life insurance contract liabilities is \$16,404,856 (2010: \$ 13,524,480).

- (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.

The carrying value of goodwill is \$12,921,910 (2010: \$10,931,580).

**4.4 Principles of consolidation**

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

**COLINA HOLDINGS BAHAMAS LIMITED**  
**Notes to Consolidated Financial Statements**

For the Year ended December 31, 2011  
(Expressed in Bahamian dollars)

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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.

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.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss. Once control has been established, the unrealized gain or loss is recorded in the revaluation reserve in the consolidated statement of changes in equity.

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 fair value of the consideration transferred over the Company's share in the net identifiable assets acquired and liabilities assumed and net of the fair value of any previously held equity interest in the acquiree. 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 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 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.

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 balance sheet 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.

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The income statement 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 balance sheet date. Income and expense items denominated in foreign currencies are translated at a rate of exchange that approximates the actual rate prevailing at the time of the transaction. Resulting differences are recognized in income in the reporting period in which they arise.

**4.8 Cash and cash equivalents**

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

**4.9 Financial assets**

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the classification at every reporting date.

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

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

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

*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

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from the investments have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

*Fair value of financial instruments*

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

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

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

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

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

**4.10 Impairment of financial assets**

*Financial assets carried at amortized cost*

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

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

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses



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

*Financial assets carried at fair value*

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

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

**4.11 Investment properties**

Investment properties comprise freehold land and buildings, mainly commercial properties that are held for long-term yields and capital appreciation purposes and are held initially at cost, 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 income statement 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 income statement 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 income statement.

**4.12 Property and equipment**

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

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

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- Land improvements and buildings 40 to 50 years

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

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

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

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

**4.13 Goodwill and other intangible assets**

*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquiree at the acquisition date. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("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 balance sheet date, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

*Other intangible assets included in investment in associates*

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

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

The carrying amount of intangible assets included in investment in associates is reviewed at each balance sheet 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.

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**4.14 Insurance contracts**

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

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

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

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

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

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

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

*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 balance sheet date even if they have not yet been reported to the Company. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims 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.

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

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

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

*Long-term investment contracts with DPF*

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

**4.15 Provision for future policy benefits**

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

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

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

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

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

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

**4.16 Commission expense**

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

**4.17 Pension business**

The pension business consists of 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.

**4.18 Policy dividends on deposit**

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

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**4.19 Share capital**

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

Where any subsidiary purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs.

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

**4.20 Revenue recognition**

Interest income for financial assets that are not classified as at FVPL is recognized using the effective interest method. Dividend income is recognized when the Company's right to receive payment is established – this is the ex-dividend date for equity securities. The Company's policy for recognition of revenue from operating leases is described in Note 4.26. For the revenue recognition policies surrounding insurance contracts, see Note 4.14.

**4.21 Reinsurance**

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

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

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

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

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

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.

**4.22 Defined contribution pension plan**

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



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**4.23 Share-based payments**

The Company operates an Employee Share Ownership Plan ("ESOP"). Under this plan, eligible employees and agents can purchase common shares of the Company on the open market through regular payroll deductions up to a maximum of 10% of eligible earnings. Employee and agent contributions are matched by the Company at rates between 20% to 25% of eligible earnings. The Company's matching contribution fully vests to the employee or agent after a period of 4 years. These share-based payments to employees and agents are measured at the fair value of the equity instruments at the grant date. The cost of matching employee and agent contributions amounted to \$8,662 in 2011 (2010: \$5,402) and is included in employee/agent benefits expense.

**4.24 Taxation**

The Company is subject to tax on taxable gross premium income at the flat rate of 3% (2010: 3%). There are no other corporate, income or capital gains taxes levied on the Company in The Bahamas or in any other jurisdictions in which the Company operates.

**4.25 Segregated fund**

With the acquisition of Imperial Life in 2005, certain contracts were acquired which allow 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, 2011, these assets amounted to \$45.7 million (2010: \$45.7 million). The Company has entered into a sub-investment management agreement with its own related party Investment Manager to manage a significant portion of these assets.

**4.26 Leases**

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

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

**4.27 Loans**

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

Borrowing costs are recognized as an expense when incurred.

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

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

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

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**4.29 Contingent liabilities**

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

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

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

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

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

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

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**6. Subsidiaries**

Subsidiaries of the Company as of December 31, 2011 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	81%
Collmpco One Ltd.	The Bahamas	100%
Dax Limited	The Bahamas	100%
Goodman's Bay Development Company Limited ("GBDC")	The Bahamas	81%
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	93%
CFAL Global Equity Fund Ltd.	The Bahamas	35%
<b>General Insurance Agency</b>		
Colina General Insurance Agency Limited ("CGIA")	The Bahamas	100%

During December 2011, the Company acquired all issued and outstanding shares in Colina General Insurance Agency Limited ("CGIA") (See Note 7).

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**7. Business Combination**

The Company acquired 100% of the issued and outstanding shares of Colina General Insurance Agency Limited ("CGIA") on December 1, 2011.

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

	Fair value recognized on acquisition	Previous carrying value
Cash	\$ 551,114	\$ 551,114
Accounts receivable, net	2,451,955	2,451,955
Other receivables	272,983	325,770
Property and equipment	207,711	207,711
<b>TOTAL ASSETS</b>	<u>3,483,763</u>	<u>3,536,550</u>
Accounts payable and other liabilities	5,261,557	5,261,557
Other liabilities	212,535	212,535
<b>TOTAL LIABILITIES</b>	<u>5,474,092</u>	<u>5,474,092</u>
<b>TOTAL IDENTIFIABLE NET LIABILITIES ACQUIRED</b>	\$ (1,990,329)	<u>\$ (1,937,542)</u>
Purchase Price	<u>1</u>	
Goodwill Arising (see Note 17)	<u>\$ 1,990,330</u>	

**8. Segment Information**

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

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

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

No inter-segment transactions occurred in 2011 and 2010. 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.

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

	<b>2011</b>		
	<b>Life</b>	<b>Health</b>	<b>Total</b>
<b>INCOME</b>			
Net premium revenue	\$ 55,454,314	\$ 61,995,097	\$ 117,449,411
Net investment income	28,633,662	841,666	29,475,328
Other income and fees	<u>611,195</u>	<u>5,481,809</u>	<u>6,093,004</u>
Total revenues	84,699,171	68,318,572	153,017,743
<b>POLICYHOLDER BENEFITS EXPENSES</b>			
	51,639,759	50,050,833	101,690,592
	<u>28,399,976</u>	<u>17,339,126</u>	<u>45,739,102</u>
<b>NET INCOME</b>	<u>\$ 4,659,436</u>	<u>\$ 928,613</u>	<u>\$ 5,588,049</u>
<b>TOTAL ASSETS</b>	<u>\$ 503,297,658</u>	<u>\$ 46,662,934</u>	<u>\$ 549,960,592</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 394,215,848</u>	<u>\$ 36,080,417</u>	<u>\$ 430,296,265</u>

	<b>2010</b>		
	<b>Life</b>	<b>Health</b>	<b>Total</b>
<b>INCOME</b>			
Net premium revenue	\$ 58,245,233	\$ 59,928,213	\$ 118,173,446
Net investment income	28,022,618	831,309	28,853,927
Other income and fees	<u>439,835</u>	<u>5,157,332</u>	<u>5,597,167</u>
Total revenues	86,707,686	65,916,854	152,624,540
<b>POLICYHOLDER BENEFITS EXPENSES</b>			
	49,752,639	41,844,404	91,597,043
	<u>28,791,449</u>	<u>18,171,816</u>	<u>46,963,265</u>
<b>NET INCOME</b>	<u>\$ 8,163,598</u>	<u>\$ 5,900,634</u>	<u>\$ 14,064,232</u>
<b>TOTAL ASSETS</b>	<u>\$ 476,279,248</u>	<u>\$ 49,317,880</u>	<u>\$ 525,597,128</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 378,911,187</u>	<u>\$ 31,187,346</u>	<u>\$ 410,098,533</u>



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**9. Cash and Cash Equivalents**

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

	2011	2010
Term deposits	\$ 32,641,513	\$ 15,172,686
Less: Deposits with original maturities of greater than 90 days	<u>(10,573,102)</u>	<u>(4,340,697)</u>
Short-term deposits	22,068,411	10,831,989
Cash and demand balances	13,143,815	20,011,805
Less: Restricted cash balances	(1,005,247)	(1,002,688)
Less: Bank overdraft (See Note 20)	<u>(1,285,107)</u>	<u>(457,520)</u>
Total cash and cash equivalents	<u>\$ 32,921,872</u>	<u>\$ 29,383,586</u>

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

As of the balance sheet date, the weighted-average interest rate on short-term deposits is 3.56% (2010: 4.30%). These deposits have an average maturity of 85 days (2010: 48 days). The weighted-average interest rate on deposits with original maturities greater than 90 days is 3.78% (2010: 3.83%).

Included in deposits with original maturities of greater than 90 days are restricted amounts of \$680,434 (2010: \$678,886). Included in cash and demand balances are restricted amounts of \$1,005,247 (2010: \$1,002,688). These restricted balances included a letter of credit in favour of a reinsurance company acting as a lead reinsurer for the Company for its participation in certain management years within the reinsurance facilities managed by International Reinsurance Managers, LLC (see Note 15) and deposits held as support for insurance liabilities in favour of regulatory bodies in jurisdictions other than The Bahamas.

**10. Investment Securities**

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

	2011	2010
Equity securities		
Fair value through profit or loss	\$ 8,917,430	\$ 9,641,384
Available-for-sale	<u>10,802,425</u>	<u>9,901,515</u>
Total equity securities	<u>19,719,855</u>	<u>19,542,899</u>
Debt securities		
Fair value through profit or loss	40,486,566	22,908,104
Available-for-sale	<u>173,507,240</u>	<u>165,232,145</u>
Total debt securities	<u>213,993,806</u>	<u>188,140,249</u>
Total investment securities	<u>\$ 233,713,661</u>	<u>\$ 207,683,148</u>

Financial assets at fair value through profit or loss are comprised primarily of financial instruments in the Bahamas Investment Fund (See Note 32).

As of the balance sheet date, government securities mainly comprise variable rate bonds tied to the Bahamian \$ Prime Rate issued by The Bahamas Government with interest rates ranging from 4.78% to 8.75% per annum (2010: from 5.53% to 8.75% per annum) and scheduled maturities between 2012 and 2037 (2010: between 2011 and 2037). In June 2011, the Bahamian \$ Prime Rate was reduced by 75 basis points from 5.50% to 4.75%.

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Included in debt securities is \$2,185,000 (2010: \$Nil) representing a restricted balance which is held in favour of the CIL Statutory 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 with the Insurance Commission of The Bahamas by a registered insurer in respect of an entity which proposes to carry on life and/or health insurance business.

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

	FVPL	Available- for-sale	Total
At December 31, 2009	\$ 22,008,918	\$ 166,505,211	\$ 188,514,129
Additions	28,512,577	18,322,347	46,834,924
Disposals and maturities	(18,538,129)	(9,998,126)	(28,536,255)
Net fair value gains	566,122	304,228	870,350
At December 31, 2010	32,549,488	175,133,660	207,683,148
Additions	23,366,203	44,157,785	67,523,988
Disposals and maturities	(6,702,536)	(35,296,419)	(41,998,955)
Net fair value gains	190,841	314,639	505,480
At December 31, 2011	\$ 49,403,996	\$ 184,309,665	\$ 233,713,661

*Determination of fair value and fair value hierarchy*

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

The three levels of the fair value hierarchy are described below:

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

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

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

<b>At December 31, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total Fair Value</b>
<i>Financial assets designated at fair value through profit or loss:</i>			
Equity securities	\$ 8,649,933	\$ 117,497	\$ 8,767,430
Shares in investment funds	-	150,000	150,000
Government securities	30,947,486	-	30,947,486
Preferred shares	-	1,650,000	1,650,000
Other debt securities	-	7,889,080	7,889,080
<b>Total</b>	<b>\$ 39,597,419</b>	<b>\$ 9,806,577</b>	<b>\$ 49,403,996</b>
<i>Available-for-sale financial assets:</i>			
Equity securities	\$ 10,069,616	\$ 67,042	\$ 10,136,658
Shares in investment funds	-	665,767	665,767
Government securities	133,265,000	-	133,265,000
Preferred shares	-	9,061,153	9,061,153
Other debt securities	-	31,181,087	31,181,087
<b>Total</b>	<b>\$ 143,334,616</b>	<b>\$ 40,975,049</b>	<b>\$ 184,309,665</b>

The Company did not have any financial instruments classified as Level 3 as at December 31, 2011.

<b>At December 31, 2010</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	\$ 9,372,936	\$ 117,497	\$ 9,490,433
Shares in investment funds	-	150,951	150,951
Government securities	17,109,863	-	17,109,863
Preferred shares	-	1,687,000	1,687,000
Other debt securities	-	4,111,241	4,111,241
<b>Total</b>	<b>\$ 26,482,799</b>	<b>\$ 6,066,689</b>	<b>\$ 32,549,488</b>
<i>Available-for-sale financial assets:</i>			
Equity securities	\$ 8,922,609	\$ 338,824	\$ 9,261,433
Shares in investment funds	-	640,082	640,082
Government securities	131,381,700	-	131,381,700
Preferred shares	-	9,015,450	9,015,450
Other debt securities	-	24,834,995	24,834,995
<b>Total</b>	<b>\$ 140,304,309</b>	<b>\$ 34,829,351</b>	<b>\$ 175,133,660</b>

The Company did not have any financial instruments classified as Level 3 as at December 31, 2010.

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**11. Mortgages and Commercial Loans**

Mortgages and commercial loans are comprised of the following:

	<b>2011</b>	<b>2010</b>
Mortgages and commercial loans	\$ 69,681,908	\$ 71,183,775
Accrued interest	<u>6,778,660</u>	<u>6,712,691</u>
Subtotal	76,460,568	77,896,466
Less: Provisions	<u>(8,797,875)</u>	<u>(9,019,347)</u>
Mortgages and commercial loans, net	<u>\$ 67,662,693</u>	<u>\$ 68,877,119</u>

Mortgages and commercial loans are classified into the following categories:

	<b>2011</b>	<b>2010</b>
Residential mortgages	\$ 40,950,554	\$ 42,716,611
Commercial mortgages	25,393,210	24,893,939
Commercial paper	<u>3,338,144</u>	<u>3,573,225</u>
Subtotal	69,681,908	71,183,775
Accrued interest	<u>6,778,660</u>	<u>6,712,691</u>
Total	<u>\$ 76,460,568</u>	<u>\$ 77,896,466</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, 2011 are loans to employees and agents amounting to \$6,320,903 (2010: \$6,192,279).

Provisions on mortgages and commercial loans are as follows:

	<b>2011</b>	<b>2010</b>
Residential mortgages	\$ 1,653,826	\$ 1,016,750
Commercial mortgages	2,137,446	2,280,919
Commercial paper	620,250	854,614
Accrued interest	<u>4,386,353</u>	<u>4,867,064</u>
Total provisions on mortgages and commercial loans	<u>\$ 8,797,875</u>	<u>\$ 9,019,347</u>

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The movement in loan loss provisions is as follows:

	2011		2010
Balance, beginning of year	\$ 9,019,347	\$	9,186,303
Increase in provisions	987,787		2,584,016
Provisions written back to income	<u>(1,209,259)</u>		<u>(2,750,972)</u>
Balance, end of year	<u>\$ 8,797,875</u>	<u>\$</u>	<u>9,019,347</u>

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

	2011		2010
Residential mortgages	7.70%		7.85%
Commercial mortgages	9.06%		9.14%
Commercial paper	8.25%		8.25%

**12. Policy Loans**

Policy loans are comprised of:

	2011		2010
Policy loans	\$ 60,867,523	\$	66,746,936
Accrued interest on policy loans	<u>3,575,654</u>		<u>3,886,990</u>
Subtotal	64,443,177		70,633,926
Less: Provisions	<u>(179,661)</u>		<u>(1,052,282)</u>
Policy loans, net	<u>\$ 64,263,516</u>	<u>\$</u>	<u>69,581,644</u>

Policy loans are secured by the cash surrender values of the policies on which the loans are made with the exception of \$179,661 (2010: \$1,052,282) 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, 2011. 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 11.5 % (2010: 11.2%).

**13. Investment Properties**

	2011		2010
Balance, beginning of year	\$ 49,248,407	\$	48,439,000
Additions	471,174		-
Net (losses)/gains from fair value adjustments	<u>(512,221)</u>		<u>809,407</u>
Balance, end of year	<u>\$ 49,207,360</u>	<u>\$</u>	<u>49,248,407</u>

Land and buildings have been purchased for investment purposes and are carried at fair value. Investment properties, with carrying values totaling approximately \$40.6 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 \$4,615,240 (2010: \$4,576,638), is included in rental income in net investment income. Direct expenses related to generating rental income from investment properties, amounting to \$2,042,537 (2010: \$1,393,786), are included in general and administrative expenses.



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**14. Investment in Associates**

Investment in Associates is comprised of:

	2011	2010
Walk-In Holdings Limited	\$ 3,880,557	\$ 3,622,129
SBL Ltd.	<u>6,313,163</u>	<u>7,125,151</u>
Total	<u>\$ 10,193,720</u>	<u>\$ 10,747,280</u>

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

	2011	2010
Share of profit/(loss) of investment in associate		
Walk-In Holdings Limited	\$ 252,262	\$ (260,297)
SBL Ltd.	(64,446)	(139,000)
Impairment of goodwill - SBL	<u>(787,622)</u>	<u>(275,352)</u>
Share of loss of associates	<u>\$ (599,806)</u>	<u>\$ (674,649)</u>

*Walk-In Holdings Limited*

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

The investment in WIHL is comprised of the following:

	2011	2010
Total assets	\$ 8,816,404	\$ 8,308,899
Total liabilities	<u>(3,323,552)</u>	<u>(3,677,472)</u>
Net assets of WIHL	<u>\$ 5,492,852</u>	<u>\$ 4,631,427</u>
Company's share of WIHL's balance sheet	\$ 1,647,856	\$ 1,389,428
Goodwill	<u>2,232,701</u>	<u>2,232,701</u>
Total investment in WIHL	<u>\$ 3,880,557</u>	<u>\$ 3,622,129</u>

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

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The Company's share of WIHL's profit/(loss) is as follows:

	<b>12 Months Ended Dec. 31, 2011</b>	<b>12 Months Ended Dec. 31, 2010</b>
Total revenue	\$ 3,593,412	\$ 5,563,745
Total profit/(loss) for the period	\$ 840,872	\$ (867,658)
Share of WIHL's profit/(loss)	\$ 252,262	\$ (260,297)

*SBL Ltd.*

In July 2009, the Company and Colina, purchased 7% and 12% of SBL Ltd. ("SBL") at a cost of \$3 million and \$5 million respectively. In considering the classification of its 19% 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. SBL, in May 2009 acquired the issued and outstanding shares of Ansbacher (Bahamas) Limited ("ABL") and merged ABL subsequently with Sentinel Bank & Trust Limited ("SBT") in July 2009 with the surviving entity retaining the name Ansbacher (Bahamas) Limited. ABL's principal activities comprise private and specialist banking, wealth protection and management, and fiduciary services.

The investment in SBL is comprised of the following:

	<b>2011</b>	<b>2010</b>
Total assets	\$ 135,617,645	\$ 136,852,542
Total liabilities	(107,852,609)	(108,959,264)
Net assets of SBL	\$ 27,765,036	\$ 27,893,278
Company's share of SBL's balance sheet	\$ 4,780,040	\$ 4,690,951
Goodwill	1,037,806	1,825,428
Intangible assets	495,317	608,772
Total investment in SBL	\$ 6,313,163	\$ 7,125,151

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

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

	<b>12 Months Ended Dec. 31, 2011</b>	<b>12 Months Ended Dec. 31, 2010</b>
Total revenue	\$ 7,057,684	\$ 8,198,026
Total loss for the period	\$ (339,189)	\$ (731,577)
Share of SBL's loss	\$ (64,446)	\$ (139,000)

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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, 2011 and 2010:

	Goodwill	Other Intangible Assets	Total
Balance as of December 31, 2009	\$ 4,333,481	\$ 725,471	\$ 5,058,952
Acquired during the year	-	28,400	28,400
Amortization	-	(145,099)	(145,099)
Impairment losses	(275,352)	-	(275,352)
Balance as of December 31, 2010	4,058,129	608,772	4,666,901
Acquired during the year	-	11,287	11,287
Amortization	-	(124,742)	(124,742)
Impairment losses	(787,622)	-	(787,622)
Balance as of December 31, 2011	<u>\$ 3,270,507</u>	<u>\$ 495,317</u>	<u>\$ 3,765,824</u>

The gross carrying value and accumulated amortization by major category of other intangible assets as of December 31, 2011, is shown below.

	Other Intangible Assets		
	Gross Carrying Value	Accumulated Amortization	Total
Customer relationships	\$ 522,120	\$ (134,881)	\$ 387,239
Non-competitive agreement	86,260	(86,260)	-
Trade name	140,980	(72,839)	68,141
Software	92,776	(52,839)	39,937
Total Other Intangible Assets	<u>\$ 842,136</u>	<u>\$ (346,819)</u>	<u>\$ 495,317</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
2012	\$ 108,389
2013	89,674
2014	66,651
2015	52,212
2016 and thereafter	178,391
	<u>\$ 495,317</u>

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**15. Receivables and Other Assets**

Receivables and other assets are comprised of the following:

	2011	2010
Financial assets		
Premiums receivable	\$ 14,137,044	\$ 13,451,866
Less: Provision on premiums receivable	(2,623,193)	(2,235,057)
Reinsurance recoveries receivable	4,342,843	7,676,382
Net balances receivable on ASO plans	598,856	10,116,382
Agents' balances	1,407,370	1,410,833
Less: Provision on agents' balances	(1,298,558)	(1,340,262)
Accrued interest income	2,833,693	2,924,011
Receivables from related parties (See Note 33)	609,966	673,529
Participation in IRM reinsurance facilities	4,739,259	4,061,374
Non-financial assets		
Properties assumed under mortgage defaults	4,740,739	4,502,765
Land held for development	6,254,330	6,147,731
Prepayments and other assets	8,998,414	4,907,276
Total receivables and other assets	<u>\$ 44,740,763</u>	<u>\$ 52,296,830</u>

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

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.

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**16. Property and Equipment**

	Land, land improvements and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
Cost:					
At December 31, 2010	\$ 20,573,363	\$ 1,831,536	\$ 3,528,591	\$ 58,014	\$ 25,991,504
Acquired in purchase of subsidiary	-	76,802	522,672	-	599,474
Additions	441,507	306,154	610,181	39,095	1,396,937
Disposals	-	-	(516,096)	-	(516,096)
At December 31, 2011	<u>\$ 21,014,870</u>	<u>\$ 2,214,492</u>	<u>\$ 4,145,348</u>	<u>\$ 97,109</u>	<u>\$ 27,471,819</u>
Accumulated depreciation:					
At December 31, 2010	\$ 3,309,752	\$ 835,101	\$ 1,977,930	\$ 33,451	\$ 6,156,234
Acquired in purchase of subsidiary	-	28,031	363,732	-	391,763
Depreciation charge	587,242	168,336	568,804	13,305	1,337,687
Disposals	-	-	(516,495)	-	(516,495)
At December 31, 2011	<u>\$ 3,896,994</u>	<u>\$ 1,031,468</u>	<u>\$ 2,393,971</u>	<u>\$ 46,756</u>	<u>\$ 7,369,189</u>
Net book value:					
At December 31, 2011	<u>\$ 17,117,876</u>	<u>\$ 1,183,024</u>	<u>\$ 1,751,377</u>	<u>\$ 50,353</u>	<u>\$ 20,102,630</u>
At December 31, 2010	<u>\$ 17,263,611</u>	<u>\$ 996,435</u>	<u>\$ 1,550,661</u>	<u>\$ 24,563</u>	<u>\$ 19,835,270</u>

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

	2011	2010
Land and land improvements	\$ 4,860,523	\$ 4,860,523
Buildings	<u>16,154,347</u>	<u>15,712,840</u>
Total cost	<u>\$ 21,014,870</u>	<u>\$ 20,573,363</u>

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

If land, land improvements and buildings were stated on a historical cost basis, the carrying amount would be \$12.3 million (2010: \$12.5 million).



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**17. Goodwill**

	2011	2010
Cost	\$ 16,236,865	\$ 14,246,535
Accumulated impairment charges	<u>(3,314,955)</u>	<u>(3,314,955)</u>
Net book amount	<u>\$ 12,921,910</u>	<u>\$ 10,931,580</u>
Balance, beginning of year	\$ 10,931,580	\$ 11,034,383
Acquisition of CGIA (See Note 7)	1,990,330	-
Impairment charge	<u>-</u>	<u>(102,803)</u>
Balance, end of year	<u>\$ 12,921,910</u>	<u>\$ 10,931,580</u>

**18. Other Intangible Assets**

	2011	2010
Cost	\$ 4,938,919	\$ 4,155,948
Accumulated amortization	<u>(3,569,908)</u>	<u>(2,944,589)</u>
Net book amount	<u>\$ 1,369,011</u>	<u>\$ 1,211,359</u>
Balance, beginning of year	\$ 1,211,359	\$ 266,885
Additions	782,971	1,737,097
Amortization charge	<u>(625,319)</u>	<u>(792,623)</u>
Balance, end of year	<u>\$ 1,369,011</u>	<u>\$ 1,211,359</u>

**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.

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

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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 \$56.4 million or decrease by \$41.4 million.

*Expenses*

The administration expense assumption is based on an expense study conducted by the Company for 2011. The expenses are allocated by line of business using allocation factors developed by the Company. Such expense studies are conducted annually, and are subject to changes in the Company's cost structure as well as the rate of inflation. Expenses are assumed to increase with inflation of 2.11% 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 \$6.9 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 \$7.9 million or decrease by \$7.5 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 \$5.7 million or decrease by \$5.5 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 \$0.9 million, with the net liabilities increasing by \$0.8 million. If the average claim costs were to decrease by 10%, gross liabilities would decrease by \$0.9 million, with the net liabilities decreasing by \$0.9 million.

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*Analysis of provision for future policy benefits*

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

	<b>2011</b>	<b>2010</b>
Life insurance	\$ 278,260,526	\$ 266,286,656
Annuities	22,410,636	22,327,385
Accident and health/IBNR	16,404,856	13,524,480
Colina Investment Plan (See Note 32)	9,018,040	9,659,290
	<u>326,094,058</u>	<u>311,797,811</u>
Total provision for future policy benefits	<u>\$ 326,094,058</u>	<u>\$ 311,797,811</u>

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

	<b>2011</b>	<b>2010</b>
Short-term insurance contracts	\$ 16,713,434	\$ 13,856,616
Long-term insurance and other contracts		
-with fixed and guaranteed terms	76,443,434	67,496,598
-with fixed and guaranteed terms and with DPF	188,068,834	185,765,073
-without fixed and guaranteed terms	21,832,129	21,266,135
-without fixed and guaranteed terms and with DPF	14,018,187	13,754,099
Long-term investment contracts with DPF	9,018,040	9,659,290
	<u>326,094,058</u>	<u>311,797,811</u>
Total provision for future policy benefits	<u>\$ 326,094,058</u>	<u>\$ 311,797,811</u>

*Analysis of change in provision for future policy benefits*

	<b>2011</b>	<b>2010</b>
Balance, beginning of year	\$ 311,797,811	\$ 296,834,533
Changes in discretionary participation features	(10,504,480)	-
Normal changes in policy liabilities	10,992,201	12,776,658
Changes in assumptions and refinement of estimates	13,808,526	2,186,620
	<u>326,094,058</u>	<u>311,797,811</u>
Balance, end of year	<u>\$ 326,094,058</u>	<u>\$ 311,797,811</u>

*Closed Participating Fund*

Included in the provision for future policy benefits as of December 31, 2011 are actuarial reserves totaling \$30.8 million (2010: \$30.3 million) relating to Colina's commitment to maintain and operate a Closed Participating Fund ("Closed Par Fund") covering the individual participating business (both life and annuity) of the Canada Life portfolio of business acquired on January 1, 2004. The objective of this Closed Par Fund is to finance the participating policyholders' reasonable expectations that Colina will: (i) pay the benefits guaranteed by each participating policy according to its terms; (ii) pay dividends according to the current dividend scale 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.

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The Appointed Actuary's valuation of the Closed Par Fund as of December 31, 2011 shows that it had the following asset mix: government securities –46.1%; policy loans –22.8%; mortgage loans –13.4%; corporate bonds –1.6%; equity securities –6.7%; preference shares – 4.1%; and cash and cash equivalents – 5.3% (2010: government securities – 42.4%; policy loans – 25.2%; mortgage loans – 15.4%; corporate bonds – 3.5%; equity securities – 7.0%; preference shares – 4.2%; cash and equivalents – 2.1%; and commercial loans – 0.2%).

**20. Other Liabilities**

	2011	2010
Third party pension liabilities	\$ 28,074,215	\$ 26,107,997
Benefits payable to policyholders	9,924,679	11,556,922
Accrued expenses and other liabilities	33,571,062	25,738,398
Bank overdraft (See Note 9)	1,285,107	457,520
Reinsurance payables	<u>652,085</u>	<u>2,951,308</u>
Total other liabilities	<u>\$ 73,507,148</u>	<u>\$ 66,812,145</u>

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

**21. Share Capital**

	2011	2010
Authorized:		
45,000,000 Class "A" preference shares of B\$1 each (2010: 45,000,000)	\$ 45,000,000	\$ 45,000,000
35,000,000 Ordinary shares of B\$1 each (2010: 35,000,000)	\$ 35,000,000	\$ 35,000,000
Issued and fully paid:		
30,000,000 Class "A" preference shares of B\$1 each (2010: 26,027,000)	\$ 30,000,000	\$ 26,027,000
24,666,545 Ordinary shares of B\$1 each (2010: 24,601,070)	\$ 24,567,359	\$ 24,397,999

Treasury shares are stated at cost and at December 31, 2011, comprise 63,068 (2010: 128,543) ordinary shares of the Company that are held by Colina.

The Class "A" preference shares were authorized for issue on September 30, 2005, as non-voting and redeemable at the discretion of the Board of Directors at anytime after September 30, 2006, upon 90 days notice. The shares were issued with dividends payable quarterly at the Bahamian \$ Prime rate plus 2.25% per annum on the par value outstanding to shareholders of record on the record date.

The Company gave notice to the Class "A" preference shareholders on October 29, 2008 of its intention to retire all issued and fully paid Class "A" preference shares. Preference Shareholders of record on that date were provided with the first right of refusal to subscribe for an equivalent amount of Par Value of Class "A" preference shares which were issued at a dividend rate payable quarterly at the Bahamian \$ Prime rate plus 1.5% per annum. On January 31, 2009, 20,000,000 of the Class "A" Preference Shares were issued at the new dividend rate. The Class "A" preference shares rank in priority to the ordinary shares in a winding up with respect to repayment of capital and any cumulative dividends in arrears.

On May 28, 2009, the Company's Shareholders approved a resolution to increase the authorized Class "A" preference share capital by 25,000,000 shares. During the year, the Company issued 3,973,000 additional Class "A" Preference shares.

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**22. Revaluation Reserve**

The revaluation reserve is comprised of the net gain/(loss) on remeasurement of available-for-sale securities to fair value and revaluation adjustments related to land and buildings. Also included in the revaluation reserve is an unrealized gain related to the purchase of additional equity in a subsidiary company subsequent to the date control was first established.

	2011	2010
Balance, beginning of year	\$ 6,985,968	\$ 5,567,530
Fair value gains during the year	306,733	304,228
Unrealized gain on purchase of shares in subsidiary	526,412	1,114,327
Transfers to net income	<u>(3,332)</u>	<u>(117)</u>
Balance, end of year	<u>\$ 7,815,781</u>	<u>\$ 6,985,968</u>

**23. Contingent Liabilities and Commitments**

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

*Legal proceedings and regulations*

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

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

*Contingent liabilities*

The Company has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. It is not anticipated that any material loss will arise from the contingent liabilities. The Company has given guarantees to third parties in the ordinary course of business amounting to \$1,685,681 (2010: \$1,681,574).

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

*Commitments*

*Lending:* Commitments to extend credit for mortgages and commercial loans amounted to \$568,148 (2010: \$2,587,148).

*Purchase of property and equipment:* Commitments for the purchase of capital equipment or services at December 31, 2011 was \$499,043 (2010: \$201,193).



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*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, 2011 are as follows:

No later than 1 year	\$ 730,836
Later than 1 year and no later than 5 years	<u>2,119,866</u>
Total	<u>\$ 2,850,702</u>

**24. Future Minimum Lease Payments Receivable**

The Company derives rental income from certain of its investment properties under non-cancellable rental agreements. The future minimum lease payments due to be received under these agreements as of December 31, 2011 are as follows:

No later than 1 year	\$ 3,892,400
Later than 1 year and no later than 5 years	8,644,500
Later than 5 years	<u>30,000</u>
Total	<u>\$ 12,566,900</u>

**25. Net Premium Revenue**

Net premium revenue is comprised of the following:

	2011	2010
Life and health insurance premiums	\$ 118,501,443	\$ 115,449,397
Less: Reinsurance premiums	<u>(14,635,344)</u>	<u>(13,669,376)</u>
Subtotal	103,866,099	101,780,021
Premiums from IRM reinsurance facilities (See Note 15)	<u>13,583,312</u>	<u>16,393,425</u>
Net premium revenue	<u>\$ 117,449,411</u>	<u>\$ 118,173,446</u>

Net premium revenues are classified in the following categories:

	2011	2010
Short-term insurance contracts	\$ 70,192,048	\$ 67,767,942
Long-term insurance and other contracts		
-with fixed and guaranteed terms	22,679,293	20,875,713
-with fixed and guaranteed terms and with DPF	22,372,871	24,051,396
-without fixed and guaranteed terms	191,105	151,195
-without fixed and guaranteed terms and with DPF	16,388,874	18,625,381
Long-term investment contracts with DPF	<u>260,564</u>	<u>371,195</u>
Total premium revenue arising from contracts issued	132,084,755	131,842,822
Premiums ceded to reinsurers	<u>(14,635,344)</u>	<u>(13,669,376)</u>
Net premium revenue	<u>\$ 117,449,411</u>	<u>\$ 118,173,446</u>

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**26. Net Investment Income**

Net investment income is classified as follows:

	<b>2011</b>	<b>2010</b>
Term deposits	\$ 893,682	\$ 836,869
Investment securities	12,758,620	12,857,651
Fair value gains net included in the revaluation reserve (See Note 22)	306,733	304,228
Less: Investment management fees (See Note 33)	<u>(1,304,833)</u>	<u>(1,016,979)</u>
Net investment return on managed assets	12,654,202	12,981,769
Mortgages and commercial loans	3,839,189	4,344,990
Policy loans	8,348,067	7,501,471
Rental income	4,842,034	5,595,865
Fair value (losses)/gains on investment properties (See Note 13)	(512,221)	809,407
Other fees and income	<u>1,210,596</u>	<u>(1,400,698)</u>
Total return on invested assets	30,381,867	29,832,804
Less: Fair value gains in the revaluation reserve	<u>(306,733)</u>	<u>(304,228)</u>
Total net investment income recognized in income	<u>\$ 30,075,134</u>	<u>\$ 29,528,576</u>

There are no impairment charges included in net investment income from investment securities (2010: \$ Nil).

**27. Net Policyholders' Benefits**

Net policyholders' benefits are comprised of the following:

	<b>2011</b>	<b>2010</b>
Life and health policyholder benefits	\$ 89,431,384	\$ 78,391,468
Less: Reinsurance recoveries	<u>(9,131,590)</u>	<u>(11,238,582)</u>
Subtotal	80,299,794	67,152,886
Benefits paid on IRM reinsurance facilities (See Note 15)	<u>7,094,551</u>	<u>9,480,879</u>
Total net policyholders' benefits	<u>\$ 87,394,345</u>	<u>\$ 76,633,765</u>

Included in life and health policyholder benefits is \$1,002,769 related to interest on policy dividends on deposit (2010: \$1,101,318).

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

	2011		2010
Short-term insurance contracts	\$ 49,636,674	\$	42,928,768
Long-term insurance and other contracts			
-with fixed and guaranteed terms	12,449,466		12,317,285
-with fixed and guaranteed terms and with DPF	24,532,621		22,815,622
-without fixed and guaranteed terms	1,836,369		1,794,154
-without fixed and guaranteed terms and with DPF	6,740,287		6,722,656
Long-term investment contracts with DPF	<u>1,330,518</u>		<u>1,293,862</u>
Total policyholders' benefits	96,525,935		87,872,347
Reinsurance recoveries	<u>(9,131,590)</u>		<u>(11,238,582)</u>
Net policyholders' benefits	<u>\$ 87,394,345</u>	\$	<u>76,633,765</u>

**28. General and Administrative Expenses**

General and administrative expenses are comprised of:

	2011		2010
Salaries and employee/agent benefits	\$ 11,770,761	\$	11,870,641
Fees, insurance and licences	6,115,949		4,791,482
IRM reinsurance facilities expenses (See Note 15)	1,800,643		3,216,706
Advertising and communications expense	2,599,325		3,005,844
Depreciation and amortization	2,087,748		2,389,378
Premises and maintenance	3,354,475		2,783,784
Underwriting fees	691,569		940,975
Other expenses	<u>1,356,717</u>		<u>953,599</u>
Total general and administrative expenses	<u>\$ 29,777,187</u>	\$	<u>29,952,409</u>

**29. Finance Costs and Interest**

Finance costs and interest are comprised of:

	2011		2010
Interest on bank loans	\$ -	\$	36,396
Interest on other contracts	32,925		9,488
Interest on liabilities due to ASO groups	85,735		<u>6,976</u>
	<u>\$ 118,660</u>	\$	<u>52,860</u>

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**30. Earnings Per Share and Dividends Per Share**

Basic earnings per ordinary share is calculated by dividing net income attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares issued and outstanding during the year, excluding ordinary shares of the Company acquired by Colina and held as treasury shares.

	2011	2010
Net income attributable to equity shareholders	\$ 5,030,207	\$ 12,955,662
Net income attributable to ordinary shareholders	\$ 3,322,223	\$ 11,342,645
Weighted average number of ordinary shares outstanding	24,621,297	24,659,403
Basic earnings per ordinary share	\$ 0.13	\$ 0.46

Dividends to the Company's shareholders are recognized as a liability in the period in which they are declared by the Board of Directors. Dividends paid by the Company to ordinary shareholders in 2011 totalled \$3,956,738 (\$0.16 per share) (2010: \$5,687,811 (\$0.23 per share)).

For the period January 1 to January 31, 2010, dividends to the Class "A" preference shareholders were due and payable at an annual rate of Bahamian \$ Prime rate plus 2.25% on the par value outstanding. Effective February 1, 2010, the dividend rate on the Class "A" preference shares was at an annual rate of Bahamian \$ Prime rate plus 1.5% on the par value outstanding to preference shareholders of record on quarterly record dates.

Dividends paid by the Company to the Class "A" preference shareholders during 2011 totalled \$1,707,984 (2010: \$1,613,017).

**31. Pension Plan**

The Company operates a defined contribution plan for administrative staff and agents. The plan is administered by an affiliated company. Under the plan, all eligible staff and agents contribute 5% of pensionable earnings and the Company contributes 5%. The Company's matching contributions vest fully with the employee after five years. Pension expense for the year was \$582,720 and is included in salaries and employee/agent benefits expense (2010: \$568,720).

**32. 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.

Issuance of new CIP policies was discontinued in January 2001.

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The underlying assets of the BIF and CIP that are included in their respective categories in the consolidated balance sheet at December 31, 2011 are as follows:

	Bahamas Investment Fund		Colina Investment Plan	
	2011	2010	2011	2010
Equities - listed	\$ 6,332,136	\$ 7,140,886	\$ 2,107,892	\$ 1,889,395
Equities - unquoted	117,497	117,497	15,000	15,000
Preferred shares - unquoted	400,000	437,000	68,000	68,000
Shares in investment funds	-	951	-	-
Government securities	4,234,007	5,200,900	4,656,851	5,849,479
Debt securities - unquoted	1,050,000	719,688	50,000	-
Term deposits	886,589	1,109,593	436,853	583,575
Policy loans	-	-	1,030,267	1,319,497
Cash	119,810	80,110	230,784	83,683
Due (to)/from general fund	(1,717,926)	(1,605,834)	422,393	(149,339)
Total assets	\$ 11,422,113	\$ 13,200,791	\$ 9,018,040	\$ 9,659,290

**33. 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:

	AFH	Other affiliates	Other related parties	Total 2011	Total 2010
<b>Revenues</b>					
Group and life insurance	\$ 3,572	\$ 740,357	\$ 545,691	\$ 1,289,620	\$ 1,448,431
Rental income	-	-	6,000	6,000	54,000
Sub-investment fees	-	-	79,469	79,469	77,415
Total	\$ 3,572	\$ 740,357	\$ 631,160	\$ 1,375,089	\$ 1,579,846
<b>Expenses</b>					
Legal fees	\$ -	\$ 406,002	\$ -	\$ 406,002	\$ 336,300
Investment management fees	-	-	1,304,833	1,304,833	1,016,979
Administration, Registrar and Transfer Agent fees	-	9,306	182,080	191,386	215,720
Property management fees	-	58,320	-	58,320	-
Advertising and Marketing	-	118,551	-	118,551	259,167
Property rental	13,728	590,955	-	604,683	577,440
Medical lab expenses	-	-	538,432	538,432	523,977
Other	32,400	770,425	-	802,825	463,810
Total	\$ 46,128	\$ 1,953,559	\$ 2,025,345	\$ 4,025,032	\$ 3,393,393

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The investment management fees totaling \$1,304,833 (2010: \$1,016,979) were charged by a related party Investment Manager pursuant to the terms of an Investment Management Agreement dated January 1, 2004 and revised on May 25, 2011. Such fees are charged monthly at various basis point rates depending on the class of assets managed. The Investment Manager is a registered broker-dealer and, as such, has custody of a significant portion of the Company's invested assets.

*Key management personnel compensation*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Compensation for key management personnel for the year ended December 31, 2011 was \$1,326,384 (2010: \$1,726,819). There were no termination benefits paid during the year ended December 31, 2011 in respect of former key management personnel (2010: \$Nil).

*Directors' fees*

Fees paid to Directors for services rendered on Board and Board Committees for the year ended December 31, 2011 totaled \$263,500 (2010: \$227,750).

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

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

	AFH	Other affiliates	Other related parties	Key Management / Directors	Total 2011	Total 2010
<b>Assets</b>						
Investment securities	\$ -	\$ 551,865	\$ -	\$ -	\$ 551,865	\$ 406,477
Mortgages and Provisions on mortgages and commercial loans, net	\$ -	\$ 304,913	\$ -	\$ 2,541,370	\$ 2,846,283	\$ 2,003,034
Cash and bank balances	\$ -	\$ -	\$ 1,072,165	\$ -	\$ 1,072,165	\$ 3,812
Receivables and other assets	\$ -	\$ 254,434	\$ 355,532	\$ -	\$ 609,966	\$ 673,529
<b>Liabilities</b>						
Other liabilities	\$ 578	\$ 21,092	\$ 384,041	\$ -	\$ 405,711	\$ 470,542

Loans advanced to related parties included in mortgages and commercial loans carry interest rates between 5.50% and 6.50% p.a. (2010: 5.50% and 6.75% p.a.).



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**34. 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*

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

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

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

	<b>2011</b>		<b>2010</b>
	<b>(in \$000s)</b>		<b>(in \$000s)</b>
\$0 to \$49,999	\$ 556,587	\$	598,670
\$50,000 to \$99,999	1,008,457		1,051,998
\$100,000 to \$149,999	2,223,882		2,288,755
\$150,000 and over	2,945,777		2,962,470
	<hr/>		<hr/>
Total	<b>\$ 6,734,703</b>	<b>\$</b>	<b>6,901,893</b>

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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:

	2011		2010
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.

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

*Interest rate risk*

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

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

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

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

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

December 31, 2011 (in \$000s)	Balances with		Current		Past due but not impaired		Past due	Total
	no scheduled repayment dates	Investment Grade	Non- Graded	Unit Linked	30 - 90 days	>90 days	and/or impaired	
Financial assets								
Term deposits	\$ -	\$ -	\$ 31,318	\$ 1,323	\$ -	\$ -	\$ -	\$ 32,641
FVPL securities	-	27,463	9,807	12,134	-	-	-	49,404
AFS securities	-	136,437	40,975	6,898	-	-	-	184,310
Mortgages and commercial loans	-	-	31,651	-	8,046	19,168	8,798	67,663
Policy loans	63,053	-	-	1,030	-	-	180	64,263
Cash and demand balances	12,793	-	-	351	-	-	-	13,144
Premiums receivable	-	-	2,978	-	6,871	1,665	-	11,514
Reinsurance receivables	-	-	4,343	-	-	-	-	4,343
Other financial assets	5,458	2,834	599	-	-	-	-	8,891
Total financial assets	\$ 81,304	\$ 166,734	\$ 121,671	\$ 21,736	\$ 14,917	\$ 20,833	\$ 8,978	\$ 436,173

December 31, 2010 (in \$000s)	Balances with		Current		Past due but not impaired		Past due	Total
	no scheduled repayment dates	Investment Grade	Non- Graded	Unit Linked	30 - 90 days	>90 days	and/or impaired	
Financial assets								
Term deposits	\$ -	\$ -	\$ 13,480	\$ 1,693	\$ -	\$ -	\$ -	\$ 15,173
FVPL securities	-	5,043	6,067	21,439	-	-	-	32,549
AFS securities	-	140,305	34,829	-	-	-	-	175,134
Mortgages and commercial loans	-	-	38,950	-	6,615	14,293	9,019	68,877
Policy loans	67,211	-	-	1,319	-	-	1,052	69,582
Cash and demand balances	19,848	-	-	164	-	-	-	20,012
Premiums receivable	-	-	9,402	-	1,354	461	-	11,217
Reinsurance receivables	-	-	7,676	-	-	-	-	7,676
Other financial assets	4,806	2,924	9,865	-	-	-	-	17,595
Total financial assets	\$ 91,865	\$ 148,272	\$ 120,269	\$ 24,615	\$ 7,969	\$ 14,754	\$ 10,071	\$ 417,815

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

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*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):

December 31, 2011 (in \$000s)						Total
	Up to a year	1-5 years	Over 5 years	No Term	Not Classified	
Insurance and Investment Contracts						
Short-term insurance contracts	\$ 7,448	\$ 2	\$ 30	\$ -	\$ 9,065	\$ 16,545
Long-term insurance and other contracts						
-with fixed and guaranteed terms	(10,841)	(22,705)	494,815	-	3,405	464,674
-with fixed and guaranteed terms, with DPF	4,189	29,383	733,187	-	1,578	768,337
-without fixed and guaranteed terms	1,674	6,827	24,848	-	508	33,857
-without fixed and guaranteed terms, with DPF	1,260	4,443	17,067	-	327	23,097
Long-term investment contracts with DPF	-	-	-	-	9,018	9,018
Financial Liabilities						
Policy dividends on deposit	-	-	-	30,695	-	30,695
Other financial liabilities	-	-	-	73,507	-	73,507
<b>Total</b>	<b>\$ 3,730</b>	<b>\$ 17,950</b>	<b>\$ 1,269,947</b>	<b>\$ 104,202</b>	<b>\$ 23,901</b>	<b>\$ 1,419,730</b>

December 31, 2010 (in \$000s)						Total
	Up to a year	1-5 years	Over 5 years	No Term	Not Classified	
Insurance and Investment Contracts						
Short-term insurance contracts	\$ 6,311	\$ (118)	\$ 37	\$ -	\$ 7,441	\$ 13,671
Long-term insurance and other contracts						
-with fixed and guaranteed terms	(10,690)	(23,715)	499,458	-	3,704	468,757
-with fixed and guaranteed terms, with DPF	4,791	32,777	626,199	-	5,867	669,634
-without fixed and guaranteed terms	1,665	6,633	26,216	-	531	35,045
-without fixed and guaranteed terms, with DPF	1,334	4,654	21,470	-	918	28,376
Long-term investment contracts with DPF	-	-	-	-	9,659	9,659
Financial Liabilities						
Policy dividends on deposit	-	-	-	31,489	-	31,489
Other financial liabilities	40,704	-	-	26,108	-	66,812
<b>Total</b>	<b>\$ 44,115</b>	<b>\$ 20,231</b>	<b>\$ 1,173,380</b>	<b>\$ 57,597</b>	<b>\$ 28,120</b>	<b>\$ 1,323,443</b>

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

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

<b>December 31, 2011</b> (in \$000s)	<b>Current</b>	<b>Non-Current</b>	<b>Unit Linked</b>	<b>Total</b>
Term deposits	\$ 31,318	\$ -	\$ 1,323	\$ 32,641
Investment securities				
FVPL securities	-	37,270	12,134	49,404
AFS securities	-	177,412	6,898	184,310
Mortgages and commercial loans	2	67,661	-	67,663
Policy loans	-	63,233	1,030	64,263
Investment properties	-	49,207	-	49,207
Investment in associates	-	10,194	-	10,194
Cash and demand balances	12,793	-	351	13,144
Receivables and other assets	44,741	-	-	44,741
Property and equipment	-	20,103	-	20,103
Goodwill	-	12,922	-	12,922
Other intangible assets	-	1,369	-	1,369
<b>Total Assets</b>	<b>\$ 88,854</b>	<b>\$ 439,371</b>	<b>\$ 21,736</b>	<b>\$ 549,961</b>

<b>December 31, 2010</b> (in \$000s)	<b>Current</b>	<b>Non-Current</b>	<b>Unit Linked</b>	<b>Total</b>
Term deposits	\$ 13,480	\$ -	\$ 1,693	\$ 15,173
Investment securities				
FVPL securities	-	26,074	6,475	32,549
AFS securities	-	140,945	34,189	175,134
Mortgages and commercial loans	299	68,578	-	68,877
Policy loans	-	69,582	-	69,582
Investment properties	-	49,248	-	49,248
Investment in associates	-	10,747	-	10,747
Cash and demand balances	19,848	-	164	20,012
Receivables and other assets	52,297	-	-	52,297
Property and equipment	-	19,835	-	19,835
Goodwill	-	10,932	-	10,932
Other intangible assets	-	1,211	-	1,211
<b>Total Assets</b>	<b>\$ 85,924</b>	<b>\$ 397,152</b>	<b>\$ 42,521</b>	<b>\$ 525,597</b>

*Operational risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. Internal processes include activities relating to accounting, reporting, operations, compliance and personnel management. Such risk manifests itself in various breakdowns, errors and business interruptions and can potentially result in financial losses and other damage to the Company.

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

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*Capital Management*

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

Colina measures its solvency ratio using Canadian reserving methodologies and solvency standards as measured by the Minimum Continuing Capital and Surplus Requirement ("MCCSR"). The Canadian Insurance regulator has set a MCCSR supervisory target of 150%. At December 31, 2011, Colina's MCCSR exceeded the target.

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

Colina 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.

**35. Other Significant Events**

*Dividend to preference shareholders*

The Board of Directors have authorized the payment of preference share dividends for the Class "A" Preference Shareholders of the Company for the quarters ending March 31, 2012 and June 30, 2012 as they come due, subject to any regulatory requirements.





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