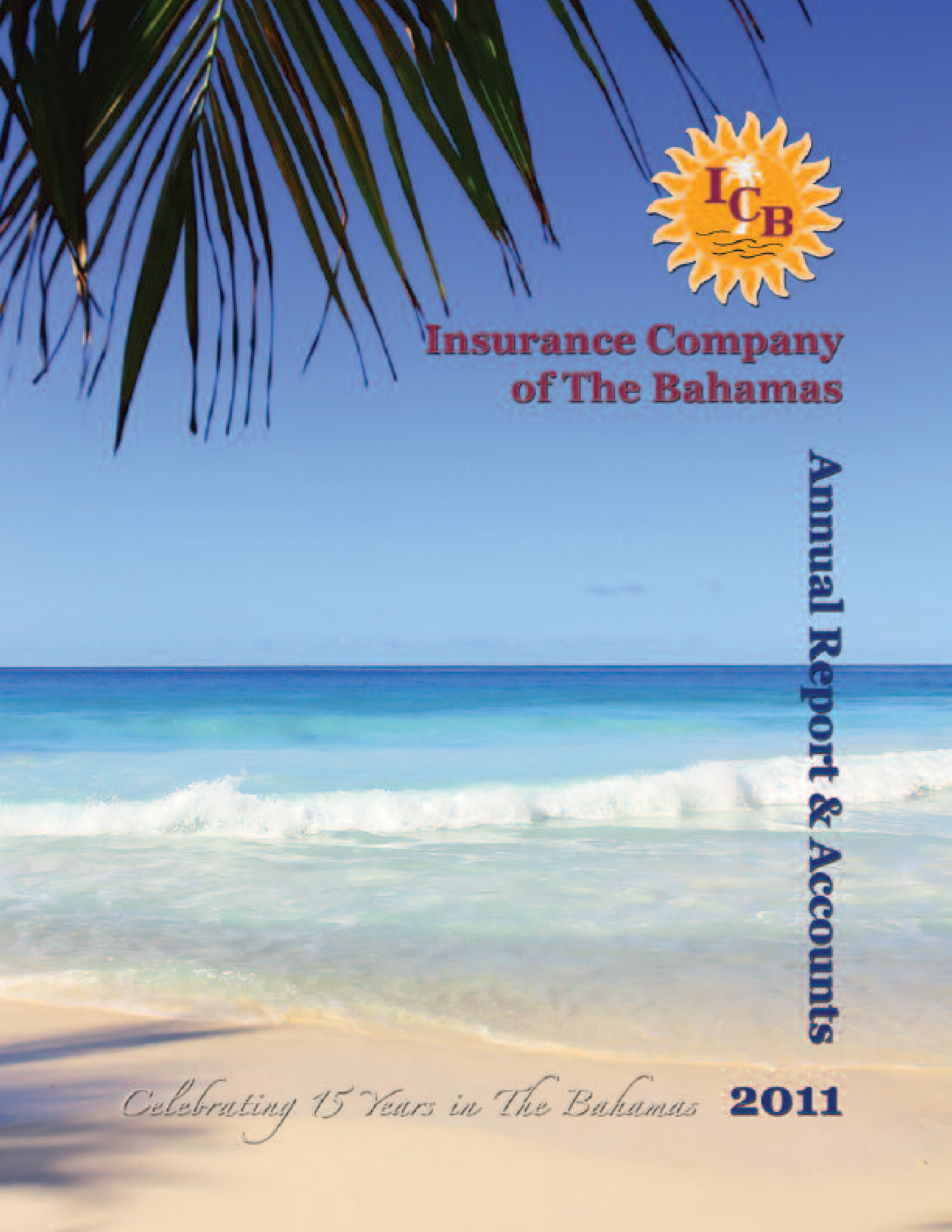

Insurance Company of The Bahamas

Annual Report & Accounts 2011

Celebrating 15 Years in The Bahamas

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The Founding Chairman's Legacy

Vincent D'Aguilar, appointed Founding Chairman of ICB at its inception in 1997, remained Chairman of the Company until shortly before his death in 2008. When ICB moved to its permanent location at 33 Collins Avenue in 2005, D'Aguilar was eager to share several of his treasured paintings and photographs by Bahamian Artists from his vast personal collection for the reception area and meeting rooms. This arrangement not only beautified the interior of ICB for its visitors and employees, but also helped to further D'Aguilar's goal of increasing exposure of Bahamian art to heighten public appreciation for the many and varied forms of artistic expression produced in The Bahamas. He believed that sharing his collection would promote those artists whose works were on display, and simultaneously encourage interested persons to see more of the artist's works, with a view to promoting private or corporate purchases.

In June 2008, the D'Aguilar family launched The D'Aguilar Art Foundation (DAF), in memory of Vincent D'Aguilar's passionate commitment to Bahamian Art. The Foundation seeks to preserve and expand the D'Aguilar Art Collection, now housed in a lovingly restored old Bahamian home in the heart of Nassau. The DAF primarily hosts exhibitions featuring art from its own comprehensive collection . The DAF recognizes the significance of this collection as valuable tool for art education and provides access to artists, scholars, collectors and aficionados aspiring to study and research Bahamian art.

Additionally, the DAF's Global Discovery Program encourages Bahamian art students at the tertiary and post-graduate level to develop a global awareness by providing travel grants to view the world's masterpieces, galleries, collections and museums. Approximately six Bahamian artists per year benefit from this grant, and recent beneficiaries have travelled to Scotland, China, Mexico and Cuba.

CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN
Dionisio D'Aguilar

CHAIRMAN
EXECUTIVE COMMITTEE
Marvin V. Bethell, MBE, FCII

DIRECTORS

C. R. Bruce Fernie, ACII
Thomas Hackett
Barrett H. McDonald, ACII
Alister I. McKellar, FCII
Edgar Moxey, MBA, CPA, CA
Terry L. Wilcox

GENERAL MANAGER

Tom Duff, ACII

SECRETARY

Gloria J. Forbes

HEAD OFFICE

33 Collins Avenue
P. O. Box N-8320
Nassau, Bahamas

REGISTERED OFFICE

McKinney, Bancroft & Hughes
Mareva House
4 George Street
P. O. Box N-3937
Nassau, Bahamas

AUDITORS

KPMG
P. O. Box N-123
Montague Sterling Centre
East Bay Street
Nassau, Bahamas

PRINCIPAL AGENT

J. S. Johnson & Company Ltd.
34 Collins Avenue
P. O. Box N-8337
Nassau, Bahamas

BOARD OF DIRECTORS

Thomas Hackett

Dionisio D'Aguilar

C. R. Bruce Fernie, ACII

Marvin V. Bethell, MBE, FCII

Barrett H. McDonald, ACII

Alister I. McKellar, FCII

L. Edgar Moxey, MBA, CPA, CA

Terry L. Wilcox

CHAIRMAN'S STATEMENT

The past year saw Insurance Company of The Bahamas Limited ("ICB" or "the Company") complete its 15th year of operations and I was delighted to be able to serve the Company as Chairman during this anniversary year, following in the footsteps of our two previous and distinguished Chairmen, Hugh Sands, CMG and founding Chairman, Vincent D'Aguilar.

The Company's 15th year proved to be one of our most challenging. Having been spared any hurricanes in the previous five years, The Bahamas was not so fortunate in 2011 as Hurricane Irene made an unwelcome visit to our islands. "Irene" caused considerable damage to properties in the Family Islands but we were relieved that the storm tracked just to the east of New Providence on its northbound path to the US mainland. Thus, what could have been a major insured loss for ICB and The Bahamas' general insurance industry ended up being a substantial but very manageable loss.

In addition to the aforementioned hurricane, 2011 saw New Providence affected by a series of major fires and ICB incurred its share with two large losses in the downtown area of Nassau. Despite all of this, it was satisfying that ICB was still able to produce a creditable trading profit of $1,160,174 for the year. This represents a disappointing reduction of approximately 70% on last year's exceptional profit of $3,937,467 but it was, nevertheless, a satisfactory return in the circumstances.

Looking ahead to 2012, the trading environment for general insurers is likely to remain extremely challenging. Consumer spending power is likely to remain weak as high unemployment levels and expensive fuel combine to depress disposable incomes. To make matters worse, Government's major capital projects will shortly be coming to an end. Against this rather depressing short term outlook, there is hope, however, that The Bahamas' economy will begin to show signs of significant recovery in the next 2 to 3 years as we see the completion of the BahaMar project and anticipate the possibility of an upturn in the United States' economy.

In addition to the tight economy, the coming year will present general insurers with the challenge of adjusting to the amendments to the Road Traffic Act. We anticipate that these amendments will become law very soon.

Finally, as required by the 2005 Insurance Act, I am pleased to report that ICB completed the re-registration process during the year. We look forward to working with The Insurance Commission of The Bahamas in the years ahead to ensure that we play our part in the creation of a well regulated, efficient and reliable insurance industry.

Dionisio D'Aguilar
Chairman

A PERSPECTIVE FROM THE GENERAL MANAGER

Across the globe, devastating earthquakes and other weather-related disasters made 2011 the costliest year ever for natural catastrophe losses in the insurance industry. According to Munich Re, one of the world's largest reinsurance companies, the global economic loss from catastrophic events in 2011 came to a record breaking US$380 billion. Insured losses from these events totaled US$105 billion which exceeded the previous record of US$101 billion set in 2005. Closer to home, Hurricane Irene caused devastation throughout many of the Family Islands of The Bahamas before making landfall in the USA. The economic loss from "Irene" across the Caribbean and the United States is estimated to be in the region of US$15 billion with the insured loss estimated at US$7 billion. What these figures illustrate is the scale of devastation that Mother Nature can cause around the planet in any given year and the hugely important role that insurance companies and their reinsurers play in mitigating the cost of such natural disasters.

The Chairman mentioned in his statement that Hurricane Irene had a very substantial impact on the 2011 trading result of Insurance Company of The Bahamas Limited ("ICB" or "the Company"). Nevertheless, ICB's statement of financial position was well able to withstand the losses produced by "Irene" since the Company had been able to post healthy trading profits over the previous five years.

At a total gross cost of US$6.7 million, losses from "Irene" severely depressed our underwriting result for 2011 and this was compounded by higher than expected loss ratios in all our main lines of business. Nevertheless, the Company was still able to produce a bottom line trading profit of $1,160,176. This represents a return on capital of 5.3% which is not unreasonable in a year in which the Company suffered a major hurricane loss. Another positive was the fact that Gross Written Premium rose by almost 2 percent. This was quite pleasing considering the difficult economic conditions prevailing during the year.

I believe that 2012 will be another challenging year for ICB and The Bahamas' insurance industry in general. Challenges bring opportunities, however, and I am confident that we have the business partnerships in place to be able to take advantage of any opportunities that present themselves.

As the curtain closes on our 15th year of operations, it provides an opportunity to say thank you to those who have made substantial contributions to our success. Thanks and appreciation goes to:

i) The directors, management and staff of our exclusive agents, J.S. Johnson and Company Limited, for the excellent level of support and co-operation they have given us since day one.
ii) Our reinsurance broker, Aon Benfield (London), for their sound advice and professionalism over the years.
iii) The Board of Directors at ICB for their careful stewardship and direction.
iv) And finally, but certainly not least, our loyal and conscientious employees at ICB.

Of course, no company can prosper without the support of its loyal customers. At ICB, we value the business of each and every one of our customers and we look forward to the challenge of meeting and exceeding all of your service expectations in the years ahead.

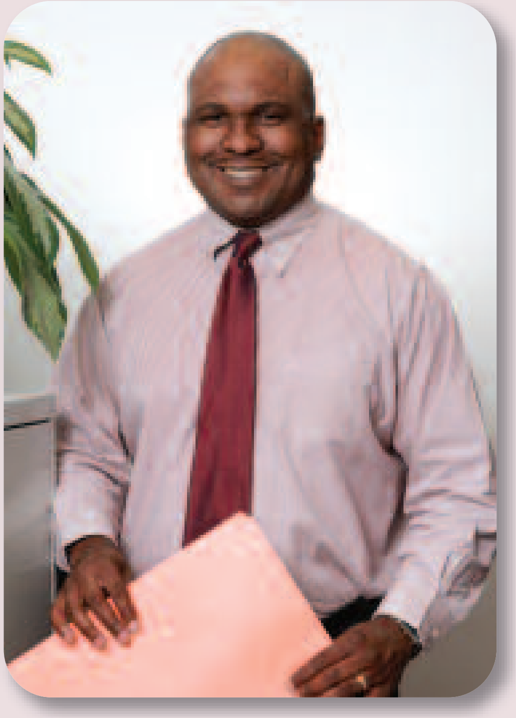
Tom Duff
General Manager

ICB PERSONNEL

Darnell Osborne
Financial Controller

Angela Rahming
Accounting & Administrative Officer

Nicol Culmer
Accounting Officer



Arvin Butler
Statistical Officer

INDEPENDENT AUDITORS' REPORT

KPMG
P O Box N123
Montague Sterling Centre
East Bay Street
Nassau, Bahamas

Telephone 242 393 2007
Fax 242 393 1772
Internet www.kpmg.com.bs

To the Shareholders of
Insurance Company of The Bahamas Limited

We have audited the accompanying financial statements of Insurance Company of The Bahamas Limited ("the Company") which comprise the statement of financial position as at December 31, 2011 and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal controls as management determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error..

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

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

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

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

KPMG

April 24, 2012

Insurance Company of The Bahamas Limited
Statement of Financial Position

Year ended December 31, 2011, with corresponding figures for 2010 Expressed in Bahamian dollars

ASSETS		2011	2010
Cash and bank balances (Notes 5,17)	$	1,023,643	144,336
Term deposits (Notes 6,17)		7,862,779	8,339,431
Reinsurance Recoveries (Notes 4,12,17)		15,293,640	11,266,798
Due from agent (Notes 7,17)		5,219,698	5,492,967
Deferred commission reserve (Notes 7,17)		4,793,948	4,611,246
Prepaid reinsurance premiums (Notes 12,17)		17,056,594	16,780,244
Prepayments and other receivables (Notes 8,17)		43,980	33,736
Investments in securities			
- fair value through profit and loss (Notes 7, 8,17)		2,900,137	2,756,717
- held-to-maturity (Notes 8,17)		9,711,652	9,236,911
- available for sale (Notes 8,17)		2,000,000	2,312,500
Investment property (Note 9)		1,049,615	1,490,317
Property, plant and equipment (Note 10)		1,192,238	1,238,359
Total assets	$	68,147,924	63,703,562
LIABILITIES			
General insurance funds:			
Unearned premium reserve (Notes 12,17)	$	20,605,805	20,283,926
Outstanding claims (Notes 12,17)		17,746,362	13,172,341
		38,352,167	33,456,267
Other liabilities:			
Unearned commission reserve (Note 17)		4,379,196	4,284,724
Due to reinsurers (Note 4,17)		3,221,643	3,736,059
Accounts payable and accruals (Note 7,17)		348,917	359,445
Total liabilities		46,301,923	41,836,495
NET ASSETS	$	21,846,001	21,867,067
Represented by:			
Share capital			
Authorized, issued and fully paid:-			
3,000,000 ordinary shares of $1.00 each	$	3,000,000	3,000,000
General reserve (Note 13)		2,000,000	2,000,000
Retained earnings		16,846,001	16,867,067
TOTAL EQUITY	$	21,846,001	21,867,067

See accompanying notes to financial statements

These financial statements were authorized for issue on behalf of the Board of Directors on April 24, 2012 by:

Director Director

Statement of Comprehensive Income

Year ended December 31, 2011, with corresponding figures for 2010

Expressed in Bahamian dollars

INCOME		2011	2010
Gross written premiums (Note 7)	$	42,713,517	41,909,947
Premium tax		(1,224,674)	(1,223,057)
		41,488,843	40,686,890
Ceded to reinsurers		(34,194,145)	(33,384,822)
Net retained premiums		7,294,698	7,302,068
Decrease in unearned premium reserve (Note12)		(45,529)	751,497
Net premiums earned		7,249,169	8,053,565
EXPENSES			
Net claims incurred (Note 12)		3,523,988	1,669,322
Net commissions incurred (Notes 7,11)		(542,417)	(269,647)
Excess of loss reinsurance		3,031,596	3,247,898
		6,013,167	4,647,573
Underwriting profit		1,236,002	3,405,992
OPERATING INCOME AND EXPENSES			
Interest income (Notes 5, 6, 8)		1,011,593	1,006,546
Dividend and other income (Note 7)		558,007	656,311
Change in net unrealized gains on investments in securities (Note 8)		(106,480)	(137,385)
Impairment loss (Note 9)		(428,586)	–
		2,270,536	4,931,464
Personnel expenses (Notes 7,15)		(567,786)	(535,969)
Depreciation (Notes 9,10)		(67,149)	(78,052)
General and administrative expenses (Note 7)		(475,427)	(379,976)
NET INCOME & TOTAL COMPREHENSIVE INCOME	$	1,160,174	3,937,467

See accompanying notes to financial statements

Statement of Changes in Equity

Year ended December 31, 2011, with corresponding figures for 2010

Expressed in Bahamian dollars

	Share Capital	General Reserve	Retained Earnings	Total
Balance at December 31, 2009	**$ 3,000,000**	**2,000,000**	**13,429,600**	**18,429,600**
Total comprehensive income for the year:				
Net income	–	–	3,937,467	3,937,467
	–	–	3,937,467	3,937,467
Distribution to owners:				
Dividends (Note 16)	–	–	(500,000)	(500,000)
	–	–	(500,000)	(500,000)
Balance at December 31, 2010	**$ 3,000,000**	**2,000,000**	**16,867,067**	**21,867,067**
Total comprehensive income for the year:				
Net Income	–	–	1,160,174	1,160,174
	–	–	1,160,174	1,160,174
Distribution to owners:				
Dividends (Note 16)	–	–	(1,181,240)	(1,181,240)
	–	–	(1,181,240)	(1,181,240)
Balance at December 31, 2011	**$ 3,000,000**	**2,000,000**	**16,846,001**	**21,846,001**

Statement of Cash Flows

Year ended December 31, 2011, with corresponding figures for 2010 Expressed in Bahamian dollars

CASH FLOWS FROM OPERATING ACTIVITIES	2011	2010
Net income	$ 1,160,174	3,937,467
Adjustments for:		
Unearned premium reserve	(45,529)	751,497
Interest income	(1,001,593)	(1,006,546)
Dividend income	(257,397)	(264,476)
Change in net unrealized gains on investments in securities	106,480	137,385
Revaluatiion loss on investment property	428,586	–
Depreciation	67,149	78,052
	447,870	3,633,379
(Increase) decrease in assets:		
Reinsurance recoveries	(4,026,842)	1,680,673
Due from agent	273,269	(691,850)
Deferred commission reserve	(182,702)	488,750
Prepaid reinsurance premiums	(276,350)	1,586,559
Prepayments and other receivables	(12,134)	32,343
Increase (decrease) in liabilities:		
Unearned premium reserve	367,408	(3,089,535)
Outstanding claims	4,574,021	(2,169,056)
Unearned commission reserve	94,472	(279.008)
Due to reinsurers	(514,416)	(515,542)
Accounts payable and accruals	(10,528)	(16,108)
Net cash provided by operating activities	**734,068**	**660,587**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net maturity of term deposits	449,392	(1,611,590)
Proceeds of property, plant and equipment	(8,913)	(330)
Purchase of investments in securities	(749,900)	(1,444,300)
Proceeds from sale of investments in securities	312,500	405,000
Interest received	1,064,113	907,402
Dividends received	259,287	293,548
Net cash provided by/(used in) investing activities	**1,326,479**	**(1,450.270)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(1,181,240)	(500,000)
Net cash used in financing activities	**1,181,240**	**(500,000)**
Net increase/(decrease) in cash and cash equivalents	**879,307**	**(1,289,683)**
Cash and cash equivalents at beginning of year	144,336	1,434,019
Cash and cash equivalents at end of year	**$ 1,023,643**	**144,336**
Supplemental information:		
Premium tax paid	$ 1,253,575	1,230,258

See accompanying notes to financial statements

Notes to the Financial Statements

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

1. Incorporation and activity

Insurance Company of The Bahamas Limited (the Company) is incorporated under the Companies Act, 1992 of The Commonwealth of The Bahamas and is licensed to operate as a property and casualty insurance company in The Bahamas under the Insurance Act, 1969, as amended, and Turks & Caicos Islands, B.W.I under the Insurance Ordinance, 1989.

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The registered office of the Company is situated at the offices of Messrs. McKinney, Bancroft & Hughes, Mareva House, 4 George Street, Nassau, The Bahamas. The Company's principal place of business is located at 33 Collins Avenue, Nassau, The Bahamas.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for financial instruments at fair value through profit or loss and available for sale securities, which are measured at fair value.

The methods used to measure fair value are discussed further in the significant accounting policies below.

(c) Functional and presentation currency

These financial statements are presented in Bahamian dollars, which is the Company's functional and reporting currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in notes 3(a), 3(d), 3(e), 3(f), 3(g), 9, 10, 12, 17 and 18.

3. Summary of significant accounting policies

The principal accounting policies set out below have been applied consistently by the Company and are consistent with those used in the previous year:

(a) Insurance contracts

(i) Classification, recognition and measurement

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer insurance risks. Such contracts may also transfer financial risk. The Company considers an insurance risk to be significant where the sum insured or limit of indemnity exceeds $250,000. The classification of contracts identifies both the insurance and reinsurance contracts that the Company enters into.

Short term insurance contracts consist of Property, Casualty, Motor and Marine insurance contracts.

Property insurance contracts, both personal and commercial, provide compensation for loss or damage to property. Business Interruption coverage provides compensation for loss of earnings following physical damage to the insured premises.

Casualty/liability insurance contracts protect the insured against the risk of causing financial loss or injury to third parties following some act of negligence. Liabilities covered include both contractual and non-contractual. Two of the most common protections offered are "Employer's Liability", designed to indemnify employers who become legally liable to pay compensation to injured employees and "Public Liability", designed to indemnify individuals and businesses who become legally liable to pay compensation to third parties.

Motor insurance contracts cover the driver's liability to third parties in respect of personal injury or property damage. If comprehensive cover is purchased, the policy also covers damage to the policyholder's vehicle.

Marine insurance contracts include the insurance of goods in transit over land or sea and also the insurance of hulls. Hull insurances typically cover both physical damage to the vessel and also the boat owner's liability to third parties in respect of personal injury or property damage.

Premiums generated from insurance and inwards reinsurance contracts are recognized as revenue (gross written premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is reported as unearned premium reserve, calculated using net retained premiums. Gross written premiums are shown before deduction of premium tax, premiums ceded to reinsurers and commissions. Premiums received prior to the year end and processed after the year by the agent are recognised at the time of processing.

Claims and loss adjustment expenses are charged to income as incurred based on the known or estimated liability for compensation owed to policyholders or third parties. They include direct or indirect claims settlement costs and arise from events that have occurred up to the reporting date regardless of whether or not they have been reported. Gross outstanding claims comprise the estimated cost of all claims incurred but not settled as of the reporting date whether reported or not. The Company does not discount its liabilities for outstanding claims. Liabilities for outstanding claims are estimated using: (a) the judgement of the agency's claims manager in regards to routine claims, (b) external legal opinion in connection with more complex claim and (c) statistical analyses for claims incurred but not reported.

(ii) Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. Tests include reviewing original estimates of ultimate claims cost for each accident year against the current year-end estimates. These tests are carried out at the portfolio level for each main category of business. Should any trend in reserve deficiency, at total portfolio level, become apparent then the deficiency would be immediately charged to income or loss by establishing a provision for losses arising from liability adequacy tests.

(iii) Reinsurance contracts held and assumed

The Company cedes (or assumes) reinsurance under a variety of formal treaty arrangements, with retention limits varying by the line of business. Under these treaties which are classified as reinsurance contracts held (or assumed) the Company is compensated (or compensates) in respect of one or more losses under contracts that meet the classification requirements for insurance contracts. Contracts that do not meet these classification requirements are classified as financial assets (or financial liabilities).

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets are classified reinsurance recoveries and comprise:

a) recoveries due from reinsurers in respect of claims paid, and
b) the reinsured portion of the reserves for outstanding claims allocated in accordance with the treaty arrangements for the class of business in question.

Amounts paid to the reinsurers relating to the unexpired portion of reinsured contracts are classified as prepaid reinsurance premiums.

Reinsurance liabilities are classified as due to reinsurers and are primarily premiums payable under treaty reinsurance contracts after deduction of reinsurance recoveries on proportional contracts. Premiums to be ceded are recognized as an expense from the date the gross premiums are written and over the term of the reinsurance contract in the statement of comprehensive income.

Amounts shown as reinsurance recoveries, prepaid reinsurance premiums or due to reinsurers are measured consistently with the amounts associated with reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Company assesses its reinsurance assets for any indication of impairment on an ongoing basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the statement of comprehensive income. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 3 (g).

(iv) Portfolio transfer

At the anniversary date of the reinsurance agreements and at the Company's option, proportional reinsurers agree to assume the unexpired liability of all risks in force at such anniversary date. The unexpired liability is computed in accordance with the method outlined in the reinsurance agreement and accounted for when determined in the statement of comprehensive income.

(v) Receivables and payables related to insurance contracts

Receivables and payables are recognized when the contractual right to receive payment and contractual obligation to make payment arise, respectively. These include amounts due to and from agent and reinsurers and are assessed for impairment and doubtful accounts. As at December 31, 2011 and 2010, no provision was made for impairment or doubtful accounts.

(b) Revenue and expense recognition

Premiums are recognized as revenue over the periods covered by the related policies after allowing for premiums ceded.

Commission expense is incurred on gross written premiums and commission income is received on premiums ceded, and these are recognized over the periods covered by the related policies.

Other revenues and expenses of the Company are recognized on an accrual basis, except for:

i. Dividend income – recognized when the Company's right to receive payment has been established;

ii. Loyalty commission income and profit commission expense – recognized when the Company's right to receive, or obligation to make payment has been established.

iii. Treaty profit commission income – recognized in the year in which it is paid by reinsurers.

iv. Fronting fees – recognized when premiums are billed to customers as the Company has no further service obligations associated with these fees.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate prevailing at that date. Transactions in foreign currencies are translated to the functional currency at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and liabilities at year-end exchange rates are recognized in net income or loss in the statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences, if any, relating to investments at fair value through profit or loss are included in net realized gain/loss or change in net unrealized gain/loss on investments in securities in the statement of comprehensive income. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents, are recognisedin net income or loss in the statement of comprehensive income.

(d) Investment property

The Company classifies property held for capital appreciation as investment property. Investment property, which comprises land and building, is carried at cost using the cost model andmeasured in accordance with IAS16 - *Property, Plant and Equipment*. The building is depreciated over a period of 18.75 years (2010 - 22 years), being the remaining estimated useful life. No depreciation is taken on land. The carrying value of the land and building is also assessed annually for any impairment losses.

The fair value of investment property is determined by independent professional appraisals, which are performed every three years. In the intervening years, the Directors determine the fair value of the investment property. The fair value of the investment property is based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. If the investment property is increased as a result of a revaluation, the increase is recognized in other comprehensive income in revaluation surplus. Where the increase reverses a revaluation decrease peviously recognized in income or loss and in other comprehensive income, then it is reversed from income or loss only to the extent of the decrease previously recognized. A decrease in the revaluation of the investment property is recognized in income or loss and in other comprehensive income only to the extent of any credit balance existing in the revaluation surplus relating to that property.

(e) Property, plant and equipment

Property, plant and equipment, except for land, are stated at historical cost less accumulated depreciation and impairment losses. Land is stated at cost and not subjected to depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipments have different useful lives, they are accounted for as separate items (major components) of property, plant and equipments. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income or loss in the statement of comprehensive income as incurred.

Depreciation is recognized in net income or loss in the statement of comprehensive income on a straight line basis over the estimated useful lives of the items of the assets, since this most closely relfects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and corresponding period are as follows:

Buildings	2%
Office Furniture and equipment	15%
Computer equipment	20%
Motor vehicles	25%

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Gains and losses on disposals are detemined by comparing proceeds with carrying amounts and are included in other income on the statement of comprehensive income. Repairs and maintenance are charged to net income or loss in the statement of comprehensive income when the expenditure is incurred.

(f) Financial instruments

Financial instruments comprise investments in equity and debt securities, term deposits, loans and receivables, cash and cash equivalents and accounts payable and accruals.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, that is, the date the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash and deposits held with financial institutions with original maturities of less than three months. Bank overdraft and margin loan, if any, that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(i) Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is acquired for the purposes of selling in the near term, and which may be disposed of in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices or is designated as such upon initial recognition.

Financial assets classified as held at fair value through profit or loss include investments in equity securities.

Upon initial recognition, attributable transaction costs are recognised in income or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in net income or loss in the statement of comprehensive income. The determination of fair values is based on quoted market prices or dealer price quotations for financial instruments traded in active markets.

(ii) Investments held-to-maturity

Financial assets and liabilities with fixed dates of maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity. Financial assets classified as held-to-maturity include Government debt instruments and corporate bonds. Investments held-to-maturity are measured at amortized cost using the effective interest method, less impairment losses.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

(iii) Available for sale investments

Available for sale investments are financial assets and liabilities that are either designated in this category or are not classified as loans and receivables, held-to-maturity investments, or investments at fair value through profit or loss. Financial assets classified as available for sale investments include preferred shares and mutual funds and are measured at fair value less any impairment losses. The determination of fair values is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For any equity securities that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses, if any. If a reliable measure of fair value becomes available subsequently, the instrument is measured at fair value.

Changes in fair value, other than impairment losses, are recognized in other comprehensive income in the statement of comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss previously recognised in other comprehensive income is transferred to net income or loss in the statement of comprehensive icome.

(iv) *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Receivables arising from insurance contracts, other receivables and cash and cash equivalents are classified in this category.

(v) *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(vi) *Fair value measurement principles*

The basis for detemination of the fair value for investments classified as at fair value through profit or loss available for sale are stated abovein 3(f) *(i)* and *(iii)*, respectively.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

• Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

• Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted market prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

• Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Investments in securities classified at fair value through profit or loss are listed on the Bahamas International Securities Exchange are based on quoted market prices and categorized as level 1. Investments in available for sale securities are valued using valuation techniques based on observable inputs and are categorised as level 2.

(i) *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy. Individually significant financial assets are tested for impairment on an individual basis.

The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in net income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income or loss in the statement of comprehensive income.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to income or loss. The cumulative loss that is removed from other comprehensive income and recognised in income or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in net income or loss. Changes in impairment provisions attributable to time value are effective as a component of interest income.

If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in income or loss, then the impairment loss is reversed, with the amount of the reversal recognised in income or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in income or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(h) Premium tax

Premium tax is incurred at a rate of 3% of gross premiums written in The Commonwealth of The Bahamas and is recognized when the Company's obligation to make payment has been established.

(i) Employee benefits

The Company has a defined contribution pension plan for eligible employees whereby the Company pays contributions to a privately administered pension plan. The Company has no further payment obligations once the contributions have been paid. The plan requires participants to contribute 5% of their eligible earnings and such amounts are matched by the Company.

The Company's contributions to the defined contribution pension plan are charged to income or loss in the year to which they relate.

(j) Related parties

Related parties are classified as related companies, shareholders, directors and key management personnel who have the authority and responsibility for planning, directing and controlling the activities of the Company.

(k) Dividends

Dividends proposed or declared after the reporting date are not recognised at the reporting date.

(l) New standards and interpretations not yet adopted

Up to the date of issue of these financial statements, the International Accounting Standards Board has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2011 and which have not been adopted in these financial statements.

The Company has considered these new standards, interpretations and amendments to published standards that are not yet effective and concluded that they are either not relevant to the Company or that they would not have a significant impact on the Company's financial statements, except for IFRS 9, *Financial Instruments*, which becomes mandatory for the Company's 2015 financial statements and could change the classification and measurement of financial assets. IFRS 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilites. The Company does not plan to adopt this standard early and the extent of the impact has not been determined

4. Underwriting policies and reinsurance agreements

The Company follows the policy of underwriting and reinsuring all contracts of insurance, which limit the retained liability of the Company. The reinsurance of contracts does not, however, relieve the Company of its primary obligation to the policyholders. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, the Company would also be liable for the reinsured amount. The Company's credit risk management procedures are detailed in note 17.

Aon Limited, whose registered office is in London, England, a related party of J. S. Johnson & Company Limited (J .S. Johnson), the latter being the Company's primary shareholder, is the Company's reinsurance broker and acts as the intermediary between the Company and the reinsurers. Reinsurance contracts between the Company and its reinsurers are renewable annually in accordance with the terms of the individual contracts.

Reinsurance recoveries consist of:

		2011	2010
Recoveries under excess of loss reinsurance for claims paid and outstanding	$	898,000	694,197
Recoveries under proportional contracts for outstanding claims (note 12)		14,395,640	10,572,601
	$	15,293,640	11,266,798

Amounts due to reinsurers of $3,221,643 (2010 – $3,736,059) represent premiums to be ceded to the reinsurers as at December 31, 2011 less reinsurance recoveries on proportional contracts.

5. Cash and bank balances

The Company earned interest at varying rates up to 2.5% (2010 – varying rates up to 2.5%) per annum on accounts denominated in Bahamian dollars. Interest earned on demand deposits amounted to $1,938 (2010 – $5,882).

6. Term deposits

Term deposits with banks include accrued interest totalling $291,210 (2010 – $318,470). The term deposits are held more than three months from the date of acquisition and have the following maturities and interest rates:

	Interest rates - 2011	2011	Interest rates - 2010	2010
Three months – one year	0.18% - 6%	$ 5,163,992	0.1% - 7.50%	$ 5,735,282
One – five years	6.0% - 7.0%	$ 2,698,787	6.0% - 7.0%	$ 2,604,149
		$ 7,862,779		$ 8,339,431

The Company has placed a $1,000,000 term deposit with maturity date of December 21, 2012, with a recognized financial institution to meet the requirements of the Insurance Act 2005, as outlined in note 19 under capital management.

7. Related parties balances and transactions

J. S. Johnson, the Company's primary shareholder which owns 40% of the Company's issued shares, serves as its sole agent (referred to as agent) in accordance with the Agency Agreement entered into on January 1, 2000. The remaining shareholders of the Company represent shareholders and key management personnel of J.S. Johnson. The Company and J.S. Johnson also have certain directors in common.

Amounts due from agent are interest free and are settled over a 65-day period. Included in this balance is $500,000 held for the purpose of settling claims.

The financial statements include the following balances and transactions with related parties:

	2011	2010
Balances		
Due from agent	$ 5,219,698	5,492,967
Deferred commission reserve	4,793,948	4,611,246
Investments in securities – fair value through profit or loss (note 8)	294,600	294,600
Accounts payable and accruals	(4,100)	(4,100)
Directors fees payable	(13,125)	(13,125)
Transactions		
Gross premiums written	42,713,517	41,909,947
Commission expense (note 11)	(9,520,757)	(9,774,136)
Net profit and loyalty commission - agent commission expense (note 11)	(1,723,502)	(1,531,194)
Dividend income	19,200	19,200
Rent income	27,720	26,720
Personnel expenses including directors fees	(342,490)	(333,848)
General and administrative expenses – management fees	(20,000)	(20,000)
General and administrative expenses – tenant expenses recovery	(6,590)	(6,937)
Dividend paid	472,496	200,000
Advertisement expenses	10,000	10,000

8. Investments in securities

(i) *Securities at fair value through profit or loss*

Securities at fair value through profit or loss principally comprise marketable equity securities, which are listed on The Bahamas International Securities Exchange, and are stated at fair value using quoted bid prices. Movements during the year were as follows:

	2011	2010
As of beginning of year	$ 2,756,717	2,894,102
Additions	249,900	–
Change in net unrealized losses during the year	(106,480)	(137,385)
As of end of year	$ 2,900,137	2,756,717

As of December 31, 2011, the cost of securities fair valued through profit or loss was $2,170,974 (2010 – $1,921,074).

The Company holds 30,000 (2010 – 30,000) shares of J. S. Johnson valued at $294,600 (2010 – $294,600) at a cost of $211,500 (2010 – $211,500).

(ii) Held-to-maturity securities

Held to maturity securities consist of the following:

	Interest Rates	Maturity	Holdings	2011
The Bridge Authority Bond	Prime + 1.5%	2024	128,100	$ 130,250
Bahamas Government Registered Stocks	Prime +0.140625% to 0.625%	2015 - 2037	5,842,000	5,937,057
Clifton Heritage Authority	Prime + 0.75%	2035	281,400	283,139
Consolidated Water (BAH) Ltd.	7.5%	2015	595,000	603,414
Bank of The Bahamas	Prime + 1.75%	2025	750,000	750,000
Bahamas Electricity Corporation	Prime + 0.906%	2021	501,253	500,792
Fidelity Bank (Bahamas) Ltd.	7%	2017	500,000	507,000
Nassau Airport Development Company – Senior Secured Note	8.5%	2031	500,000	500,000
College of The Bahamas	7%	2026	500,000	500,000
				$ 9,711,652

	Interest Rates	Maturity	Holdings	2011
The Bridge Authority Bond	Prime + 1.5%	2024	128,100	$ 130,508
Bahamas Government Registered Stocks	Prime + 0.140625% to 0.625%	2015 to 2037	5,842,000	5,951,109
Clifton Heritage Authori	Prime + 0.75%	2035	281,400	283,376
Consolidated Water (BAH) Ltd.	7.5%	2015	595,000	603,414
Bank of The Bahamas	Prime + 1.75%	2025	750,000	750,000
Bahamas Electricity Corporation	Prime + 0.906%	2021	501,253	500,792
Fidelity Bank (Bahamas) Ltd.	7%	2017	500,000	507,000
Nassau Airport Development Company – Senior Secure Note	8.5%	2031	500,000	510,712
				$ 9,236,911

Included in amortized costs for held-to-maturity investments is accrued interest totalling $106,738 (2010 – $131,997).

(iii) *Available for sale securities*

Available for sale securities consist of the following:

	Holdings	2011	Holdings	2010
Caribbean Crossings Ltd. 7% (2016)	$ –	–	5,000	50,000
Commonwealth Bank Ltd. 7% (perpetuity)	10,000	1,000,000	10,000	1,000,000
Bank of The Bahamas Ltd. Prime + 2% (perpetuity)	50,000	500,000	500	500,000
Cable Bahamas Ltd. Series Four 8% (2019)	500,000	500,000	50,000	500,000
TIGRS Series 1 Mutual Fund (2011)	–	–	25,000	262,500
	$	2,000,000		2,312,500

Included in prepayments and other receivables is $23,699 (2010 – $25,589) relating to dividends receivable at December 31, 2011.

(iv) *Fair value hierarchy*

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy in which the fair value measurement is categorised:

December 31, 2011

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Equity securities	$ 2,900,137	–	–	2,900,137
Available for sale securities				
Preference shares	–	2,000,000	–	2,000,000
	$ 2,900.137	2,000,000	–	4,900,137

December 31, 2010

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Equity securities	$ 2,756,717	–	–	2,756,717
Available for sale securities				
Preference shares	–	2,312,500	–	2,312,500
	$ 2,756,717	2,312,500	–	5,069,217

There has been no transfer of financial instruments between level 1 and level 2 during the year ended December 31, 2011 and 2010.

9. Investment properties

	Land	Building	Total
Fair value:			
Balance at January 1, 2011	$ 1,252,046	266,540	1,518,586
Revaluation:			
Decrease in value	322,046	106,540	428,586
Fair value at December 21, 2011	$ 930,000	160,000	1,090,000
Accumulated depreciation:			
Balance at January 1, 2011	$ –	28,269	28,269
Charge for the year	–	12,116	12,116
Balance as at December 31, 2011	$ –	40,385	40,385
Book value December 31, 2011	$ 930,000	119,615	1,049,615
Book value December 31, 2010	$ 1,252,046	238,271	1,490,317

An independent appraisal of the land and buildings with a carrying value of $1,068,586 was performed on December 2, 2011 by a qualified appraiser and revised to $640,000. The land was appraised using the comparable sales approach for similar properties within the vicinity that have been sold within the last year and is valued at $480,000. The building was appraised using the cost or summation approach taking into consideration the age of the building and the conditions and other factors that may reduce market appeal and is at $160,000. Included in the statement of comprehensive income is the decrease in the carrying value of the land and buildings of $428,586.

Also included in the carrying value of land is another property valued at $450,000 (2010 - $450,000) which is based on the Directors valuation, and which the Directors resolved that there has been no change in the carrying vlaue since the last independent appraisal performed on November 11, 2009, determined using the sales comparison approach.

Included in depreciation in the statement of comprehensive income in the depreciation charge on the building of $12,116 (2010 - $12,115).

10. Property, plant and equipment

	Land	Building	Furniture and Equipment	Computer Equipment	Motor Vehicles	Total
Cost:						
Balance as of January 1, 2011	$ 467,704	752,300	177,291	122,469	37,400	1,557,164
Additions	–	–	3,678	5,235	–	8,913
Balance as of December 31, 2011	$ 467,704	752,300	180,969	127,704	37,400	1,566,077
Accumulated depreciation:						
Balance as of January 1, 2011	$ –	73,506	125,821	105,453	14,025	318,805
Charge for the year	–	15,046	23,412	7,266	9,350	55,034
Balance as of December 31, 2011	$ –	88,552	149,233	112,679	23,375	373,839
Net book value:						
December 31, 2011	$ 467,704	663,748	31,736	15,025	14,025	1,192,238
December 31, 2010	$ 467,704	678,794	51,470	17,016	23,375	1,238,359

11. Net commissions incurred

		2011	2010
Commission earned from reinsurers	$	(11,786,676)	(11,574,977)
Commission expenses allocated to J.S. Johnson		11,244,259	11,305,330
	$	(542,417)	(269,647)

12. Outstanding claims and net claims incurred

As at December 31, 2011 outstanding claims of $17,746,362 (2010 - $13,172,341) are shown gross of reinsurance recoveries of $14,395,640 (2010 - $10,572,601) as disclosed in note 4.

Included in gross outstanding claims is a provision of $850,000 (2010 - $850,000) for gross claims incurred but not reported as of the year end.

		2011	2010
Net claims incurred:			
Claims incurred	$	15,644,494	9,387,070
Less: recoverable from reinsurers		(12,120,506)	(7,717,748)
	$	3,523,988	1,669,322

Assumptions, change in assumptions and sensitivity

(i) Process used to decide on assumptions

The reserving process commences at the moment an insured reports a claim and there is prima facie evidence that the Company is liable under the policy. An initial reserve is established at that point based on the best information available. Assuming liability is subsequently confirmed, the reserve is revised whenever more detailed information becomes available concerning the nature of the injury or physical damage involved. The setting of reserves is the responsibility of the agency's claims manager who will use external legal or other expert advice where appropriate. Where the initial reserve exceeds the agency's claims settling threshold, the adequacy of the reserve will also be discussed with the Company. An established reserve is expected to be sufficient to meet the final cost of a claim whenever it is finally determined.

A provision for incurred but not reported (IBNR) claims has been established for each class of business and is monitored for accuracy at each year end. In determining the accuracy of the provision, management reviews the historical cost of IBNR claims and amends the provision, where necessary, taking into account statistical trends and changes in the shape and size of the portfolio.

All claims reserves are established on a gross basis and the Company accounts to proportional reinsurers for their share through quarterly returns. Claims recoveries against Excess of Loss reinsurers are made on a case by case basis on proof of payment being established.

(ii) Sensitivity analysis – claims development

The development of long tail insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. Accurate claims reserving is crucial to the long term health of the Company as it allows for more accurate pricing of products and also generates the necessary level of confidence on the part of both reinsurers and shareholders. Management uses a variety of statistical tools, including "Loss Triangulations" developed annually on an accident year basis to monitor the development of the Company's long tail liabilities.

The following table shows the development of the Company's claims costs by Accident year over the period of 2006 to 2011:

Insurance claims other than catastrophe – gross:

Accident Year	2006	2007	2008	2009	2010	2011	Total
	$	$	$	$	$	$	$
Original estimate of ultimate claims cost at end of accident year	10,368,516	12,528,664	12,007,574	10,638,063	12,492,855	25,592,731	83,628,403
Current estimate of cumulative claims	9,632,003	10,316,080	11,162,239	9,658,698	11,882,164	25,592,731	78,243,915
Cumulative payments to date	(9,077,191)	(9,999,536)	(10,389,514)	(8,591,574)	(10,520,917)	(15,996,279)	(64,575,011)
Liability recognized in statement of financial position	554,812	316,544	772,725	1,067,124	1,361,247	9,596,452	13,668,904
Liability in respect of years prior to 2006							4,077,458
Gross claims outstanding included in statement of financial position							17,746,362

Insurance claims other than catastrophe – net retention:

Accident Year	2006	2007	2008	2009	2010	2011	Total
	$	$	$	$	$	$	$
Original estimate of ultimate claims cost at end of accident year	2,458,083	2,418,235	2,371,902	2,123,113	2,884,139	3,659,091	15,914,563
Current estimate cumulative claims	2,190,044	2,045,216	2,232,448	1,869,344	2,273,448	3,656,091	14,269,591
Cumulative payments to date	(2,079,082)	(1,981,907)	(2,077,903)	(1,656,566)	(2,008,849)	(2,308,827)	(12,113,134)
Liability recognized in statement of financial position	110,962	63,309	154,545	212,778	264,599	1,350,264	2,156,457
Liability in respect of years prior to 2006							296,265
Net claims outstanding included in statement of financial position							2,452,722

(iii) Movements in outstanding claims

Year ended December 31	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	$ 12,322,341	(9,889,601)	2,432,740	14,341,397	(11,277,845)	3,063,552
Incurred but not reported	850,000	(683,000)	167,000	1,000,000	(804,500)	195,500
Total claims outstanding at beginning of the year	13,172,341	(10,572,601)	2,599,740	15,341,397	(12,082,345)	3,259,052
Cash paid for claims settled in the year	(20,219,715)	17,446,708	(2,773,007)	(11,556,126)	9,227,491	(2,328,635)
Increase in liabilities						
- arising in current year claims	25,641,596	(21,782,847)	3,858,749	11,537,277	(9,278,602)	2,258,675
- arising from prior years claim	(847,860)	513,100	(334,760)	(2,000,207)	1439,355	(560,852)
- movement in incurred but not reported	–	–	–	(150,000)	121,500	(28,500)
	4,574,021	(3,823,039)	750,982	(2,169,056)	1,509,744	(659,312)
Total claims outstanding at end of the year	$ 17,746,362	(14,395,640)	3,350,722	13,172,341	(10,572,601)	2,599,740
Outstanding claims at December 31 consist of:						
Notified claims	$ 16,896,362	(13,712,640)	3,183,722	12,322,341	(9,889,601)	2,432,740
Incurred but not reported	850,000	(683,000)	167,000	850,000	(683,000)	167,000
Total claims outstanding at the end of the year	$ 17,746,362	(14,395,640)	3,350,722	13,172,341	(10,572,601)	2,599,740

(iv) Unearned premium reserve

Year ended December 31	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At beginning of the year	$ 20,283,926	(16,780,244)	3,503,682	22,621,982	(18,366,803)	4,255,179
(Decrease)/Increase in the year	321,879	(276,350)	45,529	(2,338,056)	1,586,559	(751,497)
Total at end of the year	$ 20,605,805	(17,056,594)	3,549,211	20,283,926	(16,780,244)	3,503,682

Included in the statement of comprehensive income is the net increase in unearned premium reserve of $45,529 (2010 – net decrease of $751,497).

These provisions represent the liability for short-term insurance contracts for which the Company's obligations are not expired at year-end.

13. General reserve

The Company has made an appropriation to a general reserve for unforeseeable risks and future losses. The general reserve can only be distributed following approval by the Board of Directors.

14. Contingencies

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

15. Pension plan

The Company's employees are members of J. S. Johnson Pension Plan, a defined contribution plan covering all eligible employees. This plan provides for benefits to be paid upon retirement. Employees are required to contribute an amount equal to 5% of their eligible earnings, which is matched by the Company. The amount charged to income or loss in the statement of comprehensive income during the year for pension costs was $18,666 (2010 - $18,242).

16. Dividends

During 2011 the Board of Directors declared dividends in the amount of $1,181,240 (2010 – $500,000). These dividends were paid during the year in which they were declared.

17. Risk management

The Company is exposed to insurance risk and financial risk through its insurance assets and insurance liabilities, financial assets and financial liabilities. The insurance risk covers such things as the vagaries of the weather, the unpredictability of serious injury losses and fortuitous events such as outbreaks of fire. The main components of the financial risk are credit risk, liquidity risk and interest-rate risk. The Company's financial performance is affected by its capacity to understand and effectively manage these risks. The Company's challenge is not only to measure and monitor these risks but also to manage them as profit opportunities. A critical goal of the Company is to ensure that its financial assets are always more than sufficient to fund the obligations arising from its insurance contracts. The following notes expand on the nature of the aforementioned risks and the manner in which the Company manages them.

(a) Insurance risk

Insurance risk is the risk that an insured event might occur. At individual policy level and also at portfolio level, there is uncertainty in terms of both frequency of occurrence and severity of loss. For any given portfolio of insurance contracts, where the theory of probability is applied to pricing and loss reserving, the principal risk that the Company faces is that claims and other costs might exceed premiums earned. This could occur because the frequency or severity of claims is greater than estimated or that estimated original policy rates prove not to be sustainable or a combination of both.

Experience shows that the greater the commonality of risk within a class of business, the smaller will be the relative variability in the expected outcome.

In addition, a more diversified portfolio is less vulnerable to a deterioration in the loss experience in any particular class of business. The Company has developed its underwriting strategy to produce a diversified portfolio of insurance risks. Within each of the individual classes of business it has sought to achieve, wherever possible, a sufficiently large population of risks to reduce the variability of the expected outcome.

At the macro level, the Company suffers from a lack of diversification in the sense that it only insures the non-life risks of individuals located in The Bahamas and Turks and Caicos; therefore, there is a concentration of insurance risk within the industry sector and territory in which the Company operates.

Casualty insurance risks

(i) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. Claims frequency can be influenced by changes in the size, composition and quality of a portfolio. Changes in social/economic conditions can also severely impact claims frequency. Claim severity is impacted by such things as general inflation. In the case of Liability claims, the most significant factor is the increasing level of awards for personal injury. Claims involving serious long term injury can take five years or more to settle.

The Company manages these risks by means of its well developed underwriting and reinsurance strategies and also by adopting a proactive approach to claims handling. The underwriting strategy attempts to ensure that the portfolio remains biased towards high quality risks. Underwriting guidelines are in place to enforce appropriate risk selection criteria. The reinsurance arrangements include both proportional and catastrophe excess of loss coverage. The effect of such reinsurance arrangements is to limit the total net insurance loss that the Company can suffer in any one year.

(ii) Sources of uncertainty in the estimation of future claim payments

Claims on casualty contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occur during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and an element of the claims provision relates to incurred but not reported claims (IBNR) and unexpired risks. Given the uncertainty in establishing claims provisions, it is likely in many cases that the final cost of a claim will vary significantly from the initial reserve. In calculating the estimated cost of outstanding claims (both reported or not), the Company uses various industry standard loss estimation techniques and the experience of its agents in settling claims of similar type.

Property insurance contracts

(i) Frequency and severity of claims

For property insurance contracts, climatic changes are giving rise to more frequent severe extreme weather events (eg. hurricanes, flooding, etc.) and their consequences. The Company has the right to re-price each individual risk on renewal. It also has the ability to impose or increase deductibles. Contracts are priced on the basis of the commercial replacement value of the properties and contents insured. The sum insured represents the maximum amount payable under a policy. The cost of repairing or rebuilding properties, the cost of providing indemnity for damaged or stolen contents and the time taken to restart business operations (business interruption insurances) are the key factors that influence the value of claims under these policies. The most likely cause of major loss under the property portfolio arises from a hurricane or other serious weather related event. The Company has reinsurance coverage in place to limit the impact of such losses in any one year.

The Company underwrites property insurance in The Bahamas and Turks and Caicos.

(ii) Sources of uncertainty in the estimation of future claim payments

The development of large losses/catastrophe is analysed separately. Property claims can be estimated with greater reliability due to the shorter settlement period for these claims and relatively little IBNR is held at year-end.

(b) Credit risk

Credit risk arises from the failure of a counterparty to perform according to the terms of the contract. In the normal course of business, the Company seeks to limit its exposure to losses that may arise from any single occurrence. Reinsurance is primarily placed using a combination of proportional and excess of loss treaties. Obtaining reinsurance does not, however, relieve the Company of its primary obligations to the policyholders, therefore the Company is exposed to the risk that the reinsurers may be unable to fulfil their obligations under the contracts. The Company seeks to mitigate this risk by placing its reinsurance coverage with large multi-national companies and syndicates. The Company, with the assistance of its reinsurance broker, also evaluates the financial condition of its reinsurers and monitors the credit risk of the reinsurers on an ongoing basis to minimize its exposure to significant losses from insurer insolvency. The Company’s placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The Company's main exposure to credit risk emanates from reinsurers in the form of prepaid premiums held or claims recoveries still to be made/paid under the various proportional and excess of loss treaties and is disclosed in total on the statement of financial position. It is the Company's policy that no single counterparty exposure should exceed 25% of the total reinsurance assets at any given time. In addition, the Company's proportional treaties contain a "Reinsurer Participation Review Clause", which provides the Company with the option of cancelling any individual reinsurer's participation whose financial strength rating (as determined by Standard & Poors and / or A.M. Best) falls below A- or equivalent and to call for the return of prepaid premiums and loss reserves. The Company is required to serve notice of its intention within thirty days of the date of downgrade.

On its other financial assets the Company mitigates this risk as follows:

- places cash with credit-worthy banks;
- invests in debt securities of The Bahamas Government, Government-backed companies and financially sound companies.

(c) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Company's financial commitments including claims. The Company maintains a level of liquid assets, which mature or could be sold immediately to meet cash requirements for normal operating purposes.

The tables included in note 6 for term deposits and note 8 for investments in securities shows the expected recovery or settlement of financial instruments held from the dates of acquisition. Cash and bank balances as disclosed in note 5 have original maturities of less than three months. The following summarises the expected recovery or settlement of financial assets held (within 12 months from the reporting date) and the maturity profile of the Company's liabilities relating to financial instruments and insurance contracts:

Year ended December 31		2011			2010	
	Current	Non-current	Total	Current	Non-current	Total
Cash and bank balances	$ 1,023,643	–	1,023,643	144,336	–	144,336
Term deposits	5,163,992	2698,787	7,862,779	5,735,282	2,604,149	8,339,431
Reinsurance recoveries	–	15,293,640	15,293,640	–	11,266,798	11,266,798
Due from agent	5,219,698	–	5,219,698	5,492,967	–	5,492,967
Deferred commission reserve	4,793,948	–	4,793,948	4,611,246	–	4,611,246
Prepaid reinsurance premiums	17,056,594	–	17,056,594	16,780,244	–	16,780,244
Prepayments and other receivables	43,980	–	43,980	33,736	–	33,736
Investments in securities						
- fair value through profit or loss	2,900,137	–	2,900,137	2,756,717	–	2,756,717
- held-to-maturity	–	9,711,652	9,711,652	–	9,236,911	9,236,911
- available for sale	–	2,000,000	2,000,000	262,500	2,050,000	2,312,500
Total	$ 36,201,992	29,704,079	65,906,071	35,817,028	25,157,858	60,974,886
Financial Liabilities						
Unearned premium reserve	$ 20,605,805	–	20,605,805	20,283,926	–	20,283,926
Outstanding claims	–	17,746,362	17,746,362	–	13,172,341	13,172,341
Unearned commission reserve	4,379,196	–	4,379,196	4,284,724	–	4,284,724
Due to reinsurers	3,221,643	–	3,221,643	3,736,059	–	3,736,059
Accounts payable and accruals	305,096	43,821	348,917	327,977	31,468	359,445
Total	$ 28,511,740	17,790,183	46,301,923	28,632,686	13,203,809	41,836,495
Liquidity Gap	$ 7,690,252	11,913,896	19,604,148	7,184,342	11,954,049	19,138,391

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

Interest-rate risk

Interest-rate risk for the Company is comprised of the risk that the value of financial assets may fluctuate significantly as a result of changes in market interest rates. The Company mitigates this risk by investing in interest-bearing assets with floating interest rates, or investing for short time periods. The rates of interest on financial instruments are disclosed in notes 5, 6 and 8 in the financial statements.

The table below summarizes the Company's exposure to interest rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

		Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
At December 31, 2011							
Assets							
Cash & bank balances	$	342,943	–	–	–	680,700	1,023,643
Term deposits		–	5,163,992	2,698,878	–	–	7,862,779
Reinsurance recoveries		–	–	–	–	15,293,640	15,293,640
Due from agent		–	–	–	–	5,219,698	5,219,698
Deferred commission reserve		–	–	–	–	4,793,948	4,793,948
Prepaid reinsurance premium		–	–	–	–	17,056,594	17,056,594
Prepayments and other							
receivables		–	–	–	–	43,980	43,980
Investments in securities							
- Fair value		–	–	–	–	2,900,137	2,900,137
- Held to maturity		–	–	603,414	9,108,238	–	9,711,652
- Available-for-sale		–	–	–	2,000,000	–	2,000,000
	$	342,943	5,163,992	3,302,201	11,108,238	45,988,687	65,906,071
Liabilities							
Unearned premium reserve	$	–	–	–	–	20,605,805	20,605,805
Outstanding claims		–	–	–	–	17,746,362	17,746,362
Unearned commission reserve		–	–	–	–	4,379,196	4,379,196
Due to reinsurers		–	–	–	–	3,221,643	3,221,643
Accounts payable and accruals'		–	–	–	–	348,917	348,917
	$	–	–	–	–	46,301,923	46,301,923
Total interest sensitivity gap	$	342,943	5,163,992	3,302,201	11,108,238	(313,226)	19,604,148

		Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
At December 31, 2010							
Assets							
Cash & bank balances	$	84,009	–	–	–	60,327	144,336
Term deposits		–	5,735,282	2,604,149	–	–	8,3339,431
Reinsurance recoveries		–	–	–	–	11,266,789	11,266,789
Due from agent		–	–	–	–	5,492,967	5,492,967
Deferred commission reserve		–	–	–	–	4,611,246	4,611,246
Prepaid reinsurance premium		–	–	–	–	16,780,244	16,780,244
Prepayments and other receivables		–	–	–	–	33,736	33,736
Investments in securities							
- Fair value		–	–	–	–	2,756,717	2,756,717
- Held to maturity		–	–	708,415	8,528,496	–	9,236,911
- Available-for-sale		–	–	–	2,050,000	262,500	2,312,500
	$	84,009	5,735,282	3,312,564	10,578,496	41,264,535	60,974,886
Liabilities							
Unearned premium reserve	$	–	–	–	–	20,283,926	20,283,926
Outstanding claims		–	–	–	–	13,172,341	13,172,341
Unearned commission reserve		–	–	–	–	4,284,724	4,284,724
Due to reinsurers		–	–	–	–	4,736059	4,736059
Accounts payable and accruals'		–	–	–	–	359,445	359,445
	$	–	–	–	–	47,154,265	47,154,265
Total interest sensitivity gap	$	84,009	5,735,282	3,312,564	10,578,496	(571,960)	19,138,391

At December 31, 2011, an increase of 25 basis points in interest rates with all other variables remaining constant, would have increased the net income of the Company by approximately $49,793 (2010 - $49,276). A decrease of 25 basis points would have an opposite effect with all other variables remaining constant.

Price risk

Price risk is the risk that the value of the financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all financial instruments traded in the market.

As the Company's investments in securities at fair value through profit or loss are carried at fair value with fair value changes recognized in income or loss in the statement of comprehensive income, all changes in market conditions will directly affect operating income.

The Company is exposed to price risks arising from equity investments. Price risk is mitigated by the Company by investing in a diversified portfolio of instruments. Equity investments are held for strategic rather than trading purposes and the Company does not actively trade these investments.

18. Fair value of financial instruments

Most of the Company's financial instruments are either measured at fair value as of the reporting date or are carried at values which approximate fair value, except for balances due from agent. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision.

The Company measures fair values of financial assets using the fair value hierarchy as disclosed in note 8.

Except as stated elsewhere in the notes, the carrying amounts of the Company's financial assets and liabilities approximate their fair values due to one or all of the following reasons:

(a) immediate or short-term maturity;

(b) carrying amount approximates or equals market value.

Because of the interest-free nature and uncertainty surrounding the timing of the settlement of balances due from agent and outstanding claims, management is unable to estimate the fair value of these financial instruments.

19. Capital management

Externally imposed capital requirements are set by The Insurance Commission of the Bahamas ("the Commission") and by the Financial Services Commission in Turks and Caicos Islands. These requirements are put in place to ensure sufficient solvency margins.

During the year, the Company completed its re-registration under the Insurance Act 2005 ("the Act") as required by the Insurance Act 2005 and has the required minimum paid up and unencumbered capital of $2,000,000. The Company is also required to establish and maintain a statutory deposit in respect of its insurance business in The Bahamas, such deposit to be held in trust pursuant to Section 43(2) of the Act and regulation 62 of the Insurance (General) Regulations, 2010 ("the Regulations"). Therefore, as of December 31, 2011, the Company established a Statutory Deposit Trust ("the Trust") in the sum of $1,000,000 with a recognized financial institution appointed as trustees of the Trust and the Insurance Commission of the Bahamas ("the Commission") as the protectors of the Trust.

Solvency ratios are established on the basis of risk assessment for each particular entity. The Company is required to meet a minimum margin of solvency. The Act defines insolvency as the inability of the Company to pay its debts if, at any time, the value of its admissible assets does not exceed its liabilities by such amounts as the Commission may prescribe. Of the value of admissible assets, at least 75% must be in the form of qualifying assets, as defined in Section 70 of the Regulations. As at December 31, 2011 the Company exceeded the minimum margin of solvency required under the Act.

The Insurance Ordinance 1989 in Turks and Caicos requires that the Company maintains a minimum solvency margin relating to an excess of permitted assets over its liabilities.

There has been no change in the Company's management of capital during the year. The Company has complied with the regulatory imposed capital requirements throughout the year.

A selection of photographs taken by Roland Rose in the early 1950s at the lively Woodes Rogers Walk - from the extensive D'Aguilar Collection and now gracing the walls of ICB's Board Room.

"Onlooker"

"Thirteen and a Baby".

"Sugarcane"

"Whymms for Hire"

Roland Rose *Sixty years of photographing The Bahamas*

Roland Rose came to the Bahamas in 1946, and took up photography as a hobby at the age of thirteen when he traded his harmonica for a camera owned by a student at Queen's College . In 1952 he joined The Bahamas Development Board, later to become The Bahamas Ministry of Tourism, as a professional photographer.

He has spent the past half a century promoting The Bahamas in the best possible photographic sense. We can never know the millions of visitors that this artist, through his skills, has brought to these 700 hundred islands in the sun. Such a contribution culminated in Rose receiving the prestigious Cacique Award in 1996.

His photographic exhibitions, which started in 1996 at the Marlborough Gallery in Nassau, gave the public a chance to view his unique collection of black and white photographs, along with colourful images of flora and fauna.

In recent years he has moved into the digital world and expanded his horizons, commenting that it is the best thing that has ever happened to photography.

The Reception Area of ICB's offices is graced by a 47″x76″ acrylic on canvas from the D'Aguilar collection entitled "Bahamian Parrots" by Antonious Roberts (c.1995).

Antonius Roberts is one of The Bahamas' most outstanding artists and its pre-eminent Sculptor and Open Space Designer. He has, over the years, collected numerous prestigious awards and exhibited locally and internationally. His paintings and sculptures are in private collections in Germany, Italy, South Africa, Canada and the U.S.

At home he has mounted several exhibitions of his own, many of them addressing or making commentary on historical or social issues. He previously played a leading role in the restoration of the Villa Doyle and its conversion into The National Art Gallery of The Bahamas. He was the founding Curator of The Central Bank Art Gallery and former Co-ordinator of FINCO's Summer Art Workshops all of which were highly successful. Always busy and always involved with teaching and supporting young artists he is also deeply committed to community development and is the current Artist-in-Residence of the Schooner Bay project in Abaco.