Island Heritage

Island Heritage Insurance Company, Ltd.
2012 Annual Report

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Our Vision

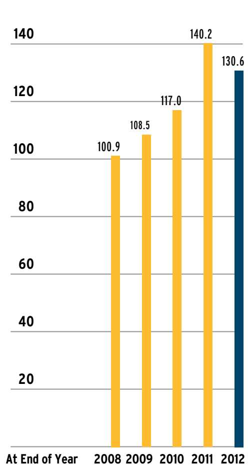
"*To be the Caribbean's leading property and casualty insurer, providing excellent customer service, demonstrating trust and reliability and, above all, creating peace of mind for our customers.*"

Rhea Dollete
Financial Accountant

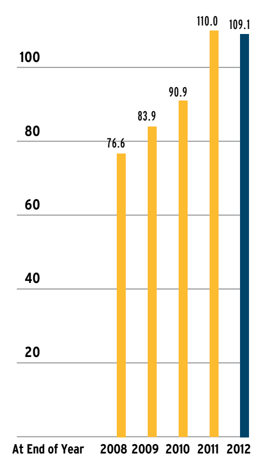
Victoria Fernandes
Reinsurance Manager

Five Year Financial Overview

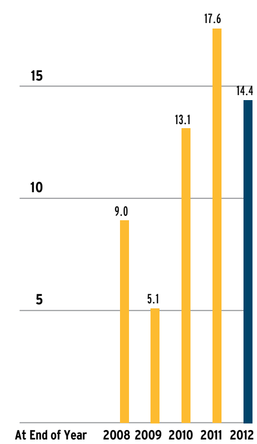
Total assets
In millions of dollars (USD)



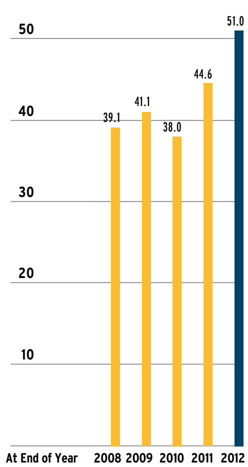
Gross written premium
In millions of dollars (USD)



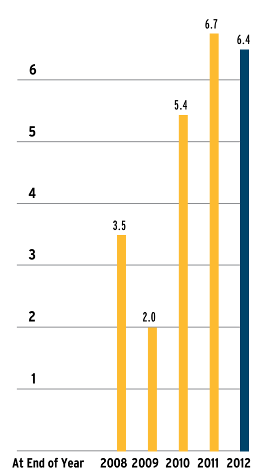
Return on equity
Precentage (%)



Capital and surplus
In millions of dollars (USD)



Net income
In millions of dollars (USD)



Emilie Purchase
Customer Service Representative

Rob Walkley
Loss Adjuster with Cunningham Lindsey International

President & Chief Executive Officer's Report

2012 was a year of growth, successes and change for Island Heritage Insurance as on 30 March 2012 we became a wholly owned subsidiary of BF&M Limited. Joining an insurance group with Written Premiums of over $300 million, Total Assets of $1.5 billion and a proven track record dating back 100 years further enhances our profile as one of the leading insurance companies in the Caribbean. The management and staff of Island Heritage are excited to be partnering with a company of BF&M's caliber and look forward to the opportunities this partnership will bring to our customers and staff in the coming years.

Immediately following the acquisition of Island Heritage by BF&M, A.M. Best reaffirmed our Financial Strength Rating of "A- Excellent" further demonstrating to our customers the financial strength underpinning the Company.

Despite the challenging economic conditions prevailing throughout the Caribbean, 2012 was a strong financial year for Island Heritage. The Company recorded Gross Written Premiums of $109 million, Net Income of $6.4 million and a Return on Equity of 14%. This success is a direct result of the effort put forward by our staff and agents who work diligently with our customers to provide insurance solutions to suit their needs.

Operating in one of the most catastrophe-prone regions in the world comes with a unique set of challenges. Hurricanes are a common occurrence, which we need to be prepared for, and 2012 was no exception. During the year there were 19 named storms in the Caribbean, 10 of which developed into hurricanes.

At Island Heritage our primary responsibility is being able to respond quickly to our customers' needs. In October 2012, when hurricane Sandy hit the Bahamas, we were able to demonstrate our commitment to policyholders. By working closely with our agents, we settled and paid over 80% of the claims within 60 days and 95% within 100 days. This marked the 29th hurricane event the Company has experienced and successfully managed; a track record we are all very proud of.

The success of Island Heritage would not be possible without the hard work and commitment of our staff and agents. I have had the privilege of working alongside these people for the past 17 years, which has been both enjoyable and rewarding. With our BF&M partnership providing new opportunities for us going forward, Island Heritage is well positioned to continue our success.

Garth MacDonald
President & CEO

Cindi Babb
Underwriter

Lynstron Griffith
Programmer/Analyst

Tricia Harris
Senior Programmer/Analyst

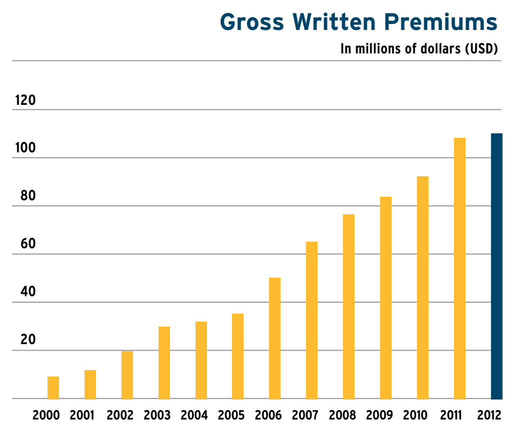
About Us

Island Heritage Insurance is a leading provider of property, auto and casualty insurance across the Caribbean. With our Head Office in the Cayman Islands, a Branch Office in Barbados, and a network of Agents, the Company writes business in Anguilla, Antigua, Bahamas, Barbados, the British Virgin Islands, the Cayman Islands, Dominica, Grenada, St Kitts & Nevis, St Lucia, St Maarten, St Vincent & the Grenadines, the Turks & Caicos Islands and the US Virgin Islands.

The Company was founded in the Cayman Islands in 1996 with a focus on residential property insurance. Over time we expanded our reach and broadened our focus, in the process becoming a true pan-Caribbean insurance provider while maintaining our financial stability. This stability is evidenced by an AM Best rating of "A- Excellent", which the Company has held since 2001.

Island Heritage's well planned and responsible expansion has been rewarded by consistent growth. What started in 1996 as a Company with four staff and $1 million of revenue has grown to over 60 staff, $130 million in assets and $109 million in revenue.

The Company's strength comes from a combination of our high quality staff, first class agents and strong regional presence in the Caribbean. By focusing on Operational Excellence, we strive to provide our customers with what they want and need from an insurance company.



Island Heritage has a strong commitment to community involvement. We support a number of charitable organisations and encourage our employees to take an active role in the community. Their efforts range from spearheading fundraising initiatives to delivering meals to those in need.

Customers of Island Heritage take comfort knowing that the Company will continue to operate with a strong ethical philosophy based on uncompromising corporate governance, ensuring the protection of policyholders.

Executive Team

Left to right

Bryan O'Neal
Senior Vice President,
Operations & Corporate Strategy

Annette Jim
Senior Vice President,
Underwriting/Chief Underwriting
Officer

Garth MacDonald
President &
Chief Executive Officer

Marc Shirra
Senior Vice President,
Business Development

Rhonda Serrano
Senior Vice President,
Marketing & Communications

Jonathon Coleman
Senior Vice President,
Finance/Chief Financial Officer

Our People

Management Team

Cayman

Ricardo Bodington
Commercial Lines Manager,
Underwriting

Lilia Conolly
Manager,
Human Resources

Lauren Ebanks
Communications Manager,
Marketing &
Communications

Victoria Fernandes
Reinsurance Manager,
Operations & Corporate
Strategy

Lauren Leupen Irvine
Manager,
Claims

Tyron Moses
Financial Controller,
Finance

Kathy Powery
Manager,
Administration

Jakes Ramnarine
Manager,
Information Technology

Evelyn Tibbetts-Farrar
Personal Lines Manager,
Underwriting

Barbados

Vincent Gittens
Project Manager,
Information Technology

Allison Skeete
Financial Accountant

Andrea Walton
Business Relations &
Underwriting Manager,
Barbados and EC

Ryan Williams
Branch Manager,
Barbados and EC

Directors

Gavin R. Arton
Chairman
*Retired Senior Vice President,
XL Capital Ltd.*

R. John Wight
Deputy Chairman
*President & Chief Executive
Officer, BF&M Limited*

Aaron E. Smith
Director
*Chairman & CEO,
Igility Group of Companies*

C.L.F. "Lee" Watchorn
Director
*President, Watchorn Advisory
Group*

Conor O'Dea
Director
*Managing Director & Senior
Executive Vice President,
International Banking, Butterfield
Bank (Cayman) Limited*

Garth MacDonald
Director
*President & Chief Executive
Officer, Island Heritage Insurance
Company, Ltd.*

Corporate Citizenship

Island Heritage is committed to improving the quality of life in the communities where our customers and employees live and work.

Doing More

We encourage and support our employees' involvement in local community and civic activities. We are hopeful that they will develop a long-term interest in volunteerism and cultivate passion for a cause.

With an emphasis on preserving our environment for all to enjoy, our employees in Grand Cayman and Barbados were joined by family and friends and participated in locally organised beach and roadside cleanups.

For one month out of the year it's 'all hands on deck' for **Service Month** as our employees make a significant difference while engaging with their local community. The initiative allows employees to take one fully paid day to volunteer for a chosen community project, organisation or cause.

Employees in Grand Cayman teamed up with The Pines Retirement Home, The CI Humane Society, Big Brothers Big Sisters, The CI Children and Family Services Department and the National Council of Voluntary Organisations. The impact of their assistance was felt by the elderly, youth and even the animals in our community.

To celebrate the holiday season, our employees helped bring much-needed holiday cheer to members of the community when they teamed up with Meals on Wheels for one day December. For some recipients, the meal they receive through this programme is the only hot meal they have all day. Participating staff formed small groups, making the deliveries an enjoyable, teambuilding outing which was rewarding for all involved.

Beach cleanup

Meals on Wheels delivery

Giving More

We annually give more than **US$100,000 to local charities** in the islands in which we operate. To best meet the needs of a greater cross-section of those in need, Island Heritage donates to five categories of organisations including **Arts & Culture, Community, Health, Sports and Youth & Education**.

Through our patronage of the Arts we help to ensure the preservation and continued development of this vital part of our community's culture. We were proud to sponsor an evening of musical delight through the Cayman Arts Festival.

Our Health outreach this year had us sponsor the Cayman Heart Fund's annual Walk/Run which raised much-needed funds for a local boy's heart operation.

Through Sport we were able to field Ladies Cricket, Netball and Basketball teams. Island Heritage staff rallied together for a season in the Cayman Islands Rugby Union's annual Summer Touch league. Our staff also participated in the Cayman Islands Marathon with relay, half and full marathon runs.

Our year-round commitment to the community was emphasised by the launch of our first annual **CharityDrive** in April of 2012. The three day event engaged the public in an exciting, new way. Drivers were encouraged to pass by the Island Heritage roundabout, triggering a $1 donation to the named charity of the day, up to $10,000 Cayman Islands dollars per day. Clicking a facebook application on the Island Heritage page and mentioning the event over twitter were other ways to support – each also triggering a $1 donation. With the help of the community we successfully reached our goal of $30,000 which Island Heritage proudly presented to the three charities - the Blue Iguana Recovery Programme, Meals on Wheels and the Cayman Islands Humane Society.

Island Heritage Marathon team

CharityDrive cheque presentation

Patrice Myles
Personal Lines Underwriter

Staff Achievements

At Island Heritage, we are committed to the professional growth and development of our people and foster a culture of reward and recognition for their achievements. This commitment is highlighted during the Company's annual appraisal process where employees are encouraged to set personal and professional goals for the following year. These goals often include working toward a professional designation as we believe that such an achievement provides an individual with a platform to support effective job performance and long-term career success.

Island Heritage employee training

We currently have 20 staff members studying toward various professional designations, which include the Barbados Diploma in Insurance, The Diploma in Insurance from the Chartered Insurance Institute, the Charted Insurance Professional designation from the Insurance Institute of Canada and the Chartered Property and Casualty Underwriter designation from the American Institute for Chartered Property Casualty Underwriters.

In addition to our Learning & Development programme, we also provide a platform for employees to nominate one another for providing exceptional customer service and exemplifying our internal values. Through teamwork, leadership, service, trust, respect and responsibility, our teams take pride in serving each other and our customers.

Latoya Dell
Commercial Lines Underwriter

Marty Tammemagi
Contract Administrator with The WaterColours residence development

Independent auditor's report
To the Board of Directors and Shareholder of Island Heritage Insurance Company Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Island Heritage Insurance Company Limited and its subsidiaries set out in pages 16 to 55, which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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.

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

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

Opinion

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

PricewaterhouseCoopers

April 15, 2013

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Island Heritage Insurance Company, Ltd.

Consolidated Statements of Financial Position
As at 31 December 2012, 31 December 2011 and 1 January 2011

	Notes	2012	2011	1 January 2011
		$	$	$
Assets				
Non-current assets				
Property, plant and equipment	13	1,038,332	1,348,187	1,510,780
Intangible assets	14	158,931	92,746	187,308
		1,197,263	**1,440,933**	**1,698,088**
Current assets				
Cash and cash equivalents	6	21,412,667	21,383,990	15,549,384
Fixed deposits - restricted	7	2,000,000	-	-
Regulatory deposits	7	7,822,151	3,164,753	3,266,274
Investments - at fair value through profit or loss	5	21,114,559	23,484,692	25,741,592
Derivative financial instruments	5	-	14,565	105,257
Insurance receivables & other assets	8	26,505,494	34,209,478	26,412,129
Reinsurance assets	11	37,290,021	43,695,832	34,513,025
Income tax receivable	19	522,874	343,530	470,230
Deferred policy acquisition costs	9	7,910,210	8,912,610	7,277,450
Due from related parties	20	3,897,115	2,927,156	1,342,945
Deferred tax	19	973,787	582,515	578,811
		129,448,878	138,719,121	115,257,097
Total assets		**130,646,141**	**140,160,054**	**116,955,185**
Liabilities				
Current liabilities				
Insurance contract liabilities	10	53,748,407	56,254,885	45,606,471
Other liabilities	15	25,606,496	38,901,473	32,906,466
Due to related parties	20	234,141	368,946	487,640
Total liabilities		**79,589,044**	**95,525,304**	**79,000,577**
Equity				
Share capital	16	320,555	320,555	320,555
Contributed surplus	16	29,323,775	29,323,775	29,323,775
Retained earnings		21,412,767	14,990,420	8,310,278
Total shareholder’s equity		51,057,097	44,634,750	37,954,608
Total liabilities and equity		**130,646,141**	**140,160,054**	**116,955,185**

Approved by the Board of Directors

Director - Garth MacDonald

Director - Jonathon Coleman

April 15, 2013

Island Heritage Insurance Company, Ltd.
Consolidated Statements of Comprehensive Income
For the years ended 31 December 2012 and 2011

	Notes	2012	2011
		$	$
Income			
Gross premiums written		109,147,273	109,979,456
Reinsurance ceded		(89,443,598)	(96,724,031)
Net premiums written		19,703,675	13,255,425
Net change in unearned premiums	10	(3,439,305)	(1,227,434)
Net premiums earned		**16,264,370**	**12,027,991**
Insurance claims & loss adjustment expenses	17	(7,676,425)	(14,262,640)
Insurance claims & loss adjustment expenses recovered from reinsurers	17	4,795,935	12,000,483
Commission expense		(22,936,601)	(21,387,005)
Commission income		23,705,155	27,665,559
Net underwriting income		**14,152,434**	**16,044,388**
Investment income	5	1,112,359	454,722
Operating expenses	18	(9,413,062)	(9,695,972)
Profit before tax		**5,851,731**	**6,803,138**
Income tax credit/(expense)	19	570,616	(122,996)
Net profit and comprehensive income for the year		**6,422,347**	**6,680,142**

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

Island Heritage Insurance Company, Ltd.
Consolidated Statements of Changes in Equity
For the years ended 31 December 2012 and 2011

	Notes	2012	2011
		$	$
Share capital			
Balance - At beginning of year	16	320,555	320,555
Balance - At end of year		320,555	320,555
Contributed surplus			
Balance - At beginning of year	16	29,323,775	29,323,775
Balance - At end of year		29,323,775	29,323,775
Retained earnings			
Balance - At beginning of year		14,990,420	8,310,278
Net profit and comprehensive income for the year		6,422,347	6,680,142
Balance - At end of year		21,412,767	14,990,420
Total shareholder's equity		**51,057,097**	**44,634,750**

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

Island Heritage Insurance Company, Ltd.
Consolidated Statements of Cash Flows
For the years ended 31 December 2012 and 2011

	Notes	2012 $	2011 $
Cash flows from operating activities:			
Net profit and comprehensive income		6,422,347	6,680,142
Adjustments for:			
Investment income		(238,768)	19,554
Depreciation of property, plant and equipment	13	357,134	486,236
Amortization of intangible assets	14	61,328	94,562
Regulatory deposit		(4,657,398)	101,521
Insurance receivables and other assets		7,703,984	(7,797,349)
Deferred policy acquisition costs		1,002,400	(1,635,160)
Reinsurance assets		6,405,811	(9,182,807)
Income tax receivable	19	(179,344)	126,700
Deferred tax		(391,272)	(3,704)
Insurance contract liabilities		(2,506,478)	10,648,414
Other liabilities		(13,294,977)	5,995,007
Amounts due from related parties		(1,104,764)	(1,702,905)
Net cash (used)/generated by operating activities		**(419,997)**	**3,830,211**
Cash flows from investing activities:			
Purchase of fixed deposit		(2,000,000)	-
Purchase of investments at fair value through profit or loss		(12,431,317)	(30,311,901)
Proceeds from sales of investments at fair value through profit or loss		15,054,783	32,639,939
Purchase of property, plant and equipment	13	(47,279)	(323,643)
Purchase of intangible assets	14	(127,513)	-
Net cash generated by investing activities		**448,674**	**2,004,395**
Increase in cash and cash equivalents		28,677	5,834,606
Cash and cash equivalents - beginning of year	6	21,383,990	15,549,384
Cash and cash equivalents – end of year	6	**21,412,667**	**21,383,990**

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

1. NATURE OF THE GROUP AND ITS BUSINESS

Island Heritage Insurance Company, Ltd. ("IHIC" or the "Group") was incorporated pursuant to the Companies Law of the Cayman Islands on January 4, 1996 as an ordinary company with limited liability. Effective April 22, 1996, the Company was issued a Class "A" Insurance Licence by the Governor in Council of the Cayman Islands to carry on insurance business in the Cayman Islands. The registered office is Ugland House, South Church Street, Grand Cayman. The Company has subsequently been authorised to transact insurance business in the following Caribbean Islands:

- The British Virgin Islands on October 14, 1996;
- The U.S. Virgin Islands on March 3, 1997;
- Turks and Caicos Islands on December 30, 1997;
- Anguilla on May 19, 1998;
- Netherlands Antilles on February 11, 1999;
- Bahamas on July 17, 2000;
- Dominica on July 26, 2000;
- Barbados on May 7, 2003;
- St. Kitts & Nevis on April 26, 2004;
- Grenada on January 9, 2006;
- Antigua on March 27, 2006;
- St. Vincent & The Grenadines on October 16, 2006; and
- St. Lucia on November 10, 2006.

At October 22, 1998, the Company incorporated a wholly owned subsidiary Island Heritage Insurance Company N.V., ("N.V.") a company formed and licensed as an insurance company under the laws of the Netherlands Antilles.

On May 11, 2009, the Company incorporated a wholly owned subsidiary I.H. Americas Insurance Company ("IHA") formed and licensed as an insurance company under the laws of the Commonwealth of Puerto Rico. As at December 31, 2012, IHA is in the process of being wound up. IHA did not write any insurance business during the period from January 1, 2011 to December 31, 2012.

IHIC and its subsidiaries are collectively referred to as "the Group". IHIC is a wholly owned subsidiary of Island Heritage Holdings Limited ("IHHL" or the "Parent"). The ultimate parent company of IHHL is BF&M Limited, a Bermuda domiciled insurer. BF&M Limited acquired 100% of Island Heritage Holdings Limited on March 30, 2012, prior to the acquisition the Group's ultimate parent company was Flagstone Reinsurance Holdings S.A.

All subsidiaries have a 31 December year-end.

The Group's principal business is insurance. It determines and charges a premium to policyholders which, taken as a pool with all other policyholders, is expected to cover underwriting costs and claims which may take a number of years to settle. The business risks of insurance reside in determining the premium, settlement of claims, and estimation of claim costs and management of investment funds.

To further mitigate underwriting risk, the Company purchases reinsurance to share part of the risks originally accepted by the Group in writing premiums. These reinsurance arrangements include Quota Share, Facultative, Risk Excess and Catastrophe Excess of Loss programmes. This reinsurance, however, does not relieve the Company of its primary obligation to policyholders. If any reinsurers are unable to meet their obligations under the related agreements, the Group remains liable to its policyholders for the unrecoverable amounts.

2. 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 all the years presented, unless otherwise stated.

A. Basis of preparation

For all periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). On the 30 March, 2012 BF&M Limited acquired 100% of the issued and outstanding shares of Island Heritage Holdings Ltd from the previous shareholders of which the majority shareholder was Flagstone Reassurance S.A., a subsidiary of Flagstone Reinsurance Holdings S.A. Following the acquisition, the Group has changed its accounting policies to follow those of BF&M Limited, its ultimate parent company. These consolidated financial statements, for the year ended 31 December 2012, are the first the Group has prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Accordingly, the Group has prepared consolidated financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2012 as described in the accounting policies. In preparing these financial statements, the Group's opening statement of financial position was restated as at 1 January 2011, the Group's date of transition to IFRS. As these are the Group's first annual financial statements presented under IFRS, they were prepared in accordance with IFRS 1 First-time adoption of International Financial Reports Standards.

An explanation of how the transition to IFRS has affected the equity, income and cash flows of the Group is provided in note 3.

These consolidated financial statements are prepared in accordance with IFRS as defined by IAS 1. They have been prepared under the historical cost convention, as modified by the revaluation of investments at fair value through the profit and loss.

All amounts in the notes are shown in United States dollars unless otherwise stated.

B. Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases. The Group uses the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, including liabilities arising from contingent consideration arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of comprehensive income. Intra-group transactions, balances and gains and losses on intra-group transactions are eliminated. Where subsidiaries' accounting policies are different from the Group, appropriate adjustments have been made to ensure consistency with the policies adopted by the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Critical estimates and judgements

The preparation of the Group's financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly. Areas where significant estimates and judgments have been applied by management are described further below.

i) The ultimate liability arising from claims made under insurance contracts and associated reinsurance recoveries

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. The Group establishes its liabilities by product line, type and extent of coverage and the year of occurrence of the claim. These liabilities are divided into two categories; the provision for notified claims and the provision for claims that are incurred but not yet reported ("IBNR"). Provisions are also made for adverse development and unallocated loss adjustment expenses.

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. The provision for unpaid claims is necessarily based on estimates due to the fact that ultimate disposition of claims incurred prior to the date of the statement of financial position, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include, inter alia, jury decisions, court interpretations, legislative changes, and the cost of automobile and property repair materials.

Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. Management engage independent actuaries, Eckler Ltd., Toronto, Canada, to assist them in making such estimates, based on the Group's own loss history and relevant industry data.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within two to three months after the claims event. The Group does not establish provisions for catastrophes (such as natural disasters) in advance of the occurrence of such events. These events can cause significant volatility in the Group's level of incurred losses and the provision for unpaid claims.

ii) Estimation of reinsurance commissions receivable

The reinsurance policy is not coterminous with the financial year as such there is a degree of estimation involved at the statement of financial position date. Management compiles calculations considering the contractually agreed rates and estimation of loss development in order to estimate the receivable at the year end.

iii) Fair value of financial assets and liabilities

The fair value of fixed income securities is based on either current bid prices reported on recognised exchanges or pricing data provided by internationally recognized pricing services. If prices are not readily available, the fair value is estimated using either dealer quotes, pricing models, discounted cash flow models, management's estimate of amounts that could be realized under current market conditions and which are based on observable market-based inputs when available.

Where fair value has been determined using data provided by a recognized pricing service, dealer quotes, pricing models, the Group has obtained an understanding of the methods, models and inputs used in pricing and has controls in place that management considers sufficient to validate the prices represent fair value. For certain financial instruments, the carrying amounts approximate to fair value due to the short term nature of these instruments. Such instruments include, premiums receivable, reinsurance balances receivable, amounts due from related parties, other receivables, reinsurance balances payable and other short term liabilities

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Critical estimates and judgements (continued)

iv) Fair value of financial assets and liabilities

The Group regularly evaluates its financial assets for impairment. Refer to Notes 4 and 6 for further information on neither past due or impaired, past due but not impaired and impaired financial assets.

D. Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in United States dollars ($), which is the Group's functional currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Translation differences on financial assets and liabilities held at fair value through profit or loss are reported as part of the fair value gain or loss.

E. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following rates:

Furniture and equipment:	5 years – 10 years
Leasehold improvements:	the shorter of the lease term or 5 - 10 years
Motor vehicles:	5 years
Computer hardware:	3 years - 5 years

The assets' residual values and useful lives are reviewed at the end of each reporting period 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 the proceeds with the carrying amount. These are included in the statement of comprehensive income.

F. Intangible assets

Intangible assets include finite life intangible assets. Following conversion to IFRS certain software licenses have been reclassified from property, plant and equipment to intangible assets. These assets are amortized on a straight-line basis over 5 years, being the estimated expected economic life. The estimated economic life is re-evaluated annually. These assets are comprised of software development costs.

Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Group are recognised as intangible assets when:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intangible assets (continued)

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated that the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The development costs can be reliably measured.

Directly attributable costs that are capitalised as part of the software development include employee costs and an appropriate portion of directly attributable overheads. Other development expenditures that do not meet these criteria are expensed when incurred.

G. Current and deferred income taxation

The Group is exempt from paying tax on income, profits, or capital gains arising in certain countries in which it operates. However, a portion of the Group's business originates in countries with taxation. Accordingly, a provision for income taxes is made in these consolidated financial statements for that portion of the business subject to taxation. The countries in which taxation is applicable are disclosed in note 19.

Under the asset and liability method of accounting for income taxes, deferred tax assets and liabilities are recognised for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effects of carry-forwards of unused tax losses are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date. When management's assessment indicates that it is more likely than not that deferred income tax assets will not be realised, a valuation allowance is recorded against the deferred tax assets.

H. Financial assets

i) Investments at fair value through profit or loss

Investments comprise interest bearing corporate bonds which are accounted for on the trade date (the date the Company enters into a commitment to buy or sell the financial asset). Investments are held at fair value through profit or loss. Investments are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Investments at fair value through profit or loss are subsequently carried at fair value based upon quotations provided by the investment manager which management believe are indicative of fair value.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit within the statement of comprehensive income in the period in which they arise. Realized gains and losses on sales of financial assets are calculated using the specific cost of the financial assets sold. Investment income is recorded on the accruals basis.

For financial instruments that are measured in the statement of financial position at fair value; IFRS 7 requires disclosure of fair value measurements by level of the following fair value hierarchy:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Financial assets (continued)

i) Investments at fair value through profit or loss (continued)

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

Investments are derecognised when the Group has transferred substantially all risks and rewards of ownership.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Fixed deposits, regulatory deposits, insurance receivables and other assets are classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Financial assets are initially recognised at fair value. Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

I. Impairment of assets

The Group reviews the carrying value of its loans and receivables, which are financial assets carried at amortized cost at each period end for evidence of impairment or events which indicate impairment may have occurred. A loan or receivable is impaired if its carrying value exceeds the estimated fair value and there is objective evidence of impairment. Such evidence includes failure to make scheduled payments of capital and/or interest, adverse changes in the payment pattern of the borrower and a significant deterioration in the fair value of the security underlying the loan.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised 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 discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income.

J. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid financial assets with original maturities of three months or less, and bank overdrafts. The carrying value of cash and cash equivalents approximates their fair value.

K. Regulatory and fixed deposits

Regulatory deposits are held with Regulators as a legal requirement in order to provide services in the respective territories. Fixed deposits are financial assets with maturity dates longer than 90 days and are held with financial institutions. The carrying value of regulatory and fixed deposits approximates their fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Insurance contract classification

The Group issues contracts that transfer insurance risk.

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party, the policyholder or ceding company, by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. In addition, the Group considers the proportion of premiums received to the benefit payable if the insured event did occur. Insurance contracts can also transfer financial risk.

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.

The Group's insurance contracts include property, casualty, motor, contractors all risk, liability, marine and other specialty insurance contracts.

M. Insurance contract liabilities

(i) Insurance contract liabilities

Claims and loss adjustment expenses are charged to insurance contract benefits and expenses within the statement of comprehensive income as incurred based on the estimated ultimate liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group, net of the expected subrogation value and other recoveries. The Group does not discount its liabilities for unpaid claims.

A provision for short-term insurance liabilities is made for the estimated costs of claims notified but not settled at the statement of financial position date, using the best information available at that time. In addition to development on known claims, a provision is included for losses and loss adjustment expenses incurred but not reported on the basis of past experience. The provision is based on an actuarial analysis of the Group's accident year development experience. The method of making such estimates and for establishing the resulting provisions is reviewed and updated annually and any adjustments resulting therefrom are reflected in earnings in the period in which they are determined.

Expected reinsurance recoveries on claims, net of any required provision for doubtful amounts, are estimated using principles consistent with the Group's method for establishing the related liability, and are in accordance with the terms of the Group's reinsurance agreements.

(ii) Liability adequacy test

At each end of the reporting period, liability adequacy tests are performed on short-term insurance contracts to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs ("DAC"). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the statement of comprehensive income initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Any DAC written off as a result of this test cannot subsequently be reinstated.

(iii) Deferred policy acquisition costs ("DAC")

Commissions and other acquisition costs that vary with and are directly attributable to securing new contracts and renewing existing contracts are capitalised. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the term of the policies as premium is earned.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Reinsurance contracts held

The Group uses reinsurance in the normal course of business to manage its risk exposure. Contracts entered into by the Group with reinsurers, under which the Group is compensated by the reinsurers for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are amortized consistent with the underlying insurance contracts.

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

O. Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. These receivables and payables are included in insurance receivables and other assets, insurance contract liabilities and other liabilities within the statement of financial position.

If there is objective evidence that the receivable is impaired, the Group reduces the carrying amount of the receivable accordingly and recognises that impairment loss in the statement of comprehensive income. The Group gathers the objective evidence that a receivable is impaired using the same process adopted for loans and receivables in note I above. The impairment loss is calculated under the same method used for these financial assets.

P. Premiums and commissions

Premiums written and reinsurance premiums ceded are accounted for on a pro-rata basis over the periods covered by the underlying policies, and any unearned or unamortised portions at the financial period end are carried forward as unearned premiums and reinsurers' share of unearned premiums, respectively, on the consolidated statement of financial position.

The Group earns commission based on reinsurance premiums ceded as determined in the contract with the reinsurer. Commissions relating to reinsurance contracts are also treated on a pro-rata basis, and unearned portions at the financial period end are similarly carried forward on the consolidated statement of financial position.

The Group pays policy acquisition commissions to intermediaries based on premiums written as determined in the contract with the insured. Commissions relating to insurance contracts are also treated on a pro-rata basis, and unamortised portions at the financial period end are similarly carried forward on the consolidated statement of financial position.

Q. Leases

The Group leases certain property, plant and equipment. The Group does not have substantially all the risks and rewards of ownership, thus these leases are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

3. IFRS – FIRST TIME ADOPTION

(i) First time adoption option exemptions and mandatory exceptions

IFRS has been applied retrospectively, except for certain optional and mandatory exemptions from full retrospective application, as provided for by IFRS1 (Revised) First–time adoption of International Financial Reporting Standards ("IFRS1"), as detailed below.

The Group has elected to take the following exemptions from full retrospective application:

(a) The Group has elected to apply IFRS 3 (Revised) Business Combinations prospectively only to business combinations which occurred on or after 1 January, 2011;
(b) Cumulative translation differences exemption as exempted by IFRS 1;
(c) The transitional provisions of IFRS 4, Insurance contracts.

The Group has applied all mandatory exemptions from full retrospective application as applicable.

Designation of financial assets and financial liabilities

At the date of transition, the investments previously classified as held-for-trading investments under US GAAP are now designated as 'financial assets at fair value through profit or loss' under IFRS. See note 5 for more details.

Insurance contracts

The Group has elected to disclose only five years of claims experience data in its claims development tables as permitted in the first financial year in which it adopts IFRS 4 Insurance Contracts. These disclosures will be extended for an additional year in each succeeding year until the 10-year information requirement has been satisfied.

(ii) Statement of changes in equity

There are limited presentation differences and no net impact on the statement of equity under IFRS compared to US GAAP.

(iii) Reconciliation of statement of comprehensive income from US GAAP to IFRS

Period ended 31 December 2011	US GAAP $	Reclassification $	Remeasurement $	IFRS $
Income				
Premiums written	109,979,450	-	-	109,979,450
Movement in unearned premiums	(6,867,949)	6,867,949	-	-
Reinsurance premiums ceded	(96,724,031)	-	-	(96,724,031)
Movement in deferred reinsurance premiums	5,640,521	(5,640,521)	-	-
Net change in unearned premiums	-	(1,227,428)	-	(1,227,428)
Net premiums earned	**12,027,991**	**-**	**-**	**12,027,991**
Insurance claims & loss adjustment expenses	-	(14,262,640)	-	(14,262,640)
Insurance claims & loss adjustment expenses recovered from reinsurers	-	12,000,483	-	12,000,483
Claims and claim expenses paid	(10,482,177)	10,482,177	-	-
Claims and claim expenses recovered	8,458,198	(8,458,198)	-	-
Movement in outstanding claims	(3,780,465)	3,780,465	-	-
Movement in claims recoverable	3,542,286	(3,542,286)	-	-
Commission expense	-	(21,387,005)	-	(21,387,005)
Acquisition costs	(19,276,683)	19,276,683	-	-
Premium taxes	(2,110,321)	2,110,321	-	-
Commission income	-	27,665,559	-	27,665,559
Ceding commissions	29,491,008	(29,491,008)	-	-
Movement in deferred ceding commissions	(1,825,449)	1,825,449	-	-
Net underwriting income	**16,044,388**	**-**	**-**	**16,044,388**
Investment income	454,722	-	-	454,722
Operating expenses	(9,695,972)	-	-	(9,695,972)
Profit before tax	**6,803,138**	**-**	**-**	**6,803,138**
Income tax (expense)/credit	(122,996)	-	-	(122,996)
Net profit and comprehensive income for the year	**6,680,142**	**-**	**-**	**6,680,142**

3. IFRS – FIRST TIME ADOPTION (continued)

(iv) Reconciliation of opening statement of financial position from US GAAP to IFRS

As at 1 January 2011	Reference	US GAAP	Reclassification	Remeasurement	IFRS
		$	$	$	$
ASSETS					
Non-current assets					
Property, plant and equipment	3	1,698,088	(187,308)	-	1,510,780
Intangible assets	3	-	187,308	-	187,308
		1,698,088	**-**	**-**	**1,698,088**
Current asset					
Cash and cash equivalents	4	14,475,915	1,073,469	-	15,549,384
Restricted cash		234,000	(234,000)	-	-
Regulatory deposits		3,266,274	-	-	3,266,274
Investments - at fair value through profit or loss	4	26,581,061	(839,469)	-	25,741,592
Derivative financial instruments		105,257	-	-	105,257
Insurance receivables & other assets	2	-	26,412,129	-	26,412,129
Reinsurance assets	1	-	34,513,025	-	34,513,025
Premiums receivables	2	15,639,314	(15,639,314)	-	-
Ceding commissions receivables	2	6,102,907	(6,102,907)	-	-
Deferred reinsurance premiums	1	31,358,370	(31,358,370)	-	-
Claims recoverable	1	3,154,655	(3,154,655)	-	-
Claims paid receivable	2	958,749	(958,749)	-	-
Prepaid expenses and other receivables	2	3,711,159	(3,711,159)	-	-
Income tax receivable		470,230	-	-	470,230
Deferred policy acquisition costs		7,277,450	-	-	7,277,450
Due from related parties		1,342,945	-	-	1,342,945
Deferred tax		578,811	-	-	578.811
		115,257,097	**-**	**-**	**115,257,097**
Total assets		**116,955,185**			**116,955,185**
LIABILITIES					
Current liabilities					
Insurance contract liabilities	1	-	45,606,471	-	45,606,471
Other liabilities	2	-	32,906,466	-	32,906,466
Accounts payable and accrued expenses	2	3,589,497	(3,589,497)	-	-
Commission payable	2	3,674,897	(3,674,897)	-	-
Reinsurance balances payable	2	14,626,216	(14,626,216)	-	-
Deferred ceding commissions	2	11,015,856	(11,015,856)	-	-
Due to related parties		487,640	-	-	487,640
Unearned premiums	1	41,049,193	(41,049,193)	-	-
Outstanding claims	1	4,557,278	(4,557,278)	-	-
Total liabilities		**79,000,577**	**-**	**-**	**79,000,577**
EQUITY					
Share capital		29,644,330	(29,323,775)	-	320,555
Contributed surplus		-	29,323,775	-	29,323,775
Retained earnings		8,310,278	-	-	8,310,278
Total equity		**37,954,608**	**-**	**-**	**37,954,608**
Total liabilities and equity		**116,955,185**	**-**	**-**	**116,955,185**

3. IFRS – FIRST TIME ADOPTION (continued)

(v) Analysis of adjustments from transition to IFRS – explanation of item reference

1. These adjustments reclassify the balance from its previous classification to insurance contracts liabilities/assets under IFRS. Assets previously recorded as deferred reinsurance premiums and claims recoverable have been reclassified as reinsurance assets. In addition outstanding claims and unearned premiums are grouped within insurance contract liabilities.

2. On conversion to IFRS insurance related receivables and liabilities have been aggregated where appropriate. Hence, premiums receivable, ceding commissions receivable, claims paid receivable and prepaid expenses and other receivables, have been reclassified to Insurance receivables & other assets. Accounts payable and accrued expense, commissions payable, reinsurance balances payable and deferred ceding commissions, have all been reclassified to other liabilities.

3. IFRS requires computer software to be classified as intangible assets, previously under US GAAP they were part of property and equipment.

4. Money market funds previously classified within investments have been reclassified as cash and cash equivalents.

(vi) Statement of cash flows

Under IFRS, the statement of cash flows will continue to be presented under the indirect method with limited presentation differences. The above changes have no net impact on cash flows.

NEW AND REVISED ACCOUNTING STANDARDS

The Group adopted all applicable accounting standards upon conversion to IFRS other than those exemptions applicable upon first time adoption as detailed in note 3.

The following relevant standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2013.

Standard/Interpretation	Content	Applicable for financial years beginning on /after
IFRS 7	Financial Instruments	1 January 2013
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IAS 1	Presentation of financial statements	1 July 2012
	Presentation of items of other comprehensive income	
IAS 19	Employee Benefits	1 January 2013
IAS 27	Consolidated and separate financial statements	1 January 2014
IAS 28	Investments in Associates and joint ventures	1 January 2013
Exposure draft	Insurance contracts	Not finalized

3. IFRS – FIRST TIME ADOPTION (continued)

NEW AND REVISED ACCOUNTING STANDARDS (continued)

IFRS 7 Financial Instruments Disclosure, effective January 1, 2013 amends the existing standard by clarifying the requirements for offsetting financial assets and financial liabilities in the statement of financial position. The adoption of this standard is not expected to have a material impact on the financial statements.

IFRS 9 Financial Instruments: Classification and Measurement as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. It requires financial assets to be measured at fair value or amortized cost on the basis of their contractual cash flow characteristics and the entity's business model for managing assets. It also changes the accounting for financial liabilities measured using the fair value option. In subsequent phases, the Board will address impairment, hedge accounting and asset and liability offsetting. The impact of adoption of this standard on future financial statements is still being assessed.

IFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The amendments to IFRS 10 are not expected to have a material impact on the financial statements.

IFRS 11 Joint Arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. It eliminates the option of using proportionate consolidation for accounting in the interests of the joint venture and requires the equity method in its place. The adoption of this standard is not expected to have a material impact on the financial statements as there are currently no joint arrangements in place.

IFRS 12 Disclosure of Interests in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The adoption of this standard is not expected to have a material impact on future financial statements.

IFRS 13 Fair value measurement guidance contained in individual IFRS's is replaced with a single, unified definition of fair value; it contains authoritative guidance on the application of fair value measurement in inactive markets. There are significant additional disclosures where fair values are used. The impact of adoption of this standard on future financial statements is still being assessed.

IAS 1 Presentation of Financial Statements was amended regarding the presentation of items in other comprehensive income. The amendments require separate presentation within other comprehensive income of items that are potentially reclassifiable to profit or loss subsequently and those that will not be classified to profit or loss. The adoption of this standard is not expected to have a material impact on the financial statements.

IAS 19 Employee Benefits, effective January 1, 2013, builds on existing principles with changes to the valuation of employee benefits, specifically with regard to defined benefit plans. The adoption of this standard is not expected to have a material impact on the financial statements as there are currently no defined benefit plans in place.

IAS 27 Consolidated and separate financial statements, effective January 1, 2014 builds on the consolidation standards by defining the funds and similar entities that do not require to be consolidated. The updated standard defines what an investment entity is and the requirements for consolidation. The adoption of this standard is not expected to have a material impact on the financial statements.

IAS28 Investment in Associates and Joint Ventures builds on the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amendments to IAS 28 are not expected to have a material impact on the financial statements.

3. IFRS – FIRST TIME ADOPTION (continued)

NEW AND REVISED ACCOUNTING STANDARDS (continued)

Insurance contracts exposure draft - An exposure draft was issued in July 2010. At the core of the proposed new accounting standard is the measurement model.

Under this model, the liability for all insurance contracts (except for certain short duration contracts of 12 months or less) is determined by reference to the present value of the probability of cash flows required to fulfil the insurance obligation plus a risk and residual margin adjustment. This is significantly different from the current measurement of insurance contract liabilities. The exposure draft also proposes significant changes to the presentation and disclosure within the financial statements.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK

Risk management and objectives

The Group's primary objective in undertaking risk management activity is to manage risk exposures in line with risk appetite, minimizing its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes. In this respect, a framework of limits and qualitative statements, aligned with the Group's risk appetite, is in place for material exposures. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

A significant part of the Group's business involves the acceptance and management of risk. The Group is exposed to insurance, market, credit, liquidity and operational risks and operates a formal risk management framework to ensure that all significant risks are identified and managed.

The Group seeks to manage its exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board of Directors. This is supplemented by board committees comprised of non-executive directors to which management reports. The key control techniques for the major categories of risk exposure are summarized in the following sections.

Risks are usually grouped by risk type: and include credit, liquidity, market, and insurance. Risk falling within these types may affect a number of key metrics including those relating to balance sheet strength, liquidity and profit. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

A. FINANCIAL RISKS

i) Credit risk

Credit risk is the exposures that a counter-party to a financial instrument is unable to meet an obligation, thereby causing a financial loss to the Group. The following policies and procedures are in place to manage this risk:

- Holding a diversified investment portfolio that focuses on credit quality of investments in accordance with the Group's investment guidelines. The portfolio is monitored, reviewed and approved by the Group's Investment Committee;
- Investment guidelines are in place that require the purchase of only investment-grade assets and minimize undue concentration of assets in any single Company, asset class or credit rating;
- Investment guidelines specify collateral requirements for mortgages and loans and receivables which include the underlying property or other security; and
- Oversight by the Group's Reinsurance Committee, ensuring business is transacted with well-established reinsurance companies with strong credit ratings. All major reinsurers are rated A- or higher with A.M. Best.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

i) Credit risk (continued)

The Group faces credit risk on all of its financial assets and liabilities.

Maximum exposure to credit risk – Financial assets and liabilities

The following table summarises the Group's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset and liabilities net of any allowances for losses.

	2012 $	2011 $	1 January 2011 $
Financial assets			
Cash and cash equivalents	21,412,667	21,383,990	15,549,384
Fixed deposits	2,000,000	-	-
Regulatory deposits	7,822,151	3,164,753	3,266,274
Investments- at fair value through profit or loss	21,114,559	23,484,692	25,741,592
Derivative financial instruments	-	14,565	105,257
Premium receivable	16,480,042	16,786,374	15,639,314
Reinsurance balances receivable	6,897,375	12,903,885	7,061,656
Other receivables (excludes prepayments)	2,999,537	4,271,750	3,463,688
Income tax receivable	522,874	343,530	470,230
Due from related parties	3,897,115	2,927,156	1,342,945
Total financial assets	**83,146,320**	**85,280,749**	**72,640,340**
Financial liabilities			
Reinsurance balance payable	11,471,680	19,671,342	14,626,215
Commission payable	1,899,909	3,168,200	3,674,897
Accrued expenses & other liabilities	3,372,939	3,220,626	3,589,498
Due to related parties	234,141	368,946	487,640
Total financial liabilities	**16,978,669**	**26,429,114**	**22,378,250**

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries.

The following table provides details of the carrying value of fixed income securities by industry sector and geographic distribution:

	2012 $	2011 $	1 January 2011 $
Bonds issued or guaranteed by:			
U.S. Government	9,617,374	13,633,831	7,561,775
Non U.S. Government	1,404,945	701,304	354,949
Corporates	7,644,153	6,720,962	11,261,089
Other-ABS / MBS	923,490	2,428,595	6,563,779
Total fixed income	**19,589,962**	**23,484,692**	**25,741,592**
United States	16,266,832	21,122,799	13,311,708
Canada	3,323,130	1,549,638	11,261,089
Luxembourg	-	-	839,469
Denmark	-	812,255	329,326
Total fixed income	**19,589,962**	**23,484,692**	**25,741,592**

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

i) Credit risk (continued)

The following table provides the carrying value of fixed income by credit quality using Standard & Poors (S&P) ratings or an equivalent rating when not available from S&P:

	2012 $	2011 $	1 January 2011 $
AAA	4,053,834	18,039,319	21,092,841
AA	-	5,095,829	1,608,216
AA+	8,585,338	-	-
AA-	1,614,046	-	-
A+	1,416,567	-	-
A-	2,118,832	-	-
A	1,198,279	349,544	1,962,424
BBB	603,066	-	1,078,111
Total fixed income	**19,589,962**	**23,484,692**	**25,741,592**

The following table provides the carrying value of cash & cash equivalents, fixed deposit & regulatory deposits by credit quality using Standard & Poors (S&P) ratings or an equivalent rating when not available from S&P:

	2012 $	2011 $	1 January 2011 $
AAA	158,165	158,194	158,230
AA-	3,930,031	3,502,813	1,135,243
A+	7,604,147	7,101,920	6,668,274
A-	9,812,665	4,658,438	3,729,406
A	4,640,933	5,311,608	3,527,959
B	3,304,140	2,503,461	1,777,457
Not rated	1,784,737	1,312,309	1,819,089
Total	**31,234,818**	**24,548,743**	**18,815,658**

Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

i) Credit risk (continued)

The following is an analysis of the reinsurance companies per line of coverage, along with any concentrations:

	Total number of reinsurers by line	Largest % placed with a single reinsurer	Location of that single reinsurer	A.M. Best rating of that single reinsurer
Property catastrophe excess of loss	30	30.00%	Germany (1)	AA-
		25.00%	Switzerland	AA-
Reinstatement premium protection	2	75.00%	Germany (1)	AA-
Marine catastrophe excess of loss	5	20.00%	UK	A+
		20.00%	UK	A+
Fire per risk	4	40.00%	Germany (1)	AA-
Property quota share	4	25.00%	Bermuda	A
		24.00%	Germany (1)	AA-
Motor & casualty quota share	4	55.00%	Germany (1)	AA-
Marine quota share	2	58.82%	Germany	AA-
Bonds quota share	1	100.00%	Germany (1)	AA-
Personal accident quota share	1	100.00%	UK	A+

(1) A single reinsurance company, located in Germany, represents the largest concentration on each of the indicated lines of coverage.

The Group's credit exposure to any one individual policyholder on direct business is not material. The credit risk for premiums receivable is mitigated as a customer's policy may be cancelled if the customer is in default of a payment. Credit risk also arises from balances due from brokers and agents. Management regularly reviews the Group's business relationships with agents and brokers. Agents and brokers are also subject to visits from the Group's internal audit department. The exposure to individual counterparties is also managed by other mechanisms, such as the right to offset where counterparties are both debtors and creditors of the Group.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

i) Credit risk (continued)

Receivables neither past nor impaired, past due but not impaired and those that are impaired are shown in the tables below:

At 31 December 2012	Neither past due nor impaired $	Past due but not impaired $	Impaired $	Total $
Cash and cash equivalents	21,412,667	-	-	21,412,667
Fixed deposits	2,000,000	-	-	2,000,000
Regulatory deposits	7,822,151	-	-	7,822,151
Investments - fair value through profit or loss	21,114,559	-	-	21,114,559
Derivative financial instruments	-	-	-	-
Premium receivable*	11,110,047	3,470,086	-	14,580,133
Reinsurance balances receivable	6,897,375	-	-	6,897,375
Other receivables	2,999,537	-	-	2,999,537
Income tax receivable	522,874			522,874
Due to related parties	3,897,115	-	-	-
Total	**77,776,325**	**3,470,086**	**-**	**81,246,411**

At 31 December 2011	Neither past due nor impaired $	Past due but not impaired $	Impaired $	Total $
Cash and cash equivalents	21,383,990	-	-	21,383,990
Fixed deposits	-	-	-	-
Regulatory deposits	3,164,753	-	-	3,164,753
Investments - fair value through profit or loss	23,484,692	-	-	23,484,692
Derivative financial instruments	14,565	-	-	14,565
Premium receivable*	9,364,713	4,253,461	-	13,618,174
Reinsurance balances receivable	12,903,885	-	-	12,903,885
Other receivables	4,271,750	-	-	4,271,750
Income tax receivable	343,530	-	-	343,530
Due from related parties	2,927,156	-	-	-
Total	**77,859,034**	**4,253,461**	**-**	**82,112,495**

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

i) Credit risk (continued)

* Analysis of receivables that are past due but not impaired is as follows:

At 31 December 2012	Total $	3 to 6 months $	> 6 months $
Premiums receivable	3,470,086	2,518,446	951,640
	3,470,086	**2,518,446**	**951,640**

At 31 December 2011	Total $	3 to 6 months $	> 6 months $
Premiums receivable	4,253,461	3,086,995	1,166,466
	4,253,461	**3,086,995**	**1,166,466**

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations as they become due. In order to manage liquidity risks, management maintains levels of cash and short-term deposits, which are sufficient to fulfill the Group's short-term obligations.

A significant business objective of the insurance industry is to match the cash flows of the investment portfolio with the expected payment of policy liabilities.

The maturity profile of investments using undiscounted cash flows at 31 December 2012 was as follows:

	Within 1 year $	2 to 5 years $	Over 5 years $	Undiscounted Amount $
Fixed income				
U.S. Government	1,636,709	5,906,473	1,472,438	9,015,620
Non U.S. Government	48,146	1,505,582	-	1,553,728
Corporates	1,232,681	7,144,092	30,849	8,407,622
Other-ABS / MBS	99,007	981,250	832,508	1,912,765
Total	**3,016,543**	**15,537,397**	**2,335,795**	**20,889,735**
Percent of total	14%	75%	11%	100%

The maturity profile of investments using undiscounted cash flows at 31 December 2011 was as follows:

	Within 1 year $	2 to 5 years $	Over 5 years $	Undiscounted Amount $
Fixed income				
U.S Government	2,647,495	5,647,150	4,508,790	12,803,435
Non U.S. Government	708,120	-	-	708,120
Corporates	5,291,571	1,520,075	-	6,811,646
Other-ABS / MBS	42,915	1,289,138	1,317,267	2,649,320
Total	**8,690,101**	**8,456,363**	**5,826,057**	**22,972,521**
Percent of total	38%	37%	25%	100%

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

ii) Liquidity risk (continued)

The following tables indicate the timing of undiscounted cash flows arising from financial liabilities:

At 31 December 2012	Within 1 year $	Greater than 1 year $	Total $
Financial liabilities			
Reinsurance balance payable	11,471,680	-	11,471,680
Accrued expenses & other liabilities	2,787,919	585,020	3,372,939
Total	**14,259,599**	**585,020**	**14,844,619**

At 31 December 2011	Within 1 year $	Greater than 1 year $	Total $
Financial liabilities			
Reinsurance balance payable	19,671,342	-	19,671,342
Accrued expenses & other liabilities	2,467,920	752,706	3,220,626
Total	**22,139,262**	**752,706**	**22,891,968**

iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is not significantly exposed to foreign exchange risk because of the following:

- All currencies with which the Group has material assets and liabilities are pegged to the US Dollar which is the Group's functional and presentation currency.

Interest rate risk

Interest rate risk is price volatility produced by changes in the overall level of interest rates. Change in market interest rates can impact the reinvestment of matured investments, as the returns available on the new investment may be significantly different from the returns previously achieved. The Group manages these risks through the investment guidelines, which include:

- Asset allocation and diversification of the investment portfolio; and
- Quantifying and reviewing regularly the risk associated with the mismatch in portfolio duration and cash flow.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting the market.

The Group's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The Group's price risk policy requires it to manage such risks through the investment guidelines by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market.

iv) Sensitivity analysis

The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of assumptions may be correlated.

Sensitivity factor	Description of sensitivity factor applied
Interest rate - cash & cash equivalents:	The impact of a change in market interest rates by 1% (2011: 1%)
Interest rate - fixed income securities:	The impact of a change in market interest rates by 1% (2011: 1%)
Underwriting expenses:	The impact of a change in acquisition costs by 2% (2011: 2%)
Loss ratios:	The impact of a change in accrued losses by 25% (2011: 25%)

At 31 December 2012	Interest rates $	Underwriting expenses $	Loss ratios $
Impact on net profit from increase in sensitivity factor*	(20,380)	(458,732)	(720,123)
Impact on net profit from decrease in sensitivity factor*	21,145	458,732	720,123

The portion that is recognized directly in shareholder's equity is Nil

* Net of reinsurance

At 31 December 2011	Interest rates $	Underwriting expenses $	Loss ratios $
Impact on net profit from increase in sensitivity factor*	(26,129)	(427,740)	(565,540)
Impact on net profit from decrease in sensitivity factor*	27,649	427,740	565,540

The portion that is recognized directly in shareholder's equity is Nil

* Net of reinsurance

The Group is sensitive to price risk on its equity securities. The effect of a 10% increase (2011: 10%) will result in an increase in investment income of US$152, 459 (2011: Nil). The effect of a 10% decrease (2011: 10%) will result in a decrease in investment income of US ($152,459) (2011: Nil).

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

A. FINANCIAL RISKS (continued)

iv) Sensitivity analysis (continued)

The duration of liabilities is calculated based on management's experience from prior year's average settlement pattern for outstanding claims. The durations are:

	2012	2011
Net insurance liability- property risk	1-2 months	1-2 months
Net insurance liability- motor hull risks	1 month	1 month
Net insurance liability- casualty risks	12 months	12 months

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

Investment contracts with fixed and guaranteed terms and debt securities held to maturity are accounted for at amortized cost and their carrying amounts are not sensitive to changes in the level of interest rates.

In relation to financial assets, management monitors the sensitivity of reported interest rate movements by assessing the expected changes in the different portfolios due to parallel movements of 100 basis points in all yield curves.

B. INSURANCE RISK

i) General insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. Insurance risk is implicit in the Group's insurance business and arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks.

Types of risk

General insurance risk in the Group arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source or event;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
- Inadequate reinsurance protection or other risk transfer techniques; and
- Inadequate reserves.

The majority of the general insurance business underwritten by the Group is of a short-term nature such as property, motor and marine insurances. The Group's underwriting strategy and appetite is agreed by the Board of Directors and communicated via specific policy statements and guidelines. General insurance risk is managed primarily at a Company level.

Management of general insurance risks

The Group's insurance risk policy is set out through the underwriting guidelines and includes a structure of delegated pricing and underwriting authorities. Pricing is based on assumptions which consider past experience and trends as well as current market conditions. Insurance exposures are limited through the use of reinsurance. Overall, the Group seeks to be conservative in its acceptance of insurance risks by establishing strict underwriting criteria and limits. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. INSURANCE RISK (continued)

Management of general insurance risks (continued)

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

Management under the direction of the Board of Directors monitors and develops the management of insurance risk of the Group, and assesses the aggregate risk exposure. It is responsible for the development, implementation and review of the Group policies for underwriting, claims, reinsurance and reserving that operate within the risk management framework.

The Group has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of the Group.

Reinsurance strategy

Reinsurance is used to reduce potential loss to the Group from individual large risks and catastrophic events. It may also be used to manage accumulated exposures, capital or to provide access to specialist underwriting expertise.

Significant reinsurance programmes are reviewed annually at a Company level, to verify that the levels of protection being purchased reflect any developments in exposure and the risk appetite of the Group. These reinsurance arrangements include quota share, facultative, per risk and catastrophe excess of loss programmes.

The reinsurance is placed with providers who meet the Group's counterparty security requirements, and large reinsurance placements may also require approval from the Board of Directors and the Group's Reinsurance Committee.

Concentration risk

Processes are in place to manage catastrophe risk at a Company level. The Group cedes much of its catastrophe risk to third-party reinsurers but retains a pooled element for its own account gaining diversification benefit.

The total sum insured at 31 December 2012 and 2011, gross and net of reinsurance by geographical location and line of business are summarised below:

	2012		2011	
	Gross amount insured $	Net amount insured after reinsurance $	Gross amount insured $	Net amount insured after reinsurance $
Property	8,007,544,896	1,493,910,792	7,703,161,143	747,828,147
Motor	52,740,422	19,622,963	53,812,172	22,078,485
Total	**8,060,285,318**	**1,513,533,755**	**7,756,973,315**	**769,906,632**
Cayman	2,107,875,075	378,500,487	2,224,474,512	201,915,514
Bahamas	2,292,038,730	409,349,017	2,141,545,394	214,154,539
USVI	1,267,322,346	265,266,940	1,259,907,303	162,403,326
Other	2,393,049,167	460,417,311	2,131,046,106	191,433,253
Total	**8,060,285,318**	**1,513,533,755**	**7,756,973,315**	**769,906,632**

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. INSURANCE RISK (continued)

Claims reserving

Claims are payable on an occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term.

Property risks are comprised principally of physical damage to property, contractors all risk and auto physical damage. Property policies are underwritten by reference to the replacement value of the properties and contents insured.

Claim payment limits are always included to cap the amount payable on occurrence of the insured event. The costs of rebuilding properties, of replacement or indemnity for contents are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from windstorm or sea inundation damage. For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events, such as hurricanes, which may result in motor and property claims.

Casualty risks are principally comprised of personal injury from motor claims. The Group manages these risks by way of a conservative underwriting strategy, adequate reinsurance arrangements and proactive claims management. Underwriting limits are in place to enforce appropriate risk selection criteria. For example the Group has the right not to renew individual policies and it has the right to reject the payment of a fraudulent claim.

Management monitors and conducts quarterly reviews of the Group's general insurance claims provisions, and their adequacy.

The Group has a claims department dealing with the mitigation of risks surrounding known exposures. This department investigates and adjusts claims with the assistance and advice of external loss adjusters. The claims are reviewed individually on an on-going basis and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

The adequacy of the Group's insurance claims provisions is ultimately overseen by the Board of Directors.

The estimation of the claims incurred but not reported reserve ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until years after the event that gave rise to the claims depending upon the nature of the contract and the claim. For casualty contracts, the IBNR liability will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio. The financial impact for the year is disclosed per note 10.

The Group cedes reinsurance to other companies to minimise its exposures arising from large risks or from hazards of an unusual or catastrophic nature. The concentration of insurance risk before and after reinsurance in relation to the type of general insurance business risk accepted is summarized below, with reference to the carrying amount of the insurance reserve liabilities (gross and net of reinsurance) arising from general insurance contracts:

	2012		2011		1 January 2011	
	Gross $	Net $	Gross $	Net $	Gross $	Net $
Property	4,418,766	1,236,430	6,972,463	835,414	3,286,987	470,054
Motor	1,122,162	778,909	793,711	514,606	732,113	639,140
All Others	968,811	85,492	571,569	290,782	538,178	293,429
Total	**6,509,739**	**2,100,831**	**8,337,743**	**1,640,802**	**4,557,278**	**1,402,623**

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

B. INSURANCE RISK (continued)

Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table illustrates how the Group's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position. A calendar year or accident year basis is considered to be most appropriate for the business written by the Group.

Gross loss development:

Accident year Estimate of ultimate claims costs	2007 $ 000's	2008 $ 000's	2009 $ 000's	2010 $ 000's	2011 $ 000's	2012 $ 000's	Total $ 000's
At the end of the valuation year	5,389	21,688	4,263	5,222	14,767	9,613	-
One year later	5,444	20,106	3,701	4,775	12,735	-	-
Two years later	5,115	19,765	3,645	5,078	-	-	-
Three years later	5,158	19,768	3,670	-	-	-	-
Four years later	5,154	19,610	-	-	-	-	-
Five years later	5,130	-	-	-	-	-	-
Cumulative payments to date	(4,837)	(19,478)	(3,658)	(4,674)	(12,441)	(4,238)	-
Liability recognized in the consolidated statement of financial position	293	132	12	404	294	5,375	6,510

Net loss development:

Accident year Estimate of ultimate claims costs	2007 $ 000's	2008 $ 000's	2009 $ 000's	2010 $ 000's	2011 $ 000's	2012 $ 000's	Total $ 000's
At the end of the valuation year	3,926	3,364	1,592	1,466	2,452	2,994	-
One year later	3,371	3,251	1,353	1,256	2,285	-	-
Two years later	3,149	3,227	1,371	1,302	-	-	-
Three years later	3,316	3,237	1,031	-	-	-	-
Four years later	3,312	3,156	-	-	-	-	-
Five years later	3,627	-	-	-	-	-	-
Cumulative payments to date	(3,512)	(3,038)	(1,019)	(1,239)	(2,239)	(1,248)	-
Liability recognized in the consolidated statement of financial position	115	118	12	63	46	1,746	2,100

C. CAPITAL MANAGEMENT AND REGULATORY COMPLIANCE

The Group's practice is to maintain the capitalization at a level that will maintain a strong credit rating and in addition to exceed the relevant minimum regulatory capital and deposit requirements in the jurisdictions in which they operate as shown in note 7. The Group's investment policies emphasize the preservation of capital and the maintenance of a diversified investment portfolio, which together serve to minimize the risk that investment activities pose to the Group's capital.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK (continued)

C. CAPITAL MANAGEMENT AND REGULATORY COMPLIANCE (continued)

The Company's objectives when managing capital, which it defines as shareholder's equity, are:

- To comply with the capital requirements set by the Cayman Islands Monetary Authority ("CIMA");
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for its shareholders; and
- To maintain a strong capital base to support the development of its business.

CIMA has statutory powers that enable it to use its discretion to require the Company to conduct its operations in accordance with general or specific conditions which may be imposed by CIMA or may be agreed between CIMA and the Company. A new Cayman Islands Insurance law (the "new law") became effective in November 2012; the Company has 18 months to comply with the requirements of the new law. Under this new law, the Company is required to maintain capital in excess of the greater of approximately $300,000 and an amount determined as per a prescribed formula set out in local legislation. The formula prescribes minimum capital requirements for the Company's assets and liabilities based on the relative riskiness of the balances and also provides for a margin for catastrophe. At December 31, 2012 and 2011, the Company was in compliance with its regulatory requirements.

5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

A. CARRYING AMOUNT AND FAIR VALUE OF INVESTMENTS

Investments comprise:

	2012 $	2011 $	1 January 2011 $
At fair value through profit or loss			
Fixed Income:			
U.S. Treasury securities	6,765,947	10,256,697	4,106,617
U.S. Government agency securities*	2,851,427	3,377,133	3,455,158
U.S. State and political subdivisions	-	-	25,623
Non U.S. Government & government agencies	1,404,945	701,304	329,326
Corporate bonds	7,644,153	6,720,962	11,261,089
Mortgage-backed securities	-	-	2,681,527
Asset-backed securities	923,490	2,428,596	3,882,252
Equities:			
U.S. Equities	1,524,597	-	-
Investments	21,114,559	23,484,692	25,741,592
Derivative financial instruments:			
Index contracts	-	14,565	105,2571
	21,114,559	**23,499,257**	**25,846,849**

* Included within U.S. Government agency securities are IHA's investments in Puerto Rican municipal bonds, amounting to US$1,118,186 (2011: US$832,290), which are restricted and form part of a deposit with the Puerto Rico Commissioner of Insurance, see note 7.

B. FAIR VALUE HIERARCHY

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction.

The Group classifies the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

B. FAIR VALUE HIERARCHY (continued)

The following table illustrates the classification of the Group's investments measured at fair value as at 31 December 2012:

	Level 1 $	Level 2 $	Level 3 $	Total $
At fair value through profit or loss				
Fixed Income:				
U.S. Treasury securities	6,318,039	-	-	6,318,039
U.S. Government agency securities	-	2,851,427	-	2,851,427
Non U.S. Government & government agencies	-	1,404,945	-	1,404,945
Corporate bonds	-	6,643,447	-	6,643,447
Asset-backed securities	-	923,490	-	923,490
Short term investments	447,908	1,000,706	-	1,448,614
Equities:				
U.S. Equities	1,524,597	-	-	1,524,597
	8,290,544	**12,824,015**	**-**	**21,114,559**

The following table illustrates the classification of the Group's investments measured at fair value as at 31 December 2011:

	Level 1 $	Level 2 $	Level 3 $	Total $
At fair value through profit or loss				
Fixed Income:				
U.S. Treasury securities	10,256,696	-	-	10,256,696
U.S. Government agency securities	-	3,377,134	-	3,377,134
Non U.S. Government & government agencies	-	701,304	-	701,304
Corporate bonds	-	6,720,962	-	6,720,962
Asset-backed securities	-	2,428,596	-	2,428,596
Derivative financial instruments:				
Index contracts	14,565	-	-	14,565
	10,271,261	**13,227,996**	**-**	**23,499,257**

The following table illustrates the classification of the Group's investments measured at fair value as at 1 January 2011:

	Level 1 $	Level 2 $	Level 3 $	Total $
At fair value through profit or loss				
Fixed Income:				
U.S. Treasury securities	4,106,617	-	-	4,106,617
U.S. Government agency securities	-	3,455,158	-	3,455,158
U.S. State and political subdivisions	-	25,623	-	25,623
Non U.S. Government & government agencies	-	329,326	-	329,326
Corporate bonds	-	11,261,089	-	11,261,089
Mortgage-backed securities	-	2,681,527	-	2,681,527
Asset-backed securities	-	3,882,252	-	3,882,252
Derivative financial instruments:				
Index contracts	109,000	(3,743)	-	105,257
	4,215,617	**21,631,232**	**-**	**25,846,849**

The Group does not hold any Level 3 financial assets.

5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

C. INVESTMENT INCOME – AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 $	2011 $
Interest income on investments	183,896	282,297
Interest income on cash and deposits	238,126	135,044
Net realised gains/(losses) on derivatives	319,964	(105,184)
Net realised gains on sale on fixed income securities	61,060	188,499
Net unrealised gains/(losses) on derivatives	-	(90,660)
Net unrealised gains on investments on fixed income securities	279,947	44,726
Net unrealised gains on investments on equities	28,955	-
Dividend income from equities	411	-
	1,112,359	**454,722**

6. CASH AND CASH EQUIVALENTS

	2012 $	2011 $	1 January 2011 $
Cash and margin account with investment broker	1,442,365	1,586,584	1,902,285
Cash at bank and on hand	19,970,302	19,797,406	13,647,099
	21,412,667	**21,383,990**	**15,549,384**

7. REGULATORY AND FIXED DEPOSITS

Regulatory deposits represent amounts placed on deposit with banks and government bodies in the countries identified below to satisfy licensing criteria in certain jurisdictions in which the Group operates. These deposits cannot be removed nor the accounts reduced without the prior written consent of the relevant regulator. They are as follows:

	2012 $	2011 $	1 January 2011 $
Insurance Commissioner of the Bahamas	4,300,000	-	-
Curacao Central Bank	845,804	835,707	801,608
U.S. Virgin Islands Department of Banking & Insurance	602,706	602,706	589,443
Antigua Financial Services Regulatory Commission	450,097	450,481	74,458
St. Kitts and Nevis Registrar of Insurance	261,576	185,501	185,501
Dominica Accountant General	259,437	11,530	11,530
Barbados Supervisor of Insurance	250,000	250,000	250,000
British Virgin Islands Supervisor of Insurance	211,633	211,422	210,703
St. Lucia Registrar of Insurance	189,143	44,849	44,786
Anguilla Registrar of Insurance	162,256	137,118	144,946
Turks & Caicos Islands Supervisor of Insurance	145,981	145,818	142,468
St. Vincent Ministry of Finance and Planning	74,074	74,074	74,074
Grenada International Financial Services Authority	69,444	65,547	56,757
Government of Belize	-	150,000	150,000
Jamaica Financial Services Commission	-	-	530,000
	7,822,151	**3,164,753**	**3,266,274**

7. REGULATORY AND FIXED DEPOSITS (continued)

The fixed deposit has a term of 182 days with an independent financial institution in the Bahamas. The fixed deposit matures on May 6, 2013, and earns interest of 1.00% per annum.

	2012 $	2011 $	1 January 2011 $
Fixed Deposit	2,000,000	-	-
	2,000,000	**-**	**-**

8. INSURANCE RECEIVABLES AND OTHER ASSETS

	2012 $	2011 $	1 January 2011 $
These comprise:			
Premium receivable	16,480,042	16,786,374	15,639,314
Reinsurance receivables *	6,897,375	12,903,885	7,061,656
Regulatorory receivable	2,300,000	1,900,000	1,500,000
Broker rebate receivable	465,977	2,195,209	1,556,113
Prepayments	174,186	317,755	324,478
Investment income due and accrued	187,914	106,255	330,568
	26,505,494	**34,209,478**	**26,412,129**

* Consists of ceding commission receivable and claims paid receivable.

9. DEFERRED POLICY ACQUISITION COSTS

A reconciliation of the change in deferred policy acquisition costs is shown below:

	2012 $	2011 $	1 January 2011 $
At 1 January	8,912,610	7,277,450	6,108,963
Acquisition costs incurred in the year	21,934,201	23,022,164	19,584,292
Amortization charge through income	(22,936,601)	(21,387,004)	(18,415,805)
At 31 December	**7,910,210**	**8,912,610**	**7,277,450**

10. INSURANCE CONTRACT LIABILITIES

A. ASSUMPTIONS AND METHODOLOGY

The ultimate cost of outstanding contract liabilities are estimated by using a range of standard actuarial claims projections techniques, such as the Incurred Development Methodology and the Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that the Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is analysed by accident year. Claims development is analysed by line of business.

10. INSURANCE CONTRACT LIABILITIES (continued)

B. COMPOSITION OF INSURANCE CONTRACT LIABILITIES

Gross	2012 $	2011 $	1 January 2011 $
Insurance contracts:			
Claims reported and loss adjustment expenses	4,584,705	6,309,743	3,514,014
Unearned premiums	47,238,668	47,917,142	41,049,193
Claims incurred but not reported	1,925,034	2,028,000	1,043,264
Total insurance liabilities – gross	**53,748,407**	**56,254,885**	**45,606,471**

See note 11 for detail on reinsurance assets.

Net	2012 $	2011 $	1 January 2011 $
Short term insurance contracts:			
Claims reported and loss adjustment expenses	1,189,904	1,362,756	1,055,883
Unearned premiums	14,357,556	10,918,251	9,690,817
Claims incurred but not reported	910,925	278,046	346,740
Total insurance liabilities – gross	**16,458,385**	**12,559,053**	**11,093,440**

C. CHANGES IN INSURANCE CONTRACT LIABILITIES

	2012			2011		
	Gross $	Reinsurers' Share $	Net $	Gross $	Reinsurers' Share $	Net $
Claims and adjustment expenses	6,309,743	(4,946,987)	1,362,756	3,514,014	(2,458,131)	1,055,883
Claims incurred but not reported	2,028,000	(1,749,954)	278,046	1,043,264	(696,524)	346,740
Balance at 1 January	**8,337,743**	**(6,696,941)**	**1,640,802**	**4,557,278**	**(3,154,655)**	**1,402,623**
Cash paid for claims settled in year	(9,504,429)	7,083,967	(2,420,462)	(10,482,177)	8,458,198	(2,023,979)
Incurred losses:						
Incurred from current-year claims	9,655,178	(7,228,748)	2,426,430	13,781,974	(11,260,989)	2,520,985
Incurred from prior-year claims	(1,875,787)	1,696,967	(178,820)	(504,068)	313,935	(190,133)
Change in incurred but not reported	(102,966)	735,846	632,880	984,736	(1,053,430)	(68,694)
Movement during the year	**(1,828,004)**	**2,288,032**	**460,028**	**3,780,465**	**(3,542,286)**	**238,179**
Claims and adjustment expenses	4,584,705	(3,394,801)	1,189,904	6,309,743	(4,946,987)	1,362,756
Claims incurred but not reported	1,925,034	(1,014,108)	910,926	2,028,000	(1,749,954)	278,046
Balance at 31 December	**6,509,739**	**(4,408,909)**	**2,100,830**	**8,337,743**	**(6,696,941)**	**1,640,802**

The fair value of the net provision for claims and adjustment expenses is $ 6,509,739 (2011 – $8,000,000, 1 January 2011 - $4,300,000). The fair value is calculated by the Group's actuary and represents the value of the provision.

10. INSURANCE CONTRACT LIABILITIES (continued)

D. UNEARNED PREMIUM LIABILITY

	2012			2011		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Balance at 1 January	**47,917,142**	**(36,998,891)**	**10,918,251**	**41,049,193**	**(31,358,376)**	**9,690,817**
Premium written during the year	109,147,273	(89,443,598)	19,703,675	109,979,450	(96,724,031)	13,255,419
Premium earned during the year	109,825,747	(93,561,377)	16,264,370	103,111,501	(91,083,516)	12,027,985
Movement during the year	(678,474)	4,117,779	3,439,305	6,867,949	(5,640,515)	1,227,434
Balance at 31 December	**47,238,668**	**(32,881,112)**	**14,357,556**	**47,917,142**	**(36,998,891)**	**10,918,251**

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

11. REINSURANCE ASSETS

Reinsurance assets are comprised of the following:

Reinsurance	2012 $	2011 $	1 January 2011 $
Insurance contracts:			
Claims reported and loss adjustment expenses	3,724,715	4,946,987	2,458,131
Deferred reinsurance premiums	32,881,112	36,998,891	31,358,370
Claims incurred but not reported	684,194	1,749,954	696,524
Total insurance liabilities – gross	**37,290,021**	**43,695,832**	**34,513,025**

12. PENSION SCHEME

The Group participates in a defined contribution pension scheme as required under Cayman Islands law; this is applicable to employees of IHIC. During the year ended December 31, 2012 the Group contributed US$153,451 (2011: US$150,557).

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, equipment and leasehold improvements $	Computer hardware $	Motor vehicles $	Total $
At 1 January 2011				
Cost	1,603,110	746,218	100,373	2,449,701
Accumulated depreciation	(458,353)	(425,756)	(54,812)	(938,921)
Net book amount	**1,144,757**	**320,462**	**45,561**	**1,510,780**
Year ended 31 December 2011				
Additions	192,390	96,497	34,756	323,643
Depreciation	(208,002)	(255,842)	(22,392)	(486,236)
Closing net book amount	**1,129,145**	**161,117**	**57,925**	**1,348,187**
At 31 December 2011				
Cost	1,795,500	842,715	135,129	2,773,344
Accumulated depreciation	(666,355)	(681,598)	(77,204)	(1,425,157)
Net book amount	**1,129,145**	**161,117**	**57,925**	**1,348,187**
Year ended 31 December 2012				
Additions	27,055	20,224	-	47,279
Depreciation	(244,147)	(85,961)	(27,026)	(357,134)
Closing net book value	**912,053**	**95,380**	**30,899**	**1,038,332**
At 31 December 2012				
Cost	1,822,555	862,939	135,129	2,820,623
Accumulated depreciation	(910,502)	(767,559)	(104,230)	(1,782,291)
Net book amount	**912,053**	**95,380**	**30,899**	**1,038,332**

As a result of the conversion to IFRS computer software costs previously included in Property, Plant and Equipment were reclassified as Intangible Assets as detailed in note 14.

14. INTANGIBLE ASSETS

	2012 $	2011 $	1 January 2011 $
Underwriting system – other intangible asset			
Cost	2,056,157	1,928,644	1,928,644
Accumulated amortisation	(1,897,226)	(1,835,898)	(1,741,336)
Net book amount	**158,931**	**92,746**	**187,308**
Year ended 31 December			
At beginning of year	92,746	187,308	443,995
Net additions & improvements	127,513	-	-
Amortisation	(61,328)	(94,562)	(256,687)
Closing net Book amount	**158,931**	**92,746**	**187,308**

15. OTHER LIABILITIES

	2012 $	2011 $	1 January 2011 $
These include:			
Reinsurance balance payable	11,471,680	19,671,342	14,626,215
Deferred ceding commission	8,861,968	12,841,305	11,015,856
Commission payable	1,899,909	3,168,200	3,674,897
Accounts payable	1,067,414	1,147,772	1,867,054
Profit commission payable	1,596,431	1,170,644	1,171,953
Premium taxes payable	709,094	902,210	550,491
Total	**25,606,496**	**38,901,473**	**32,906,466**

16. SHARE CAPITAL

	2012 $	2011 $	1 January 2011 $
Authorised - common shares of a par value of $1 each	500,000	500,000	500,000
Issued - common shares of a par value of $1 each	**320,555**	**320,555**	**320,555**

	Number of shares outstanding	Ordinary Shares $	Contributed Surplus $	Total $
At 1 January 2011	320,555	320,555	29,323,775	29,644,330
At 31 December 2011 and 2012	**320,555**	**320,555**	**29,323,775**	**29,644,330**

17. INSURANCE CONTRACTS CLAIMS & ADJUSTMENT BENEFITS & EXPENSES

	2012 $	2011 $
Insurance contracts expenses paid	9,504,429	10,482,177
Reinsurance recoveries received	(7,083,967)	(8,458,198)
Change in insurance contracts liabilities	(1,828,004)	3,780,464
Change in reinsurance assets	2,288,032	(3,542,285)
Total	**2,880,490**	**2,262,158**

18. OPERATING EXPENSES

	2012 $	2011 $
Salaries & wages	4,200,748	4,040,777
Professional fees	1,099,007	875,527
Office & administration expenses	972,149	1,381,024
Advertising, promotion and business development	958,409	901,477
Rent, utilities and insurance	829,852	808,744
Bank charges	707,908	739,800
Depreciation and amortisation	418,462	580,798
Licence, acquisition & Government fees	226,527	367,825
Total	**9,413,062**	**9,695,972**

19. INCOME TAXES

Income tax is calculated and payable on the profits earned in jurisdictions with corporate tax requirements.

A. INCOME TAX

The income tax expense comprises:

	2012 $	2011 $
Current tax expense	-	126,700
Current tax credit	(179,344)	-
Deferred taxes	(391,272)	(3,704)
Total	**(570,616)**	**122,996**

The taxation charge on taxable income differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2012 $	2011 $
IHIC USVI (loss)/profit before corporation tax	(809,457)	328,866
Prior year adjustments	(179,344)	-
Tax calculated at effective rate of 37.4% (2011: 37.4%)	(302,737)	122,996
Tax effect of increase in tax rate	(88,535)	-
	(570,616)	**122,996**

B. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settles the balances on a net basis. The deferred income tax asset and liability relates to the following items:

	2012 $	2011 $	1 January 2011 $
Deferred tax assets:			
Net unearned premiums	172,883	155,158	177,966
Outstanding claims	13,842	18,149	20,303
Deferred ceding commissions	912,692	1,061,346	944,002
Capital loss carry forward	83,406	103,912	110,692
Loss carried forward	588,768	-	-
Gross deferred tax asset	**1,771,591**	**1,338,565**	**1,252,963**
Deferred tax liabilities:			
Deferred acquisition costs	797,804	756,050	674,152
Net deferred tax asset	**973,787**	**582,515**	**578,811**

C. INCOME TAX RECEIVABLE

	2012 $	2011 $
Income tax receivable at beginning of year	343,530	470,230
Tax payments made	-	-
Current tax expense for year	-	(126,700)
Current tax credit	179,344	-
Income tax receivable at end of year	**522,874**	**343,530**

20. RELATED PARTY TRANSACTIONS

A number of the subsidiaries as disclosed in note 1 transacted with the Group during the year in the normal course of business. These transactions are eliminated on consolidation.

Key management personnel have been defined as the senior executive team and Board of Directors of the Group. The following transactions were carried out with key management and related parties:

At 30 March 2012, BF&M Limited acquired 100% of the issued and outstanding shares of the parent company, Island Heritage Holdings Ltd. Related party disclosures listed below take this change in ownership into account by only showing transactions with the previous ultimate parent for the 3 months period ended 31 March 2012 and only show balances for the 9 months post acquisition period and as at 31 December 2012 with the ultimate parent.

	2012 $	2011 $
A - Sale of insurance contracts & other services		
Sales of insurance contracts:		
Key management	8,221	8,230
BF&M Limited	312,403	-
IHHL Former Minority Shareholder B	623,457	3,883,054
Income tax receivable at end of year	**944,081**	**3,891,284**

	2012 $	2011 $
B - Purchase of products and services		
Reinsurance:		
IHHL Former Majority Shareholder A	(8,439,002)	(40,061,317)
IHHL Former Minority Shareholder C	-	(85,080)
Net change in unearned premium:		
IHHL Former Majority Shareholder A	(18,695,143)	2,421,634
IHHL Former Minority Shareholder B	1,909,404	(64,508)
IHHL Former Minority Shareholder C	-	-
Insurance contracts benefits & expenses:		
IHHL Former Key management (claim payment)	-	9,430
IHHL Former Majority Shareholder A	(2,737,763)	7,584,419
Commission expense:		
IHHL Former Minority Shareholder B	(91,149)	(551,174)
Commission income:		
IHHL Former Majority Shareholder A	5,225,050	17,171,174
Investment income:		
IHHL Former Minority Shareholder B	378	1,209
Operating expenses:		
IHHL Former Minority Shareholder B	(74,819)	(292,611)
IHHL Former Majority Shareholder A (operational support)	(100,097)	(442,235)
BF&M (operational support)	(38,790)	-
	(23,041,931)	**(14,309,059)**

	2012 $	2011 $
C - Key Management compensation		
Salary and other compensation	1,344,625	1,232,788
Group pension & medical contributions	79,249	68,701
	1,423,874	**1,301,489**

20. RELATED PARTY TRANSACTIONS (continued)

Key management is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

	2012 $	2011 $	1 January 2011 $
D - Year end balances related parties			
Assets			
Cash and cash equivalents:			
IHHL Former Minority Shareholder C	-	3,644,095	2,585,331
IHHL Former Majority Shareholder A	-	1,028,730	1,680,739
Investments & derivative financial instruments:			
IHHL Former Majority Shareholder A	-	23,499,257	25,846,849
Insurance receivable & other assets:			
IHHL Former Minority Shareholder C	-	1,978,165	751,215
IHHL Former Majority Shareholder A	-	7,122,360	4,342,480
Reinsurance assets:			
IHHL Former Majority Shareholder A	-	22,945,811	18,307,341
Deferred policy acquisition costs:			
IHHL Former Minority Shareholder C	-	278,673	265,921
Total assets	**-**	**60,497,091**	**53,779,876**
Liabilities			
Insurance contract liabilities:			
IHHL Former Minority Shareholder C	-	1,909,404	1,844,896
Other liabilities:			
IHHL Former Minority Shareholder C	-	269,270	91,934
IHHL Former Majority Shareholder A	-	18,993,272	15,480,165
Total Liabilities	**-**	**21,171,946**	**17,416,995**

	2012 $	2011 $
E - Loans from related parties		
At beginning of year	368,946	487,640
Loans advanced	198,108	123,911
Loan repayments made	(332,913)	(242,605)
At end of year	**234,141**	**368,946**

	2012 $	2011 $
F - Loans to related Parties		
At beginning of year	2,927,156	1,342,945
Loans advanced	1,051,192	2,227,145
Loan repayments received	(81,233)	(642,934)
At end of year	**3,897,115**	**2,927,156**

Loans to and from related parties are interest free and payable on demand.

21. COMMITMENTS

A. Operating lease commitments

The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

On December 16, 2010, the Group entered into a license agreement with The Governor of the Cayman Islands to sponsor and take over the responsibility of maintenance, and horticultural and aesthetic appearance of the roundabout on Grand Cayman. This agreement is valid for a period of 5 years with an option to extend. The cost of maintenance is estimated to be US$73,000 for the reaming lease period and will be expensed through the statement of comprehensive income when incurred.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012 $	2011 $
No later than 1 year	254,267	465,356
Later than 1 year and no later than 5 years	77,732	331,999
Later than 5 years	-	-
Total	**331,999**	**797,355**

The total operating lease expense of $552,358 (2011 - $580,530) is included within operating expenses as per note 18.

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