

Consolidated Financial Statements of

J.S. JOHNSON & COMPANY LIMITED

Year ended December 31, 2011

J.S. JOHNSON & COMPANY LIMITED

Consolidated Financial Statements

Year ended December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
J.S. Johnson & Company Limited

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 consolidated financial position of J.S. Johnson & Company Limited as at December 31, 2011 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 20, 2012

J.S. JOHNSON & COMPANY LIMITED

Consolidated Statement of Financial Position

December 31, 2011, with corresponding figures for 2010
(Expressed in Bahamian dollars)

	Note	2011	2010
ASSETS			
Cash and bank balances	6, 25	\$ 6,426,316	5,573,352
Term deposits	7, 25	8,059,928	8,536,162
Accounts receivable	4, 25	8,673,547	9,808,323
Due from insurance carriers	9, 25	1,385,851	829,212
Investments in securities			
- fair value through profit or loss	8, 25	2,782,298	2,638,877
- held-to-maturity	8, 25	9,711,652	9,236,911
- available for sale	8, 25	2,000,000	2,312,500
Prepayments and other assets	8, 10, 25	1,175,870	1,106,889
Prepaid reinsurance premiums	14	17,056,594	16,780,244
Reinsurance recoveries	5, 25	15,293,640	11,266,798
Intangible asset	11	306,846	—
Investment properties	12	1,526,516	1,969,463
Property, plant and equipment	13	8,843,327	8,861,725
Total assets		\$ 83,242,385	78,920,456
LIABILITIES			
General insurance funds:			
Unearned premium reserve	14	\$ 20,605,805	20,283,926
Outstanding claims	14, 25	17,746,362	13,172,341
		38,352,167	33,456,267
Other liabilities:			
Due to related parties	23, 25	578,454	520,586
Accounts payable	15, 25	2,584,715	4,262,434
Due to reinsurers	5, 25	3,221,643	3,736,059
Accrued expenses and other liabilities	23, 25	2,937,011	2,882,805
Unearned commission reserve		4,379,196	4,284,724
Total liabilities		52,053,186	49,142,875
Net assets		\$ 31,189,199	29,777,581
EQUITY			
Share capital			
Authorized, issued and fully paid:-			
8,000,000 ordinary shares of \$0.01 each		\$ 80,000	80,000
Retained earnings	20	20,849,873	19,337,415
Interest in own shares	22	(84,600)	(84,600)
		20,845,273	19,332,815
Non-controlling interest		10,343,926	10,444,766
Commitments and contingencies	21		
Total equity		\$ 31,189,199	29,777,581

See accompanying notes to consolidated financial statements.

These consolidated financial statements were approved for issue on behalf of the Board of Directors on April 20, 2012 by:



Director



Director

J.S. JOHNSON & COMPANY LIMITED

Consolidated Statement of Comprehensive Income

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

	Note	2011	2010
INCOME			
Net commission and fees		\$ 19,910,126	18,738,119
Net premiums earned	16	7,249,169	8,053,565
Investment income	6, 7, 8, 17	2,013,199	1,656,444
Profit on sale of property, plant and equipment		11,350	22,500
Total income		29,183,844	28,470,628
EXPENSES			
Salaries and employees benefits	19, 23	9,988,598	9,615,762
Net claims incurred	14	3,523,988	1,669,322
Excess of loss reinsurance		3,031,596	3,247,898
Depreciation and amortization	11, 12, 13	760,318	687,468
Change in net unrealized loss on investments in securities	8	106,480	135,825
Revaluation loss on investment properties	12	428,586	–
Other operating expenses		4,111,596	3,452,490
Total expenses		21,951,162	18,808,765
Net income and total comprehensive income		\$ 7,232,682	9,661,863
Attributable to:			
Equity holders of the Company	22	\$ 6,624,778	6,978,749
Non-controlling interest		607,904	2,683,114
		\$ 7,232,682	9,661,863
Earnings per share for the profit attributable to the equity holders of the Company	22	\$ 0.83	0.88

See accompanying notes to consolidated financial statements.

J.S. JOHNSON & COMPANY LIMITED

Consolidated Statement of Changes in Equity

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

	Share Capital	Retained earnings	Interest in own Shares	Total Shareholders' Equity	Non- Controlling Interest	Total Equity
Balance at December 31, 2009	\$ 80,000	17,470,986	(84,600)	17,466,386	8,101,652	25,568,038
Total comprehensive income for the year:						
Net income	–	6,978,749	–	6,978,749	2,683,114	9,661,863
	–	6,978,749	–	6,978,749	2,683,114	9,661,863
Distributions to owners:						
Dividends (note 18)		(5,112,320)	–	(5,112,320)	(340,000)	(5,452,320)
	–	(5,112,320)	–	(5,112,320)	(340,000)	(5,452,320)
Balance at December 31, 2010	80,000	19,337,415	(84,600)	19,332,815	10,444,766	29,777,581
Total comprehensive income for the year:						
Net income	–	6,624,778	–	6,624,778	607,904	7,232,682
	–	6,624,778	–	6,624,778	607,904	7,232,682
Distributions to owners:						
Dividends (note 18)	–	(5,112,320)	–	(5,112,320)	(708,744)	(5,821,064)
	–	(5,112,320)	–	(5,112,320)	(708,744)	(5,821,064)
Balance at December 31, 2011	\$ 80,000	20,849,873	(84,600)	20,845,273	10,343,926	31,189,199

See accompanying notes to consolidated financial statements.

J.S. JOHNSON & COMPANY LIMITED

Consolidated Statement of Cash Flows

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

	Note	2011	2010
Cash flows from operating activities:			
Net income		\$ 7,232,682	9,661,863
Adjustments for:			
Unearned premium reserve		(45,529)	751,497
Depreciation and amortization		760,318	687,468
Profit on sale of property, plant and equipment		(11,350)	(22,500)
Change in net unrealized losses on investments in securities		106,480	135,825
Revaluation loss on investment properties		428,586	–
Interest income	17	(1,268,190)	(1,387,524)
Dividend income	17	(249,717)	(256,796)
Bad debts		111,144	98,141
Cash from operations before changes in assets and liabilities		7,064,424	9,667,974
(Increase) decrease in assets:			
Accounts receivable		1,023,632	777,276
Due from insurance carriers		(556,639)	1,003,887
Due from related parties		–	432,547
Prepayments and other assets		(70,872)	(27,400)
Prepaid reinsurance premiums		(276,350)	1,586,559
Reinsurance recoveries		(4,026,842)	1,680,673
Increase (decrease) in liabilities:			
Unearned premium reserve		367,408	(3,089,552)
Outstanding claims		4,574,021	(2,169,056)
Due to related parties		57,868	(133,966)
Accounts payable, accrued expenses and other liabilities		(1,623,515)	63,240
Due to reinsurers		(514,416)	(515,542)
Unearned commission reserve		94,472	(279,008)
Net cash provided by operating activities		6,113,191	8,997,632
Cash flows from investing activities:			
Net maturity/(placement) of term deposits		448,974	(583,846)
Proceeds from sale of property, plant and equipment		11,350	22,500
Purchase of intangible asset		(383,600)	–
Purchase of property, plant and equipment		(650,805)	(1,551,594)
Purchase of investments in securities		(749,900)	(1,444,300)
Proceeds from sale of investments in securities		312,500	405,000
Interest received		1,320,711	1,299,941
Dividends received		251,607	285,868
Net cash provided by (used in) investing activities		560,837	(1,566,431)

J.S. JOHNSON & COMPANY LIMITED

Consolidated Statement of Cash Flows (continued)

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

	2011	2010
Cash flows from financing activities:		
Dividends paid to shareholders	\$ (5,112,320)	(5,112,320)
Dividends paid to non-controlling interest	(708,744)	(340,000)
Net cash used in financing activities	(5,821,064)	(5,452,320)
Net increase in cash and cash equivalents	852,964	1,978,881
Cash and cash equivalents, beginning of year	5,573,352	3,594,471
Cash and cash equivalents, end of year	\$ 6,426,316	5,573,352
Supplemental cash flow information:		
Premium tax paid	\$ 1,912,317	2,155,596

See accompanying notes to consolidated financial statements.

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

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

1. Incorporation and Activity

J.S. Johnson & Company Limited (“the Company”) and its subsidiaries, Insurance Company of The Bahamas Limited (“ICB”) and J.S. Johnson & Company (Turks & Caicos) Limited (“JSJ Turks & Caicos”) (together, the Group) carry on general insurance business. The Company and JSJ Turks & Caicos carry on business as agents and brokers in The Bahamas and the Turks & Caicos Islands, respectively. ICB is licensed to operate as a property and casualty insurance company in The Bahamas and the Turks & Caicos Islands under the Insurance Act 1969, as amended, and the Insurance Ordinance, 1989, respectively.

The Company is incorporated in The Commonwealth of The Bahamas. The registered office of the Company and ICB are situated at the offices of Messrs. McKinney, Bancroft & Hughes, Mareva House, No. 4 George Street, Nassau, The Bahamas. The registered office of JSJ Turks & Caicos is situated at the offices of Twa, Marcelin & Wolf, Chancery Court, Leeward Highway, Providenciales, Turks & Caicos Islands, BWI.

The Company’s principal place of business is located at 34 Collins Avenue, Nassau, The Bahamas. ICB’s principal place of business is located at 33 Collins Avenue, Nassau, The Bahamas. During the year JSJ Turks & Caicos’ principal place of business was relocated to Graceway Plaza, Leeward Highway, Providenciales, Turks & Caicos Islands, BWI.

2. Basis of Preparation

(a) *Statement of compliance*

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

(b) *Basis of measurement*

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

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

(c) *Functional and presentation currency*

These consolidated financial statements are presented in Bahamian dollars, which is the Company’s functional currency.

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 2011

(Expressed in Bahamian dollars)

2. Basis of Preparation *(continued)*

(d) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in notes 3(b), 3(c), 3(g), 3(i), 3(j), 11, 12, 13,14, 25 and 26.

3. Summary of Significant Accounting Policies

The principal accounting policies set out below have been applied consistently by the Group and are consistent with those used in the previous year, except as explained in note 3(i), relating to the recognition and measurement of intangible asset.

(a) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control is defined where the Company has the power, directly or indirectly, to govern the financial and operating policies of such entities so as to obtain benefits from their activities. Entities of which the Company holds, directly or indirectly, the majority of the voting rights are fully consolidated.

Entities that are less than 50% owned, but in which the Company exercises de facto control, that is, has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities, are considered to be subsidiaries of the Company. The financial statements of such entities are fully consolidated into the Group's consolidated financial statements from the date that control commences until the date that control ceases.

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in net income or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Goodwill at the acquisition date is measured as the fair value of the consideration transferred, plus the recognized amount of any non-controlling interests in the acquiree, plus, if the business combination is achieved in stages, the fair value of the existing equity interest

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

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

3. Summary of Significant Accounting Policies *(continued)*

(a) Basis of consolidation (continued)

in the acquiree, less the net recognized amounts (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in net income or loss in the consolidated statement of comprehensive income. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in net income or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in net income or loss.

The consolidated financial statements include the accounts of the Company and the following entities:

Name	Country of Incorporation	Ownership
Insurance Company of The Bahamas Limited	The Bahamas	40%
J.S. Johnson & Company (Turks & Caicos) Limited	Turks & Caicos Islands, BWI	80%

Inter-company transactions and balances are eliminated on consolidation. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interest in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interest consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(b) Insurance contracts

(i) Classification, recognition and measurement

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

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

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

3. Summary of Significant Accounting Policies *(continued)*

(b) Insurance contracts (continued)

(i) Classification, recognition and measurement (continued)

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

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

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

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

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

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

Claims and loss adjustment expenses are charged to income as incurred based on the known or estimated liability for compensation owed to policyholders or third parties. They include direct or indirect claims settlement costs and arise from events that have occurred up to the reporting date regardless of whether or not they have been reported. Gross outstanding claims comprise the estimated cost of all claims incurred but not settled as of the reporting date whether reported or not. The Group does not discount its liabilities for outstanding claims. Liabilities for outstanding claims are estimated using: (a) the judgment of the Company’s claims manager in

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

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

3. Summary of Significant Accounting Policies *(continued)*

(b) Insurance contracts (continued)

(i) Classification, recognition and measurement (continued)

regards to routine claims, (b) external legal opinion in connection with more complex claims, and (c) statistical analyses for claims incurred but not reported.

(ii) Liability adequacy test

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

(iii) Reinsurance contracts held and assumed

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

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

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

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

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

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

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

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

3. Summary of Significant Accounting Policies *(continued)*

(b) Insurance contracts (continued)

(iii) Reinsurance contracts held and assumed (continued)

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

(iv) Portfolio transfer

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

(v) Receivables and payables related to insurance contracts

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

(c) Accounts receivable

Accounts receivable, other than receivables relating to insurance contracts, are recognized initially at fair value and subsequently measured at amortized cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

(d) Segment reporting

The Group determines and presents operating segments based on the information that is provided to the Managing Director, who is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any other Group entities. An operating segment's operating results are reviewed regularly by the Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results include items directly

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

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

3. Summary of Significant Accounting Policies *(continued)*

(d) Segment reporting (continued)

attributable to a segment as well as those that can be allocated on a reasonable basis.

(e) Foreign currency translation

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

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

(f) Investment property

The Group classifies property held for capital appreciation and rental as investment property. Investment property, which comprises land and buildings, is carried at cost using the cost model and measured in accordance with IAS 16 – *Property, Plant and Equipment*. Depreciation on the buildings is recognized in net income or loss in the consolidated statement of comprehensive income on a straight line basis either at the annual rate of 2% or over the estimated useful life of 18.75 years (2010 – 22 years), being the remaining estimated useful life. No depreciation is taken on land. The carrying value of the land and buildings are also assessed annually for any impairment losses.

The fair value of investment property is determined by independent professional appraisals, which are performed every three years. In the intervening years, the Directors determine the fair value of the investment property. The fair value of the investment property is based on market value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. If the investment property is increased as a result of a revaluation, the increase is recognised in other comprehensive income in revaluation surplus. Where the increase reverses a

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

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

3. Summary of Significant Accounting Policies *(continued)*

(f) Investment property (continued)

revaluation decrease previously recognised in income or loss in the statement of comprehensive income, then it is reversed from income or loss only to the extent of the increase previously recognised. A decrease in the revaluation of the investment property is recognised in income or loss and in other comprehensive income only to the extent of any credit balance existing in the revaluation surplus relating to that investment property.

(g) Property, plant and equipment

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

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

Depreciation is recognized in net income or loss in the consolidated statement of comprehensive income on a straight line basis over the estimated useful lives of the items of the assets, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. In the year of acquisition, a full year's depreciation is charged to net income or loss in the consolidated statement of comprehensive income, regardless of the acquisition date.

The estimated depreciation rates for the current and corresponding period are as follows:

Buildings	2%
Furniture & equipment	15%
Motor vehicles	20% to 25%
Leasehold improvements	Duration of lease
Computer hardware & software	20%

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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Notes to Consolidated Financial Statements

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

3. Summary of Significant Accounting Policies *(continued)*

(g) *Property, plant and equipment (continued)*

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

(h) *Financial instruments*

Financial instruments comprise cash and cash equivalents, term deposits, loans and receivables, due from insurance carriers, due from/to related parties, investments in equity and debt securities, due to reinsurers, accounts payable and accrued expenses and other liabilities.

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

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

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

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

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

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

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

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 2011

(Expressed in Bahamian dollars)

3. Summary of Significant Accounting Policies *(continued)*

(h) Financial instruments (continued)

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

quotations for financial instruments traded in active markets.

(ii) Investments held-to-maturity

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

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

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

(iii) Available for sale investments

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

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

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

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

3. Summary of Significant Accounting Policies *(continued)*

(h) Financial instruments (continued)

(iv) Loans and receivables

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

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

(v) Offsetting

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

(vi) Fair value measurement principles

The bases for determination of the fair value of investments classified as at fair value through profit or loss and available for sale are stated above in 3 (h) *(i)* and *(iii)*, respectively.

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted market prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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Notes to Consolidated Financial Statements

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

3. Summary of Significant Accounting Policies *(continued)*

(h) Financial instruments (continued)

(vi) Fair value measurement principles *(continued)*

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

(vii) Amortized cost measurement

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

(i) Intangible assets

Intangible assets include customer relationships acquired from third parties and are stated at cost less accumulated amortization and impairment losses, if any. Amortization is recognized in income or loss in the consolidated statement of comprehensive income on a straight line basis over the estimated useful life of the customer relationship from the date that it is acquired. The estimated useful life of customer relationships is 5 years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Impairment

(i) Financial assets

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

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 2011

(Expressed in Bahamian dollars)

3. Summary of Significant Accounting Policies *(continued)*

(j) Impairment (continued)

(i) Financial assets *(continued)*

All impairment losses are recognized in net income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through net income or loss in the consolidated statement of comprehensive income.

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

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

(ii) Non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in net income or loss in the consolidated statement of comprehensive income. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

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

3. Summary of Significant Accounting Policies *(continued)*

(k) Income and expense recognition

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

Commission income from reinsurers is received on premiums ceded and is recognized over the periods covered by the related policies.

Commission income on agency business is recognized at the time when premiums are billed to customers as the Group has no further service obligations associated with these commissions.

Other revenues and expenses of the Group are recognized on an accrual basis, except as follows:

- i. Dividend income – recognized when the Group’s right to receive payment has been established.
- ii. Treaty profit commission income – recognized in the year in which it is paid by reinsurers.
- iii. Loyalty commission income and profit commission expense – recognized when the Group’s right to receive or obligation to make payment has been established.
- iv. Fronting fees – recognized when premiums are billed to customers as the Group has no further service obligations associated with these fees.
- v. Commission expense – recognized when premiums are billed to customers.

(l) Premium tax

Premium tax is incurred at a rate of 3% (2010 - 3%) of gross premiums written in The Commonwealth of The Bahamas.. Premium tax is recognized when the Company’s obligation to make payment has been established.

(m) Employee benefits

(i) Defined contribution pension plan

The Group has a defined contribution pension plan for eligible employees whereby the Group pays contributions to a privately administered pension plan. The Group has no further payment obligations once the contributions have been paid. The plan requires participants to contribute 5% of their eligible earnings and such amounts are matched by the Group. The Group’s contributions to the defined contribution pension plan are charged to income or loss in the year to which they relate.

(ii) Participation Fund

The Company has a Participation Fund (“the Fund”) for certain key management personnel, the obligations of which are included in accrued expenses and other liabilities in the consolidated statement of financial position. The contributions to

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 2011
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3. Summary of Significant Accounting Policies *(continued)*

(m) Employee benefits (continued)

(ii) Participation Fund (continued)

the Fund are charged to income or loss each year based on the Company's financial performance based on a three year rolling average of the previous years.

(iii) Short-term benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided in net income or loss.

A provision is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a legal and constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(n) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to net income or loss using a straight-line method over the period of the lease.

(o) Related parties

Related parties include affiliates of Aon Corporation, major shareholders, directors and key management personnel who have the authority and responsibility for planning, directing and controlling the activities of the Group (see note 23 for further details).

(p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and, it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

(q) Treasury share capital (Interest in own shares)

Treasury share capital represents the Group's own equity instruments which are acquired and are deducted from equity and accounted for at cost. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(r) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

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Notes to Consolidated Financial Statements

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

3. Summary of Significant Accounting Policies *(continued)*

(s) *Dividends*

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

(t) *New standards, interpretations and amendments to published standards*

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

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

4. Accounts Receivable

Accounts receivable are stated at amortized cost less provision for doubtful accounts. Interest is charged on accounts which are financed at a rate of 10% (2010 - 10%) per annum on the total balance financed for periods of 3 months or 6 months. The Company reserves the right and from time to time may negotiate lower interest rates and longer periods for commercial customers. Collateral is not held against any of the outstanding balances; however the Company has the right to cancel the financed policy for non-payment. As at December 31, 2011 the rates of interest on the premium finance receivable range from 5.25% to 10% per annum (2010 - 4.3% to 10%).

As at December 31 accounts receivable consist of:

	2011	2010
Trade	\$ 7,751,224	8,506,173
Premium finance	1,008,605	1,418,061
Other	43,985	88,775
	8,803,814	10,013,009
Provision for doubtful accounts	(130,267)	(204,686)
	\$ 8,673,547	9,808,323

J.S. JOHNSON & COMPANY LIMITED

Notes to Consolidated Financial Statements

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

4. Accounts Receivable (continued)

The aging analysis of accounts receivable as at December 31 is as follows:

2011

	0 - 6mths	6 - 9 mths	9 - 12 mths	More than 12 mths	Past due and impaired	Total
	\$	\$	\$	\$	\$	\$
Trade	6,046,865	822,054	293,191	458,847	130,267	7,751,224
Premium finance	1,008,605	—	—	—	—	1,008,605
Other	43,985	—	—	—	—	43,985
Total	7,099,455	822,054	293,191	458,847	130,267	8,803,814

2010

	0 - 6mths	6 - 9 mths	9 - 12 mths	More than 12 mths	Past due and impaired	Total
	\$	\$	\$	\$	\$	\$
Trade	6,275,113	1,198,386	333,077	494,911	204,686	8,506,173
Premium finance	1,418,061	—	—	—	—	1,418,061
Other	52,894	—	35,881	—	—	88,775
Total	7,746,068	1,198,386	368,958	494,911	204,686	10,013,009

Based on the Company's current aging procedure, all trade balances over 5 months are considered to be past due but not impaired. All trade balances which have been outstanding for more than one year and have had no activity within the past 12 months are considered to be past due and impaired. Cancellation or extension of the terms of the credit is instituted on a case by case basis. Specific provisions are made against trade balances based on the above aging procedure.

For premium financed receivables, in the event of default of payment by the customer on any of the agreed installments, the balance automatically and immediately becomes due and payable in full. The Company may in its sole discretion reinstate the finance agreement if the overdue installment is paid in full within the grace period. Failure to pay the overdue installments within the grace period will result in the cancellation of the underlying policy. The Company has the sole right to amend the policy after the grace period. As at December 31, 2011 \$233,857 (2010 - \$296,781) related to policies which were in default of payment of the agreed installments and are considered to be past due but not impaired.

The movement in the provision for doubtful accounts as at December 31 is as follows:

	2011	2010
Balance as of January 1	\$ 204,686	151,878
Write-off against provision	(185,563)	(45,333)
Provision for the year	111,144	98,141
Balance as at December 31	\$ 130,267	204,686

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Notes to Consolidated Financial Statements

Year ended December 31, 2011
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5. Underwriting Policies and Reinsurance Agreements

The Group follows the policy of underwriting and reinsuring all contracts of insurance, which limit the retained liability of the Group. The reinsurance of contracts does not, however, relieve the Group of its primary obligation to the policyholders. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, the Group would also be liable for the reinsured amount. The Group's credit risk management procedures are detailed in note 25.

Aon Limited, whose registered office is in London, England, a related party of the Company, is the Group's reinsurance broker and acts as the intermediary between the Group and the reinsurers. Reinsurance contracts between the Group and its reinsurers are renewable annually in accordance with the terms of the individual contracts.

Reinsurance recoveries consist of:

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

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

6. Cash and Bank Balances

The Group earned interest at varying rates up to 0.5% (2010 - varying rates up to 3%) per annum on accounts denominated in Bahamian dollars. Interest earned on demand deposits amounted to \$15,771 (2010 - \$309,375).

7. Term Deposits

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

	Interest rates - 2011	2011	Interest rates - 2010	2010
		\$		\$
Three months – one year	0.13% to 6%	5,361,141	0.1% to 7.5%	5,932,013
One – five years	6% - 7%	2,698,787	6% - 7%	2,604,149
		8,059,928		8,536,162

ICB has placed a \$1,000,000 term deposit with maturity date of December 21, 2012, with a recognised financial institution to meet the requirement of the Insurance Act 2005, as outlined in note 27 under capital management.

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Notes to Consolidated Financial Statements

Year ended December 31, 2011
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8. Investments in Securities

Securities at fair value through profit or loss

Securities at fair value through profit or loss principally comprise marketable equity securities, which are listed on The Bahamas International Securities Exchange, and are stated at fair value using quoted bid prices.

Movements during the year were as follows:

	2011	2010
As at beginning of year	\$ 2,638,877	2,774,702
Additions	249,901	–
Change in net unrealized losses during the year	(106,480)	(135,825)
As of end of year	\$ 2,782,298	2,638,877

As of December 31, 2011, the cost of securities at fair value through profit or loss was \$2,086,374 (2010 - \$1,836,474).

Held-to-maturity securities

Held to maturity securities consist of the following:

	Interest Rates	Maturity	Holdings	2011
The Bridge Authority Bond Bahamas Government Registered Stocks	Prime + 1.5%	2024	128,100	\$ 130,250
	Prime + 0.140625% to 0.625%	2014 - 2037	5,842,000	5,937,057
Clifton Heritage Authority	Prime + 0.75%	2035	281,400	283,139
Consolidated Water (BAH) Ltd.	7.5%	2015	595,000	603,414
Bank of The Bahamas	Prime + 1.75%	2025	750,000	750,000
Bahamas Electricity Corporation	Prime + 0.906%	2021	501,253	500,792
Fidelity Bank (Bahamas) Ltd.	7%	2017	500,000	507,000
Nassau Airport Development Company – Senior Secured Note	8.5%	2031	500,000	500,000
College of The Bahamas	7.0%	2026	500,000	500,000
				\$ 9,711,652

	Interest Rates	Maturity	Holdings	2010
The Bridge Authority Bond Bahamas Government Registered Stocks	Prime + 1.5%	2024	128,100	\$ 130,508
	Prime + 0.140625% to 0.625%	2015 - 2037	5,842,000	5,951,109
Clifton Heritage Authority	Prime + 0.75%	2035	281,400	283,376
Consolidated Water (BAH) Ltd.	7.5%	2015	595,000	603,414
Bank of The Bahamas	Prime + 1.75%	2025	750,000	750,000
Bahamas Electricity Corporation	Prime + 0.906%	2021	501,253	500,792
Fidelity Bank (Bahamas) Ltd.	7%	2017	500,000	507,000
Nassau Airport Development Company – Senior Secured Note	8.5%	2031	500,000	510,712
				\$ 9,236,911

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Notes to Consolidated Financial Statements

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

8. Investments in Securities (continued)

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

Available for sale securities

Available for sale securities consist of the following:

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

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

Fair value hierarchy

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

December 31, 2011

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Equity securities	\$ 2,782,298	–	–	2,782,298
Available for sale securities				
Preference shares	–	2,000,000	–	2,000,000
	\$ 2,782,298	2,000,000	–	4,782,298

December 31, 2010

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Equity securities	\$ 2,638,877	–	–	2,638,877
Available for sale securities				
Preference shares	–	2,312,500	–	2,312,500
	\$ 2,638,877	2,312,500	–	4,951,377

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

8. Investments in Securities *(continued)*

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

9. Due from Insurance Carriers

As of December 31, 2011 balances totaling \$1,385,851 (2010 - \$829,212) comprise funds due from insurance carriers relating to overpayments, cancellations and for policies that were processed subsequent to the year end.

10. Prepayments and Other Assets

	2011	2010
Staff loans and advances (i)	\$ 371,899	360,528
Prepayments and security deposits (ii)	111,807	194,115
Capital projects – deposits (iii)	161,285	161,285
Other assets	530,879	390,961
	\$ 1,175,870	1,106,889

- (i) Included in staff loans and advances are loans which the Company permits its key management personnel to take out against their portion of the value of the Participation Fund. The loans are secured by the Participation Fund and are charged interest at 5.25% (2010 – 5.25%) per annum. At December 31, 2011, loans outstanding amounted to \$Nil (2010 - \$50,000).
- (ii) The Company entered into a Purchase and Sale Agreement dated May 1, 2011 to acquire a customer portfolio from a third party in the Turks & Caicos Islands. Included in prepayments at December 31, 2011 is an amount of \$37,580, which represents the balance of the deposit paid in relation to the acquisition. Included in net commissions and fees in the statement of comprehensive income is \$62,420 related to commissions paid on the acquired portfolio.
- (iii) This balance represents payments made for architect fees related to the planned building extension project, for which the expected date of commencement has not yet been determined.

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11. Intangible Asset

During the year the Company acquired a portfolio from a third party for \$383,600.

	2011	2010
Cost:		
At January 1	\$ —	—
Additions	383,600	—
At December 31	\$ 383,600	—
Accumulated amortization:		
At January 1	\$ —	—
Charge for the year	76,754	—
At December 31	\$ 76,754	—
Net book value	\$ 306,846	—

Management has performed an impairment test as at December 31, 2011 and determined that there was no impairment loss as at December 31, 2011. There have been no changes in the estimates and assumptions which were initially used to assess the fair value of the intangible asset.

12. Investment Properties

Investment property is accounted for using the cost model and is as follows:

	Land	Buildings	Total
Cost/fair value:			
Balance as at January 1, 2011	\$ 1,627,902	378,809	2,006,711
Revaluation:			
Decrease in value	322,046	106,540	428,586
Balance as at December 31, 2011	\$ 1,305,856	272,269	1,578,125
Accumulated depreciation:			
Balance as at January 1, 2011	\$ —	37,248	37,248
Charge for the year	—	14,361	14,361
Balance as at December 31, 2011	\$ —	51,609	51,609
Net book value:			
December 31, 2011	\$ 1,305,856	220,660	1,526,516
December 31, 2010	\$ 1,627,902	341,561	1,969,463

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12. Investment Properties (continued)

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

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

Also included in the carrying value of land is another property valued at \$475,000 (2010 - \$475,000) which is based on the Directors valuation, and which the Directors resolved that there has been no change in the carrying value since the last independent appraisal performed on October 25, 2010, determined using the sales comparison approach.

Included in depreciation in the statement of comprehensive income is the depreciation charge on the building of \$14,361 (2010 - \$14,360).

13. Property, Plant and Equipment

	Land	Building	Furniture, Equipment & Motor Vehicles	Leasehold Improvements	Computer hardware & software	Total
Cost:						
Balance as of January 1, 2011	\$ 2,716,019	6,224,070	1,634,635	910,727	2,812,852	14,298,303
Additions	–	32,101	247,292	83,013	288,399	650,805
Write-offs	–	–	(12,250)	–	(1,077,641)	(1,089,891)
Disposals	–	–	(11,350)	–	–	(11,350)
Balance as of December 31, 2011	\$ 2,716,019	6,256,171	1,858,327	993,740	2,023,610	13,847,867
Accumulated depreciation:						
Balance as of January 1, 2011	\$ –	1,358,331	1,073,328	790,135	2,214,784	5,436,578
Depreciation charge for the year	–	125,145	237,961	68,037	238,060	669,203
Write-offs	–	–	(12,250)	–	(1,077,641)	(1,089,891)
Disposals	–	–	(11,350)	–	–	(11,350)
Balance as of December 31, 2011	\$ –	1,483,476	1,287,689	858,172	1,375,203	5,004,540
Net book value:						
December 31, 2011	\$ 2,716,019	4,772,695	570,638	135,568	648,407	8,843,327
December 31, 2010	\$ 2,716,019	4,865,739	561,307	120,592	598,068	8,861,725

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14. Outstanding Claims and Net Claims Incurred

Outstanding claims

As at December 31, 2011 outstanding claims of \$17,746,362 (2010 - \$13,172,341) are shown gross of reinsurance recoveries of \$14,395,640 (2010 - \$10,572,601) as disclosed in note 5.

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

Net claims incurred

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

Assumptions, change in assumptions and sensitivity

(i) Process used to decide on assumptions

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

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

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

(ii) Sensitivity analysis – claims development

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

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14. Outstanding Claims and Net Claims Incurred *(continued)*

Assumptions, change in assumptions and sensitivity (continued)

The following tables show the development of the Group's claims costs by Accident year over the period of 2006 to 2011:

Insurance claims other than catastrophe – gross:

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

Insurance claims other than catastrophe – net retention:

Accident Year	2006	2007	2008	2009	2010	2011	Total
	\$	\$	\$	\$	\$	\$	\$
Original estimate of ultimate claims cost at end of accident year	2,458,083	2,418,233	2,371,905	2,123,112	2,884,139	3,659,091	15,914,563
Current estimate of cumulative claims	2,190,044	2,045,216	2,232,448	1,869,344	2,273,448	3,659,091	14,269,591
Cumulative payments to date	(2,079,082)	(1,981,907)	(2,077,903)	(1,656,566)	(2,008,849)	(2,308,827)	(12,113,134)
Liability recognized in statement of financial position	110,962	63,309	154,545	212,778	264,599	1,350,264	2,156,457
Liability in respect of years prior to 2006							296,265
Net claims outstanding included in statement of financial position							2,452,722

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14. Outstanding Claims and Net Claims Incurred *(continued)*

(iii) Movements in outstanding claims

Year ended December 31	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	\$ 12,322,341	(9,889,601)	2,432,740	14,341,397	(11,277,845)	3,063,552
Incurred but not reported	850,000	(683,000)	167,000	1,000,000	(804,500)	195,500
Total claims outstanding at beginning of the year	13,172,341	(10,572,601)	2,599,740	15,341,397	(12,082,345)	3,259,052
Cash paid for claims settled in the year	(20,219,715)	17,446,708	(2,773,007)	(11,556,126)	9,227,491	(2,328,635)
Increase in liabilities						
- arising in current year claims	25,641,596	(21,782,847)	3,858,749	11,537,277	(9,278,602)	2,258,675
- arising from prior years claims	(847,860)	513,100	(334,760)	(2,000,207)	1,439,355	(560,852)
- movement in incurred but not but not reported	—	—	—	(150,000)	121,500	(28,500)
Total claims outstanding at end of the year	\$ 17,746,362	(14,395,640)	3,350,722	13,172,341	(10,572,601)	2,599,740
Outstanding claims at December 31, consist of:						
Notified claims	\$ 16,896,362	(13,712,640)	3,183,722	12,322,341	(9,889,601)	2,432,740
Incurred but not reported	850,000	(683,000)	167,000	850,000	(683,000)	167,000
Total claims outstanding at end of the year	\$ 17,746,362	(14,395,640)	3,350,722	13,172,341	(10,572,601)	2,599,740

(iv) Unearned premium reserve

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

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

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

15. Accounts Payable

Included in accounts payable is \$990,979 (2010 - \$1,205,020) representing customer accounts with credit balances. These credit balances comprise funds received from customers for policies that were processed subsequent to the year end or amounts due to customers as returned premiums for cancelled or amended policies.

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16. Net Premiums Earned

	2011	2010
Gross written premiums	\$ 42,713,517	41,909,947
Premium tax	(1,224,674)	(1,223,057)
	41,488,843	40,686,890
Ceded to reinsurers	(34,194,145)	(33,384,822)
Net retained premiums	7,294,698	7,302,068
(Increase)/decrease in unearned premium reserve (note 14)	(45,529)	751,497
Net premiums earned	\$ 7,249,169	8,053,565

17. Investment Income

	2011	2010
Interest income	\$ 1,268,190	1,387,524
Dividend income	249,717	256,796
Other income	495,292	12,124
	\$ 2,013,199	1,656,444

18. Dividends

During the year, the Company declared and paid dividends of \$0.64 per share (2010 – \$0.64 per share) totaling \$5,112,320 (2010 - \$5,112,320) in respect of the final quarter of 2010 and the first three quarters of 2011.

19. Pension Plan

The Group's employees are members of a defined contribution plan covering all eligible employees. This plan provides for benefits to be paid upon retirement. Employees are required to contribute an amount equal to 5% of their eligible earnings, which is matched by the Group. The amount charged to net income or loss in the consolidated statement of comprehensive income during the year for pension costs was \$360,119 (2010 - \$377,533).

20. Retained Earnings

ICB has made an appropriation to a general reserve for unforeseeable risks and future losses. The general reserve can only be distributed following approval by the Board of Directors of ICB. Included in retained earnings is \$800,000 (2010 - \$800,000) representing the Company's 40% share of this reserve.

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21. Commitments and Contingencies

Lease commitments

The Group leases certain premises under non-cancellable operating leases. Future minimum rental commitments are as follows:

	2011	2010
Not later than one year	\$ 93,210	47,475
More than one year but not later than five years	383,600	—
	\$ 476,810	47,475

The Group also leases certain premises on a month-to-month basis which have not been included in the future minimum rental commitments.

Contingencies

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

22. Earnings per Share

Basic and diluted earnings per share are calculated by dividing the net income attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2011	2010
Net income attributable to equity holders of the Company	\$ 6,624,778	6,978,749
Weighted average number of ordinary shares in issue	8,000,000	8,000,000
Less: Interest in own shares	(30,000)	(30,000)
	7,970,000	7,970,000
Earnings per share	\$ 0.83	0.88

ICB holds 30,000 (2010 - 30,000) shares at a cost of \$84,600 (2010 - \$84,600) in the Company's own shares, which have been excluded from the weighted average number of ordinary shares in issue in the calculation of the earnings per share.

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23. Related Party Transactions

Related parties comprise: i) major shareholders, directors and key management personnel of the Group; ii) entities in which the parties in (i) have control or significant influence; and iii) entities that have control or significant influence of the parties in (i).

Aon UK Holdings Intermediaries Ltd. (formerly Bain Hogg Management Ltd.), a company incorporated in the United Kingdom, and a subsidiary of Aon Corporation (Aon), is the Company's principal shareholder with a shareholding of 40% (2010 - 40%) of the Company's outstanding shares. Aon, through its subsidiaries, serves as the Group's reinsurance broker. In these consolidated financial statements, an affiliate is defined as a subsidiary or associate of Aon.

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

	2011	2010
	\$	\$
Assets/(Liabilities)		
Staff loans and advances/Participation Fund (note 10)	–	50,000
Due to related parties	(578,454)	(520,586)
Accrued expenses and other liabilities	(731,231)	(848,954)
Key management compensation		
Salaries and other short-term employee benefits	2,399,868	2,404,060
Post employment benefits	794,365	913,225

24. Segment Information

The Group is organized into two business segments, which are described below. Each segment offers different services, and is managed separately. For each business segment, the Group's Managing Director reviews internal management reports on, at least, a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Insurance agents & brokers, where the Group sells and administers insurance policies on behalf of those insurance companies it represents. The Group bears no business risk associated with the insurance policies.
- General insurance underwriting where the Group assumes its portion of the business risk associated with the insurance policies.

All transactions between the business segments are conducted on normal commercial terms and conditions.

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24. Segment Information *(continued)*

The segment results for the year ended December 31, 2011 are as follows:

	Agents & Brokers	Underwriting	Total
Net commissions & fees	\$ 19,550,411	359,715	19,910,126
Net premiums earned (note 16)	–	7,249,169	7,249,169
Interest income	256,597	1,011,593	1,268,190
Dividend income	–	249,717	249,717
Other income	222,401	272,891	495,292
Profit on sale of property, plant & equipment	11,350	–	11,350
	\$ 20,040,759	9,143,085	29,183,844
Insurance expenses	\$ –	6,555,585	6,555,585
Depreciation	693,169	67,149	760,318
Change in net unrealised loss on investments in securities	–	106,480	106,480
Revaluation loss on investments properties	–	428,586	428,586
Other expenses	13,076,981	1,023,212	14,100,193
	\$ 13,770,150	8,181,012	21,951,162
Net income	\$ 6,270,609	962,073	7,232,682

The segment results for the year ended December 31, 2010 are as follows:

	Agents & Brokers	Underwriting	Total
Net commissions & fees	\$ 16,083,453	2,654,666	18,738,119
Net premiums earned (note 16)	–	8,053,565	8,053,565
Interest income	380,978	1,006,546	1,387,524
Dividend income	–	256,796	256,796
Other income	12,124	–	12,124
Profit on sale of property, plant & equipment	22,500	–	22,500
	\$ 16,499,055	11,971,573	28,470,628
Insurance expenses	\$ –	4,917,220	4,917,220
Depreciation	609,416	78,052	687,468
Change in net unrealised loss on investments in securities	–	135,825	135,825
Other expenses	12,172,384	895,868	13,068,252
	\$ 12,781,800	6,026,965	18,808,765
Net income	\$ 3,717,255	5,944,608	9,661,863

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24. Segment Information *(continued)*

The segment assets and liabilities at December 31, 2011 for the year then ended are as follows:

	Agents & Brokers	Underwriting	Total
Total assets	\$ 25,227,897	58,014,488	83,242,385
Total liabilities	10,970,962	41,082,224	52,053,186

The segment assets and liabilities at December 31, 2010 for the year then ended are as follows:

	Agents & Brokers	Underwriting	Total
Total assets	\$ 25,438,947	53,481,509	78,920,456
Total liabilities	12,799,347	36,343,528	49,142,875

25. Risk Management

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

The following notes expand on the nature of the aforementioned risks and the manner in which the Group manages them.

(a) *Insurance risk*

Insurance risk is the risk that the insured event might occur. At the individual policy level and also at the portfolio level, there is uncertainty in terms of both frequency of occurrence and severity of loss. For any given portfolio of insurance contracts, where the theory of probability is applied to pricing and loss reserving, the principal risk that the Group faces is that claims and other costs might exceed premiums earned. This could occur because the frequency or severity of claims is greater than estimated or that estimated original policy rates prove not to be sustainable or a combination of both. Experience shows that the greater the commonality of risk within a class of business, the smaller will be the relative variability in the expected outcome. In addition, a more diversified portfolio is less vulnerable to deterioration in the loss experience in any particular class of business. The Group has developed its underwriting strategy to

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25. Risk Management *(continued)*

(a) Insurance risk (continued)

produce a diversified portfolio of insurance risks. Within each of the individual classes of business it has sought to achieve, wherever possible, a sufficiently large population of risks to reduce the variability of the expected outcome.

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

Casualty insurance risks

(i) Frequency and severity of claims

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

The Group manages these risks by means of its well developed underwriting and reinsurance strategies and also by adopting a proactive approach to claims handling. The underwriting strategy attempts to ensure that the portfolio remains biased towards high quality risks. Underwriting guidelines are in place to enforce appropriate risk selection criteria. The reinsurance arrangements include both proportional and catastrophe excess of loss coverage.

The effect of such reinsurance arrangements is to limit the total net insurance loss that the Group can suffer in any one year.

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

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

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25. Risk Management *(continued)*

(a) Insurance risk (continued)

Property insurance contracts

(i) Frequency and severity of claims

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

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

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

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

(b) Financial risks

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

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

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25. Risk Management *(continued)*

(b) Financial risks (continued)

Credit risk *(continued)*

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

The Group monitors its credit risk exposure relating to accounts receivable on a daily basis. Management separately reviews all trade receivables (provided mainly to commercial businesses) that are in excess of \$100,000 on a monthly basis for any indication of impairment. As at December 31, 2011, the total of trade receivables in excess of this amount was \$5,839,879 (2010 - \$3,434,928). Historically, the Company has not experienced significant credit losses on the trade receivables. On the premium financed receivables the Company may, at its discretion, cancel the policies being financed after a 14-day grace period from the date of the missed contractual payment.

The following procedures are also in place to mitigate the Group's exposure to credit risk:

- places cash with credit-worthy banks;
- monitors the payment history of its customers before continuing to do business with them;
- invests in debt securities of The Bahamas Government, Government-backed companies and financially sound companies.

The carrying amounts of the financial assets, excluding reinsurance balances, on the consolidated statement of financial position represents the current risk exposure.

Liquidity risk

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

The tables included in note 7 for term deposits and note 8 for investments in securities shows the expected recovery or settlement of financial instruments held from the dates of acquisition. Cash and bank balances as disclosed in note 6 have original maturities of less than three months.

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25. Risk Management (continued)

(b) Financial risks (continued)

Liquidity risk (continued)

The following table summarizes the expected recovery or settlement of financial assets held (within 12 months from the reporting date) and the maturity profile of the Group's liabilities relating to financial instruments and insurance contracts:

Year ended December 31	2011			2010		
	Current	Non-current	Total	Current	Non-current	Total
Financial assets						
Cash and bank balances	\$ 6,426,316	–	6,426,316	5,573,352	–	5,573,352
Term deposits	5,361,141	2,698,787	8,059,928	5,932,013	2,604,149	8,536,162
Accounts receivable	8,214,700	458,847	8,673,547	9,313,412	494,911	9,808,323
Due from insurance carriers	1,385,851	–	1,385,851	829,212	–	829,212
Investments in securities						
- fair value through profit or loss	2,782,298	–	2,782,298	2,638,877	–	2,638,877
- held-to-maturity	–	9,711,652	9,711,652	–	9,236,911	9,236,911
- available for sale	–	2,000,000	2,000,000	262,500	2,050,000	2,312,500
Other assets	1,064,063	–	1,064,063	912,774	–	912,774
Reinsurance recoveries	–	15,293,640	15,293,640	–	11,266,798	11,266,798
Total	\$ 25,234,369	30,162,926	55,397,295	25,462,140	25,652,769	51,114,909
Financial liabilities						
Outstanding claims	\$ –	17,746,362	17,746,362	–	13,172,341	13,172,341
Due to related parties	578,454	–	578,454	520,586	–	520,586
Accounts payable	2,584,715	–	2,584,715	4,262,434	–	4,262,434
Due to reinsurers	3,221,643	–	3,221,643	3,736,059	–	3,736,059
Accrued expenses and other liabilities	2,937,011	–	2,937,011	2,882,805	–	2,882,805
Total	\$ 9,321,823	17,746,362	27,068,185	11,401,884	13,172,341	24,574,225
Liquidity Gap	\$ 15,912,546	12,416,564	28,329,110	14,060,256	12,480,428	26,540,684

Market risk

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

Interest-rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group mitigates this risk by investing in interest-bearing assets with floating interest rates, or investing for short time periods. The rates

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25. Risk Management *(continued)*

(b) Financial risks (continued)

Market risk *(continued)*

Interest-rate risk (continued)

of interest on financial instruments are disclosed in notes 4, 6, 7 and 8 in the consolidated financial statements.

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

Price risk

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

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

The Group is exposed to price risks arising from equity investments. Price risk is mitigated by the Group by investing in a diversified portfolio of instruments.

26. Fair Value of Financial Instruments

Most of the Group's financial assets and liabilities are measured at cost or amortised cost, except for financial instruments at fair value through profit or loss and available for sale financial instruments which are measured at fair value as of the reporting date or are carried at values which approximate fair value. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision.

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

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

- (a) immediate or short-term maturity;
- (b) carrying amount approximates or equals market value.

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Notes to Consolidated Financial Statements

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

27. Capital Management

The Group's capital management policies are based on the following requirements:

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

During the year, the Company and ICB completed its re-registration under the Insurance Act 2005 ("the Act") as required by the Insurance Act 2005 and the Company and ICB have the required minimum paid up and unencumbered capital of \$50,000 and \$2,000,000 respectively. ICB is also required to establish and maintain a statutory deposit in respect of its insurance business in The Bahamas, such deposit to be held in trust pursuant to Section 43(2) of the Act and regulation 62 of the Insurance (General) Regulations, 2010 ("the Regulations"). Therefore, as of December 31, 2011, ICB established a Statutory Deposit Trust ("the Trust") in the sum of \$1,000,000 with a recognised financial institution appointed as trustees of the Trust and the Insurance Commission of the Bahamas ("the Commission") as the protectors of the Trust.

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

The Insurance Ordinance 1989 in Turks and Caicos requires that ICB maintains a minimum solvency margin relating to an excess of permitted assets over its liabilities. ICB has been in compliance with this requirement.

The Group has complied with the regulatory imposed capital requirements throughout the year. The Group's policy is to maintain a strong capital base to sustain future development of the business and limit the need to borrow funds. Dividends are paid after the Group ensures that it has sufficient cash on demand to meet operational expenses. There has been no change in the Group's management of capital during the year.

28. Subsequent events

Subsequent to December 31, 2011, the Company declared a quarterly dividend of \$0.16 per share and an extraordinary dividend of \$0.02 per share to shareholders of record as at April 11, 2012.