LAURENTIDE INSURANCE AND MORTGAGE COMPANY LIMITED 2017 AUDITED FINANCIAL STATEMENTS

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Independent auditors' report

To the Shareholder of Laurentide Insurance and Mortgage Company Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Laurentide Insurance and Mortgage Company Limited (the Company) as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Other Matters

The financial statements of the Company for the year ended December 31, 2016 were audited by another firm of auditors whose report dated April 26, 2017, expressed an unmodified opinion on those statements.

As part of our audit of the December 31, 2017 financial statements, we also audited the adjustments described in Note 9 that were applied to amend the December 31, 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the December 31, 2016 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the December 31, 2016 financial statements taken as a whole.

This report, including the opinion, has been prepared for and only for the Company in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

May 24, 2018

Certification of Actuary

This Certificate is prepared in accordance with the provisions of the Insurance Act, 2005 in respect of the life and health insurance business of Laurentide Insurance and Mortgage Company Limited, a wholly-owned subsidiary of Commonwealth Bank Limited.

I have examined the financial position, and valued the policy liabilities for its balance sheet as at December 31, 2017, and the corresponding change in the policy liabilities in the income statement for the year then ended.

In my opinion:

1. The methods and procedures used in the verification of the valuation data are sufficient and reliable, and fulfill the required standards of care.
2. The methods and assumptions used to calculate the actuarial and the other policy liabilities are appropriate to the circumstances of the company and of the said policies and claims.
3. The valuation of actuarial and other policy liabilities has been made in accordance with generally accepted actuarial practice (with such changes as determined and any directions made by the Commission).
4. The valuation is appropriate under the circumstances of the company and the financial statements fairly reflect its results.
5. Having regard for the results of the investigation performed pursuant to section 62 of the Insurance Act, 2005 the value of actuarial and other policy liabilities, when taken together with the total capital available makes good and sufficient provisions for all unmatured obligations under the terms of the policies in force.

Leslie P. Rehbeli
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries
Member of American Academy of Actuaries
January 30, 2018

LAURENTIDE INSURANCE AND MORTGAGE COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017
(Expressed in Bahamian dollars)

	2017 $	2016 $
ASSETS		
Deposit - Parent (Notes 4 and 7)	-	5,770,509
Investments (Notes 4 and 5)	39,993,331	40,055,034
Due from Parent (Notes 4 and 7)	6,079,455	6,487,835
Other assets	3,083	3,083
Total	**46,075,869**	**52,316,461**
LIABILITIES AND EQUITY		
LIABILITIES		
Life assurance fund liability (Note 6)	5,599,372	13,267,872
Other liabilities (Note 4)	78,468	145,140
Total liabilities	**5,677,840**	**13,413,012**
EQUITY		
Share capital		
Authorized, issued and fully paid		
105,000 shares at $2.86	300,300	300,300
Contributed surplus	2,750,000	2,750,000
Retained earnings	37,347,729	35,853,149
Total equity	**40,398,029**	**38,903,449**
Total	**46,075,869**	**52,316,461**

These financial statements were approved by the Board of Directors on February 20, 2018 and are signed on its behalf by:

Director

Director

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

LAURENTIDE INSURANCE AND MORTGAGE COMPANY LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017
(Expressed in Bahamian dollars)

	2017 $	2016 $
INCOME		
Gross premiums	2,275,011	16,721,607
Refunds	(5,281,929)	(8,344,394)
Commissions (Note 7)	(227,501)	(1,672,161)
Tax on premiums	(68,250)	(501,648)
Net premium (loss)/income	(3,302,669)	6,203,404
Interest income – Government stock (Note 4)	1,753,105	1,945,164
Interest income – Parent (Notes 4 and 7)	351,874	616,335
Total (loss)/income before expenses	**(1,197,690)**	**8,764,903**
EXPENSES		
Claims	1,615,437	1,151,913
Change in life assurance fund liability (Note 6)	(7,668,500)	453,712
General and administrative		
Fees – Parent (Note 7)	300,000	300,000
Other	120,793	78,042
Total expenses	**(5,632,270)**	**1,983,667**
TOTAL PROFIT AND COMPREHENSIVE INCOME	**4,434,580**	**6,781,236**
Weighted Average Number of Common Shares	105,000	105,000
Earnings per share (Basic and Diluted)	42.23	64.58

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

LAURENTIDE INSURANCE AND MORTGAGE COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(Expressed in Bahamian dollars)

	Share Capital $	Contributed Surplus $	Retained Earnings $	Total $
Balance as at December 31, 2015	**300,300**	**2,750,000**	**33,586,913**	**36,637,213**
Total profit and comprehensive income	-	-	6,781,236	6,781,236
Dividends ($43.00 per share)	-	-	(4,515,000)	(4,515,000)
Balance as at December 31, 2016	**300,300**	**2,750,000**	**35,853,149**	**38,903,449**
Total profit and comprehensive income	-	-	4,434,580	4,434,580
Dividends ($28.00 per share)	-	-	(2,940,000)	(2,940,000)
Balance as at December 31, 2017	**300,300**	**2,750,000**	**37,347,729**	**40,398,029**

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

LAURENTIDE INSURANCE AND MORTGAGE COMPANY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Expressed in Bahamian dollars)

	2017	2016 Restated (Note 9)
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Total profit and comprehensive income	4,434,580	6,781,236
Adjustment for interest income	(2,104,979)	(2,561,499)
Decrease (increase) in deposit – Parent	5,770,509	(688,770)
Decrease (increase) in due from Parent	408,380	(2,015,805)
Decrease in other assets	-	49
(Decrease) increase in life assurance fund liability	(7,668,500)	453,712
Decrease in other liabilities	(66,672)	(15,700)
Net cash from operating activities	**773,318**	**1,953,223**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,166,682	2,561,777
Net cash from investing activities	**2,166,682**	**2,561,777**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(2,940,000)	(4,515,000)
Net cash used in financing activities	**(2,940,000)**	**(4,515,000)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	**-**	**-**

The accompanying notes form an integral part of these financial statements.

1. General Information

Laurentide Insurance and Mortgage Company Limited ("the Company"), is a wholly-owned subsidiary of Commonwealth Bank Limited (the "Parent").

The Company is incorporated under the laws of the Commonwealth of The Bahamas and is a Registered Life Assurance Company. The principal business of the Company is to provide credit life assurance in respect of borrowers from its Parent.

The registered office is located at GTC Corporate Services Limited, P.O. Box SS-5383, Nassau, The Bahamas.

2. Significant Accounting Policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

New standards, amendments and interpretations adopted by the Company

Standards and amendments and interpretations to published standards that became effective for the Company's financial year beginning on January 1, 2017 were either not relevant or not significant to the Company's operations and accordingly did not have a material impact on the Company's accounting policies or financial statements.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations not yet adopted by the Company

With the exception of IFRS 9 *Financial Instruments* (IFRS 9), IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), and IFRS 17 *Insurance Contracts* (IFRS 17), the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Company's accounting policies or financial statements in the financial period of initial application.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three (3) primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The determination is made at initial recognition, and the basis of classification depends on the Company's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset. In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39. At initial recognition of relevant financial assets, a provision for impairment of financial assets is required to be recognised based on expected losses due to credit default events that are possible within one (1) year. Financial assets are categorised into three (3) stages based on credit default factors and experiences, and provisions for impairment are recognised based on total expected losses in the event of an actual credit default. For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for financial liabilities designated at fair value through profit or loss. While the Company has begun its assessment of the impact of adopting IFRS 9, the full impact of the change has not been determined. IFRS 9 is effective for financial periods beginning on or after January 1, 2018.

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after January 1, 2018, and replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. The Company is currently assessing the full impact of adopting IFRS 15.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations not yet adopted by the Company (continued)

IFRS 17 *Insurance Contracts* (IFRS 17) was issued in May 2017. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Under IFRS 17, the 'general model' requires entities to measure an insurance contract, at initial recognition, at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognized over the coverage period. Aside from this general model, the standard provides, as a simplification, the 'premium allocation approach'. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the 'variable fee approach' applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognized in profit or loss in the period in which they occur but over the remaining life of the contract.

The new standard is applicable for annual periods beginning on or after January 1, 2021. Early application is permitted for entities that apply IFRS 9 and IFRS 15 at or before the date of initial application of IFRS 17. The standard can be applied retrospectively in accordance with IAS 8, but it also contains a 'modified retrospective approach' and a 'fair value approach' for transition, depending on the availability of data. The Company has not yet assessed the full impact of adopting IFRS 17.

(b) Recognition of income and expense

Premium income is recognized at the time a policy comes in force. Premiums are shown net of deductions for refunds, commissions, and taxes or duties levied on gross premiums. Policies written prior to 2017 were paid in full at the origination of the contract for the term of the contract. The maximum term of any contract is 72 months. For these policies, the contract amount is recognized as premium income with an associated expense being recognized relative to life assurance fund liability. Refunds on unexpired insurance contracts are allowed on early withdrawal using the "Rule of 78" method.

2. Significant Accounting Policies (Continued)

(b) Recognition of income and expense (continued)

Premiums for policies written in 2017 are assessed on a monthly basis and are calculated on the current balance of the associated loan. Such premiums are recognized when assessed.

Death claims are charged to income after the claims are verified by the Company. Claims that are incurred but not yet reported are included in the life assurance fund liability and charged to income on the reporting date.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Commission expenses incurred on premium income are recognized in the same manner as premiums written.

Other income and expenses are recognized on the accrual basis.

(c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and unrestricted deposits with banks that have original maturities of three months or less.

(d) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in Bahamian dollars, which is the Company's functional and presentation currency.

2. Significant Accounting Policies (Continued)

(e) Financial assets

Financial assets are:

i. Cash;
ii. An equity instrument of another entity;
iii. A contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions favourable to the Company;
iv. A contract that will or may be settled in the Company's own equity instrument and is either a non-derivative for which the Company is or may be obliged to receive a variable number of the Company's own equity instruments, or a derivative that will or may be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

Financial assets are classified into the following categories: 'Fair value through profit or loss' (FVTPL), 'Held-to-maturity', 'Available-for-sale' (AFS) and 'Loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are classified as FVTPL where the financial asset is either held for trading or is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value, with any resulting gain or loss recognized in the statement of profit or loss and other comprehensive income.

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments.

Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis. Investment income is recorded in interest income in the statement of profit or loss and other comprehensive income.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are non-derivative financial assets and are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2. Significant Accounting Policies (Continued)

(e) Financial assets (continued)

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as a) FVTPL, b) held-to-maturity or c) loans and receivables. AFS assets are stated at fair value. Cost is used to approximate the fair value of AFS assets.

The Company considers that the carrying amounts of financial assets recorded at amortized cost, less any impairment allowance, in the financial statements approximate their fair values.

Regular-way purchases and sales of financial assets are recognized on the trade date-the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs, except financial assets carried at fair value through profit or loss where such costs are expensed as incurred.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(f) Impairment of financial assets

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

2. Significant Accounting Policies (Continued)

(f) Impairment of financial assets (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss and other comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of profit or loss and other comprehensive income. When a financial asset is uncollectible, it is written off against the related allowance account. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are recognized directly in the statement of profit or loss and other comprehensive income.

(g) Financial liabilities

Financial liabilities are any liabilities that are:

i. Contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company;

ii. Contracts that will or may be settled in the Company's own equity instruments and is either a non-derivative for which the Company is or may be obliged to deliver a variable number of its own equity instruments, or a derivative that will or may be settled either by exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

Financial liabilities are classified as either (a) FVTPL or (b) other financial liabilities.

Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated as FVTPL. Financial liabilities at FVTPL are stated at fair value with any resulting gain or loss recognized in the statement of profit or loss and other comprehensive income.

2. Significant Accounting Policies (Continued)

(g) Financial liabilities (continued)

Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method with interest expense recognized on an effective yield basis.

The Company considers that the carrying amounts of financial liabilities recorded at amortized cost in the financial statements approximate their fair values.

(h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(i) Taxation

Life assurance premium tax is incurred at the rate of 3% of premiums written.

The Company is required to pay value added tax (VAT) at a rate of 7.5% on goods and services as prescribed by the Value Added Tax Act.

Under the laws of The Bahamas, there are no income taxes, capital gains or other corporate taxes imposed. The Company's operations do not subject it to taxation in any other jurisdiction.

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgments estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in assumptions may have an impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and the Company's financial statements therefore present the financial position and the results fairly.

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

The following are the judgments and estimates that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Critical estimates

(a) Life assurance fund liability

The Company calculates its actuarial liabilities for individual life insurance policies using the Canadian Policy Premium Method ("PPM"). The calculation of these policy reserves is based on assumptions as to future rates for mortality and morbidity, investment yields, policy lapse and expenses, which contain margins for adverse deviations. Changes in the liability are estimated with assistance of an independent actuary and charged to profit or loss.

Key judgments

(b) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value are quoted prices in an active market. In most cases, however, the financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. In these cases, the Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements approximate their fair values.

Management applies judgement in assessing whether the financial assets can be categorized as held-to-maturity, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Company fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. Interest rates on the Company's investments are principally variable in nature.

IFRS 7 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three- level hierarchy:

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

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

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Key judgments (continued)

(b) Fair value of financial instruments (continued)

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

Since the calculation of fair value is based on management's estimates, which involve uncertainties, the actual fair value realized in a sale or immediate settlement of the instruments may differ from the estimated amount. The use of the above hierarchy acts as an indicator of the potential variance of the actual amount realized to the estimated amount in each group of financial instruments.

4. Financial Instruments

The following table analyses the carrying amounts of financial assets and financial liabilities as defined by IAS 39 *Financial Instruments: Recognition and Measurement:*

	2017			
	Held-To-Maturity $	**Loans and Receivables $**	**Other Financial Liabilities $**	**Total $**
Financial assets				
Investments (Note 5)	39,993,331	-	-	39,993,331
Due from Parent (Note 8)	-	6,079,455	-	6,079,455
Financial liabilities				
Other liabilities	-	-	78,468	78,468

	2016			
	Held-To-Maturity $	**Loans and Receivables $**	**Other Financial Liabilities $**	**Total $**
Financial assets				
Deposit – Parent (Note 8)	-	5,770,509	-	5,770,509
Investments (Note 5)	40,055,034	-	-	40,055,034
Due from Parent (Note 8)	-	6,487,835	-	6,487,835
Financial liabilities				
Other liabilities	-	-	145,140	145,140

At December 31, 2017 there were no assets classified as available-for-sale nor any assets or liabilities that were classified as FVTPL (2016: $Nil).

4. Financial Instruments (Continued)

The following table shows income statement information on financial instruments:

	2017 $	2016 $
Income		
Loans and receivables	351,874	616,335
Held-to-maturity investments	1,753,105	1,945,164
	2,104,979	2,561,499

5. Investments

Investments are as follows:

	Maturity	2017 $	2016 $
Bahamas Government Registered Stock			
Prime + 5/32%	2019	175,500	175,500
Prime + 1/24%	2019	5,000,000	5,000,000
4.125% Fixed	2022	1,500,000	1,500,000
Prime + 1/4 %	2022	85,500	85,500
Prime + 3/16 %	2022	21,400	21,400
Prime + 13/32%	2022	21,400	21,400
Prime + 7/32%	2023	537,800	537,800
Prime + 3/8%	2023	104,200	104,200
Prime + 11/32%	2023	94,000	94,000
Prime + 9/32%	2023	72,700	72,700
Prime + 5/16%	2024	25,700	25,700
Prime + 9/32%	2025	306,100	306,100
Prime + 5/16%	2026	1,246,700	1,246,700
Prime + 5/16%	2027	651,000	651,000
Prime + 9/64%	2029	27,400	27,400
Prime + 5/32%	2030	4,497,200	4,497,200
Prime + 11/32%	2031	673,800	673,800
Prime + 11/64%	2031	72,600	72,600
Prime + 3/8%	2032	1,414,600	1,414,600
Prime + 13/32%	2032	109,300	109,300
Prime + 3/16%	2032	228,700	228,700
Prime + 1/8%	2032	505,400	505,400
Prime + 3/32%	2032	1,349,900	1,349,900
Prime + 13/32%	2033	1,073,900	1,073,900
Prime + 7/16%	2033	173,500	173,500
Prime + 13/64%	2033	700,300	700,300
Balance carried forward		20,668,600	20,668,600

5. Investments (Continued)

	Maturity	2017 $	2016 $
Bahamas Government Registered Stock			
Balance brought forward		20,668,600	20,668,600
Prime + 7/32%	2034	2,289,300	2,289,300
Prime + 7/48%	2034	9,263,300	9,263,300
Prime + 15/64%	2035	1,931,000	1,931,000
Prime + 19/32%	2036	428,700	428,700
Prime + 1/4%	2036	1,196,300	1,196,300
Prime + 5/8%	2037	890,900	890,900
Prime + 17/96%	2037	736,700	736,700
		37,404,800	37,404,800

	Maturity	2017 $	2016 $
The Bahamas Mortgage Corporation Bonds			
Prime	2024	500,000	500,000
Prime + 1/4%	2029	500,000	500,000
Prime + 1/2 %	2034	1,000,000	1,000,000
		2,000,000	2,000,000
Accrued interest receivable		588,531	650,234
Total investments		**39,993,331**	**40,055,034**

Investments categorized by maturity are as follows:

	2017 $	2016 $
Current (within one year)	-	-
Non-current (after one year)	39,993,331	40,055,034
	39,993,331	**40,055,034**

Investments include $2,289,300 (2016: $2,289,300) in Bahamas Government Registered Stock held in trust by The Insurance Commission of The Bahamas pursuant to Section 43(2) of The Insurance Act 2005 and paragraph 62 of the Insurance (General) Regulations, 2010.

6. Life Assurance Fund Liability

The Company provides credit life insurance in respect of the Parent's borrowers.

The life assurance fund liability in respect of credit life insurance contracts is calculated as:

i. The sum of the present value of expected future death claims, withdrawal claims and administrative expenses for single premium contracts, and

ii. The sum of the present value of expected future death claims, withdrawal claims, commissions and administrative expenses, less expected future monthly premiums, for monthly premium contracts.

An actuarial valuation of the life assurance fund liability was conducted as at December 31, 2017 by Oliver Wyman of Toronto, Canada. The valuation included a provision of $224,096 (2016: $103,749) for claims incurred but not yet reported. The Company's experience is that death claims are normally settled within one year of the reporting period.

The movement in the life assurance fund liability is as follows:

	2017 **$**	**2016** **$**
Balance at beginning of the year	13,267,872	12,814,160
Change of valuation interest rate assumption	14,577	4,003
Model refinements	(2,817)	57,719
Termination policies	(5,506,751)	(5,910,237)
Impact of aging	(2,432,910)	(2,135,920)
Change in IBNR	120,096	100,749
New business	17,035	8,337,398
Change in unearned premium reserve	122,270	-
Balance at end of the year	5,599,372	13,267,872

6. Life Assurance Fund Liability (Continued)

Actuarial Assumption Sensitivities

The table below provides the impact of a 10% change in assumptions on mortality rates, policy lapse rates, loan interest rates, expenses and inflation as at December 31:

2017

Scenario	Mortality per $1,000	Lapse Rate	Loan Interest Rate	Expense per Policy $	Inflation Rate	Initial Interest Rate	Ultimate Interest Rate	Total Reserve $'000	Increase Over Base $'000	Increase Over Base %
Base 2017	4.5	54 %	15.50 %	13.86	3.30 %	3.40 %	3.25 %	5,253		
Lower Interest Rate	4.5	54 %	15.50 %	13.86	3.30 %	3.06 %	2.93 %	5,268	15	0.3 %
Mortality= 4.95	5.0	54 %	15.50 %	13.86	3.30 %	3.40 %	3.25 %	5,381	128	2.4 %
Lapse=59.40%	4.5	59 %	15.50 %	13.86	3.30 %	3.40 %	3.25 %	5,342	89	1.7 %
Loan Interest = 17.05%	4.5	54 %	17.05 %	13.86	3.30 %	3.40 %	3.25 %	5,259	6	0.1 %
Expenses=15.25	4.5	54 %	15.50 %	15.25	3.30 %	3.40 %	3.25 %	5,287	34	0.7 %
Inflation = 3.63%	4.5	54 %	15.50 %	13.86	3.63 %	3.40 %	3.25 %	5,255	2	0.0 %

2016

Scenario	Mortality per $1,000	Lapse Rate	Loan Interest Rate	Expense per Policy $	Inflation Rate	Initial Interest Rate	Ultimate Interest Rate	Total Reserve $'000	Increase Over Base $'000	Increase Over Base %
Base 2016	4.5	54 %	16.20 %	13.86	3.30 %	3.90 %	3.25 %	13,164		
Lower Interest Rate	4.5	54 %	16.20 %	13.86	3.30 %	3.51 %	2.93 %	13,205	41	0.3 %
Mortality= 4.95	5.0	54 %	16.20 %	13.86	3.30 %	3.90 %	3.75 %	13,380	216	1.6 %
Lapse=59.40%	4.5	59 %	16.20 %	13.86	3.30 %	3.90 %	3.75 %	13,537	373	2.8 %
Loan Interest = 17.82%	4.5	54 %	17.82 %	13.86	3.30 %	3.90 %	3.75 %	13,175	10	0.1 %
Expenses=15.25	4.5	54 %	16.20 %	15.25	3.30 %	3.90 %	3.75 %	13,217	53	0.4 %
Inflation = 3.63%	4.5	54 %	16.20 %	13.86	3.63 %	3.90 %	3.75 %	13,167	3	0.0 %

6. Life Assurance Fund Liability (Continued)

Actuarial Assumption Sensitivities (continued)

The methods and types of assumption used in preparing the sensitivity analysis did not change compared to the prior year.

Balances at the end of the year are expected to be settled as follows:

	2017 $	2016 $
Current (within one year)	3,187,001	8,279,999
Non-current (after one year)	2,412,371	4,987,873
	5,599,372	13,267,872

7. Related Party Transactions and Balances

Related parties include:

i. key management personnel, including directors;
ii. entities that have the ability to control or exercise significant influence over the Company in making financial or operational decisions; and
iii. entities that are controlled, jointly controlled or significantly influenced by parties described in i) and ii).

During the year the Company paid commissions of $227,501 (2016: $1,672,161) to its sister company for selling credit life assurance on behalf of the Company to borrowers from the Parent.

The deposit with Parent and due from Parent balances earn interest at the Bahamian prime rate 4.25% (2016: 4.75%). The due from Parent balance has no fixed terms of repayment.

The Company pays an annual management fee of $300,000 (2016: $300,000) to its Parent for undertaking its administrative activities.

8. Risk Management

Capital risk management

The Company manages its capital to ensure that it exceeds regulatory capital requirements and will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Company's risk management structure promotes making sound business decisions by balancing risk and reward. It promotes revenue generating activities that are consistent with the risk appetite of the Company, the Company's policies and the maximization of shareholder's return.

The capital structure of the Company consists of equity attributable to the common equity holder of the Company, comprising issued capital, contributed surplus and retained earnings. The Company's board reviews the capital structure at least annually. The Company manages its capital structure through the payment of dividends, new share issues and capital contributions.

The Company is licensed to conduct long term insurance business under The Insurance Act 2005 (the "Act").

Under paragraph 60(1)a of The Insurance (General) Regulations, 2010 (the "Regulations") an insurance company is required to have a minimum paid-up and unencumbered share capital of not less than three million dollars. As at December 31, 2017 the Company had $300,300 (2016: $300,300) in share capital and $2,750,000 (2016: $2,750,000) in contributed surplus. The Company's board passed a resolution on December 6, 2011 making the contributed surplus non-distributable.

The Company is required to establish and maintain a minimum statutory deposit of $2 million, such deposit to be held in trust pursuant to section 43(2) of the Act and paragraph 62 of the Regulations. The LIM Statutory Reserve Trust was established on December 20, 2011 with assets valued at $2,289,300 as at December 31, 2017 (2016: $2,289,300).

The Company is required to maintain a solvency margin pursuant to paragraph 90 of the Regulations. For the purposes of the Regulations, margin of solvency means the excess of the value of its admissible assets over the amount of its liabilities. The required margin of solvency is the greater of (a) twenty per cent of the premium income, including annuity premiums, in its last financial year; or (b) five hundred thousand dollars, plus the minimum amount of capital required. As at December 31, 2017, the minimum margin of solvency was $3,500,000 (2016: $6,344,321). The Company's solvency margin at December 31, 2017 was $34,315,489 (2016: $26,642,022) resulting in a surplus of $30,815,489 (2016: $20,297,701).

Paragraph 68 of the Regulations stipulates that of the value of the admissible assets which the Company must at any time have in order to maintain the minimum margin of solvency required by the Act, at least sixty per cent shall be in the form of qualifying assets. As at December 31, 2017, the Company had $39,993,331 (2016: $40,055,034) in qualifying assets and $39,993,331 (2016: $40,055,034) in admissible assets as defined under paragraphs 70 and 72 of the Regulations, respectively.

8. Risk Management (Continued)

Capital risk management (continued)

The Company's strategy for managing capital is unchanged from the prior year. During the year, the Company was in compliance with all externally imposed capital requirements.

Credit risk

Credit risk arises from the potential failure of a counterparty to perform according to the terms of the contract. The Company's credit risk is primarily concentrated in investments in debt securities issued by the Government of the Commonwealth of The Bahamas and other government-related entities. Significant changes in the economy could result in losses not provided for at the statement of financial position date. At the end of both years, there were no investments that were impaired or with contractual payments past due.

Maximum credit exposure at the end of the year approximates the carrying value of all financial assets (Notes 4 and 5).

Operational risk

Operational risk is the potential for loss resulting from inadequate or failed internal processes or systems, human error or external events not related to credit, market or liquidity risks. The Company manages this risk by maintaining a comprehensive system of internal control and internal audit, including organizational and procedural controls. The system of internal control includes written communication of the Company's policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel and sound and conservative accounting policies, which are regularly updated. These controls and audits are designed to provide the Company with reasonable assurance that assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and the Company is in compliance with all regulatory requirements.

Liquidity risk

Liquidity risk is the potential for loss if the Company is unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Financial commitments include liabilities to policy holders, suppliers and investment commitments.

The Company manages liquidity and funding risk by ensuring that sufficient liquid assets and funding capacity are available to meet regulatory requirements and financial commitments, even in times of stress. The Board of Directors oversees the Company's liquidity and funding risk management framework.

There have been no changes in the policies and procedures for managing liquidity risk compared to the prior year.

8. Risk Management (Continued)

Insurance risk

Insurance risk is the risk of loss resulting from the occurrence of an insured event. Laurentide issues contracts for credit life insurance only on loans written by its Parent. All lives insured are debtors under closed-end consumer credit transactions that arise from direct loans with the Parent. The amount of life insurance at risk on any one individual is never more than the amount of the indebtedness outstanding from time to time. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of amount of risk to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. At present, this risk does not vary significantly in relation to the location of the risk insured by the Company. To mitigate risk, no insurance contract is issued to persons aged 65 and over. Prior to 2017 no insurance contract was issued to persons aged 60 and over.

The amount of life insurance at risk on any one policy is as follows:

Policies written up to 2016:
Auto loans - Maximum of $10,000 or net indebtedness to Parent
All other loans - Maximum of $20,000 or net indebtedness to Parent

Policies written after 2016:
All loans - Maximum of $70,000 or net indebtedness to Parent

Interest rate risk

Interest rate risk is the potential for a negative impact on the statement of financial position and/or statement of profit or loss and other comprehensive income arising from adverse changes in the value of financial instruments as a result of changes in interest rates.

Interest rate risk or interest rate sensitivity results primarily from differences in the maturities or repricing dates of financial assets and liabilities. Interest rate risk exposures, or “gaps” may produce favourable or unfavourable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or the expected volatility of those interest rates. When financial assets have a shorter average maturity than financial liabilities, an increase in interest rates would have a positive impact on net interest margins, and conversely, if more financial liabilities than financial assets mature or are repriced in a particular time interval then a negative impact on net interest margin would result.

Interest Rate Sensitivity

If interest rates increase/decrease by 50 basis points and all other variables remain constant, the Company’s profit over the next 12 months is estimated to increase/decrease by $169,600 (2016: $167,800).

Laurentide Insurance and Mortgage Company Limited

Notes to Financial Statements
Year Ended December 31, 2017
(Continued)

8. Risk Management (Continued)

Interest rate risk (continued)

As of December 31, 2017	Repricing date of interest sensitive instruments				Non-interest	
	Within 3 Months	3-12 months	1-5 Years	Over 5 years	Rate sensitive	Total
	$	$	$	$	$	$
Assets						
Investments	38,463,814	-	-	1,529,517	-	39,993,331
Due from Parent	6,079,455	-	-	-	-	6,079,455
Total financial assets	**44,543,269**	**-**	**-**	**1,529,517**	**-**	**46,072,786**
Liabilities						
Other liabilities	-	-	-	-	78,468	78,468
Total financial liabilities	**-**	**-**	**-**	**-**	**78,468**	**78,468**
Interest rate sensitivity gap	**44,543,269**	**-**	**-**	**1,529,517**		

As of December 31, 2016	Repricing date of interest sensitive instruments				Non-interest	
	Within 3 Months	3-12 months	1-5 Years	Over 5 years	Rate sensitive	Total
	$	$	$	$	$	$
Assets						
Cash equivalents	5,770,509	-	-	-	-	5,770,509
Investments	38,526,385	-	-	1,528,649	-	40,055,034
Due from Parent	6,487,835	-	-	-	-	6,487,835
Total financial assets	**50,784,729**	**-**	**-**	**1,528,649**	**-**	**52,313,378**
Liabilities						
Other liabilities	-	-	-	-	145,140	145,140
Total financial liabilities	**-**	**-**	**-**	**-**	**145,140**	**145,140**
Interest rate sensitivity gap	**50,784,729**	**-**	**-**	**1,528,649**		

9. Prior Period Adjustments

In the prior year's financial statements, the deposit – Parent balance of $5,770,509 was included in cash and cash equivalents and changes in the due from Parent of $2,015,805 was included under investing activities in the statement of cash flows. The statement of cash flows has been restated to exclude the deposit – Parent amount from cash and cash equivalents. Additionally, changes in due from Parent under investing activities are now reflected in cash flows from operating activities.

Below are the financial statement line items affected by the change.

Statement of Cash Flows
(Extract)

	December 31, 2016 As previously reported $	Correction of error $	December 31, 2016 Restated $
Cash flows from operating activities			
Decrease (increase) in due from Parent	-	(2,015,805)	(2,015,805)
Decrease (increase) in deposit - Parent	-	(688,770)	(688,770)
Net cash from (used in) operating activities	4,657,798	(2,704,575)	1,953,223
Cash flows from investing activities			
Advances to Parent	(2,015,805)	2,015,805	-
Net cash from investing activities	545,972	2,015,805	2,561,777
Net increase (decrease) in cash and cash equivalents	**688,770**	**(688,770)**	**-**
Cash and cash equivalents, beginning of year	**5,081,739**	**(5,081,739)**	**-**
Cash and cash equivalents, end of year	**5,770,509**	**(5,770,509)**	**-**