LAURENTIDE INSURANCE AGENCY LIMITED
2018 AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Laurentide Insurance Agency Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Laurentide Insurance Agency Limited ("the Company"), which comprise the statement of financial position as at December 31, 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Company as at and for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 24, 2018.

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 IFRSs, 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 Consolidated 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 skepticism 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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April 29, 2019

LAURENTIDE INSURANCE AGENCY LIMITED
STATEMENT OF FINANCIAL POSITION
As at December 31, 2018, with corresponding figures as of December 31, 2017
(Expressed in Bahamian dollars)

	Notes	2018	2017
Assets			
Cash and deposit with Parent	4,5	$ 114,702	$ 114,600
Due from Parent	4,5	2,870,334	2,604,316
Other assets		83	1,131
Total Assets		$ 2,985,119	$ 2,720,047
Liabilities and Equity			
Liabilities:			
Other liabilities	4	$ 5,000	$ 9,000
Total liabilities		5,000	5,000
Equity:			
Share capital			
Authorized, issued and fully paid:			
5,000 shares at $1.00		5,000	5,000
Contributed Surplus		5,000	5,000
Retained earnings		2,970,119	2,701,047
Total equity		2,980,119	2,711,047
Total Liabilities and Equity		$ 2,985,119	$ 2,720,047

See accompanying notes to financial statements.

These financial statements were approved by the Board of Directors on April 29, 2019 and are signed on its behalf by:

Director

Director

LAURENTIDE INSURANCE AGENCY LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended December 31, 2018, with corresponding figures for 2017
(Expressed in Bahamian dollars)

	Notes	2018	2017
Income:			
Commissions	5	$ 373,201	$ 227,501
Interest income, effective interest rate method	5	106,570	131,659
Total income		479,771	359,160
Expenses:			
General and administrative			
Management fees	5	186,601	113,750
Other		24,098	64,366
Total expenses		210,699	178,116
Total Profit and other Comprehensive Income		$ 269,072	$ 181,044

See accompanying notes to financial statements.

LAURENTIDE INSURANCE AGENCY LIMITED
STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2018, with corresponding figures for 2017
(Expressed in Bahamian dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance as at December 31, 2016	$ 5,000	$ 5,000	$ 2,520,003	$ 2,530,003
Total profit and other comprehensive income	–	–	181,044	181,044
Balance as at December 31, 2017	5,000	5,000	2,701,047	2,711,047
Total profit and other comprehensive income	–	–	269,072	269,072
Balance as at December 31, 2018	$ 5,000	$ 5,000	$ 2,970,119	$ 2,980,119

See accompanying notes to financial statements.

LAURENTIDE INSURANCE AGENCY LIMITED
STATEMENT OF CASH FLOWS
Year ended December 31, 2018, with corresponding figures for 2017
(Expressed in Bahamian dollars)

	Notes	2018	2017
Cash flows from operating activities:			
Total profit and comprehensive income		$ 269,072	$ 181,044
Adjustment for interest income		(106,570)	(131,659)
Interest received		106,570	131,659
Increase in due from Parent		(266,018)	(183,645)
Decrease in other assets		1,048	–
(Decrease)/increase in other liabilities		(4,000)	3,000
Net cash from operating activities		102	399
Net increase in cash and cash equivalents		102	399
Cash and cash equivalents, beginning of year		114,600	114,201
Cash and cash equivalents, end of year	4	$ 114,702	$ 114,600

See accompanying notes to financial statements.

1. General Information

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

The Company was incorporated under the laws of The Commonwealth of The Bahamas on March 16, 2009. The Company is a Registered Insurance Agency. The Company commenced operations on July 1, 2009. The principal business of the Company is to sell credit life insurance in respect of loans provided to customers of the Parent on behalf of a sister company, Laurentide Insurance and Mortgage Company Limited.

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

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These policies have been consistently applied to all years presented, unless otherwise stated.

This is the first set of the Company's annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* has been applied.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, unless otherwise stated.

(c) Use of estimates and judgments

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(i).

2. Basis of preparation *(continued)*

(d) 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 1 January 2018 are discussed in Note 2(f).

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

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.

(f) Changes in significant accounting policies

Effective January 1, 2018, the Company adopted IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 15 *Revenue from Contracts with Customers* (IFRS 15).

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 as issued by the International Accounting Standards Board (IASB) in July 2014 with a transition date of January 1, 2018. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The adoption of IFRS 9 has resulted in changes in the Company's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 *Financial Instruments: Disclosures*. Consequential amendments to IAS 1 *Presentation of Financial Statements*, which require separate presentation of interest revenue calculated using the effective interest method, in the statement of profit or loss and OCI have also been applied to the current period.

The adoption of IFRS 9 did not result in an adjustment to the Company's opening retained earnings as the impact was not was material. Additionally, the adoption did not result in the recognition of any impairment losses relative to the Company's financial assets.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company. Further details of specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are detailed below and in Note 3(c).

2. Basis of preparation *(continued)*

(f) Changes in significant accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(i) Classification and measurement of financial assets and financial liabilities

From January 1, 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income ("FVOCI"); or
- Fair value through profit and loss ("FVPTL").

The measurement category and the carrying amount of financial assets and financial liabilities in accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

	New classification under IFRS 9	New carrying amount under IFRS 9	Original classification under IAS39	Original carrying amount under IAS 39
Financial assets				
Cash and deposit	Amortised cost	$114,600	Loans and receivables	$114,600
Due from Parent	Amortised cost	$2,604,316	Loans and receivables	$2,604,316
Financials Liabilities				
Other liabilities	Amortised cost	$9,000	Other liabilities	$9,000

The classification of financial assets under IFRS 9 is generally based on the business model under which the asset is held and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

Debt instruments are described as those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables. Classification and subsequent measurement of debt instruments depend on:

i) The Company's business model for managing the assets: the business model assessment is performed to determine how a portfolio of financial instruments as a whole is managed in order to classify it as "Hold to Collect", "Hold to Collect and Sell", or Other Business Model and
ii) The cash flow characteristics of the asset: Contractual cash flow characteristics test is performed to determine whether the financial instruments give rise to cash flows that are solely payments of principal and interest ("SPPI").

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of liabilities. As such, the Company's policy for accounting of financial liabilities from the prior period is unchanged.

2. Basis of preparation *(continued)*

(f) Changes in significant accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

Amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets classified at amortised cost are carried at the amount at which the asset was measured upon initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any premium or discount, and minus any write-down for impairment or uncollectibility.

Fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value through profit or loss

A financial asset is measured at fair value through profit or loss if it is does not meet the criteria to be measured at amortised cost or at fair value through other comprehensive income. The Company reclassifies its financial assets when and only when its business model for managing those assets changes.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss “ECL” model which generally results in credit losses being recognised earlier when compared to IAS 39. The IFRS 9 impairment model applies to various classes of financial assets including those carried at amortised cost.

IFRS 9 recognises impairment in three stages. Additional information about how the Company measures the allowance for impairment is described in Note 3(d).

2. Basis of preparation *(continued)*

(f) Changes in significant accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(iii) Income and expense

From January 1, 2018 the Company recognises interest income and expense in the statement of profit or loss and other comprehensive income for all financial instruments measured at amortised cost using the method previously described, with the exception of financial assets that have subsequently become credit-impaired ('Stage 3' financial assets). For these financial assets, interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected impairment loss allowance). Additional information on interest income is described in Note 3(e).

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The principal objective of IFRS 15 is to establish the principles that should be applied by an entity in order to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers, reflecting the amount of consideration to which the entity expects to be entitled in exchange for those goods and services.

IFRS 15 explicitly excludes from its scope transactions governed by IFRS 9.

Given that the Company's non-IFRS 9 related contracts with customers are not complex and do not meet the criteria for recognition of revenue over time, the application of IFRS 15 had no material impact on the financial statements.

3. Summary of Significant Accounting Policies

(a) 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.

(b) Foreign currency

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.

3. Summary of Significant Accounting Policies (continued)

(b) *Foreign currency (continued)*

Transactions and balances

Foreign currency transactions are translated into the functional currency using the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income as a part of total profit. Translation differences on monetary financial assets measured at fair value through profit or loss are included as a part of the fair value gains and losses.

(c) *Financial instruments*

For the classification and measurement policy in effect from January 1, 2018, refer to Note 2 (f).

Financial assets

Accounting policy prior to January 1, 2018
Classification

Financial assets were 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 depended on the nature and purpose of the financial assets and was determined at the time of initial recognition.

Financial assets were classified as FVTPL where the financial asset was either held for trading or was designated as FVTPL. Financial assets classified as FVTPL were stated at fair value, with any resulting gain or loss recognised 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 had the positive intent and ability to hold to maturity were classified as held-to-maturity investments.

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

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

(c) *Financial instruments (continued)*

Financial assets (continued)

Classification (continued)

Trade receivables, loans, and other receivables that had fixed or determinable payments that were not quoted in an active market were classified as loans and receivables. Loans and receivables were non-derivative financial assets and were measured at amortised cost using the effective interest method, less any impairment.

Interest income was recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

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

Measurement

Financial assets are measured initially at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs on financial assets at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, loans and receivables and financial assets that are not at fair value through profit and loss are carried at amortised cost less impairment losses where applicable, using the effective interest rate method. The amortised cost of a financial asset is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The Company considered that the carrying amounts of financial assets recorded at amortised cost, less any impairment allowance, in the financial statements approximated their fair values. See fair value measurements in Note 3(i).

Accounting policy prior to and after January 1, 2018

Recognition and derecognition

The Company initially recognises financial assets on the date which they are originated. Regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

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

(c) Financial instruments (continued)

Financial assets (continued)

Recognition and derecognition (continued)

Financial assets are derecognised 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. If the Company has neither transferred nor retained substantially all the risks and rewards of ownership, an assessment is made whether the Company has retained control of the financial assets.

Modification

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the contractual rights to cash flows from the original asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of the eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulty, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of quantitative evaluation and means that the derecognition criteria are usually met in such cases.

Financial liabilities

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 recognised in the statement of profit or loss and other comprehensive income.

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 recognised on an effective yield basis.

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

(c) Financial instruments (continued)

Financial liabilities (continued)

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

(d) Impairment of financial assets

Policy applicable prior to January 1, 2018

The Company assessed at each date of the statement of financial position whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred if, and only if, there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

The Company first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. If the Company determined that no objective evidence of impairment existed for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was or continued to be recognised were not included in a collective assessment of impairment.

The amount of the loss was 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 had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Company may have measured impairment on the basis of an instrument's fair value using an observable market price.

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

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

(d) Impairment of financial assets (continued)

Policy applicable from January 1, 2018 (continued)

The Company recognises loss allowance for ECL on financial assets measured at amortised cost and measures impairment losses at amount equal to 12-month ECL or lifetime ECL depending on the stage in which the asset is classified.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial asset. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Impairment of financial assets is recognised in three stages:

Stage 1 – When a financial asset is originated, ECLs resulting from default events that are possible within the next 12 months are recognised and a loss allowance is established. On subsequent reporting dates, 12-month ECL also applies to existing financial assets with no significant increase in credit risk since their initial recognition.

Stage 2 – If the credit quality subsequently significantly deteriorates for a particular portfolio or transaction, the Company recognises the full lifetime expected credit losses.

Stage 3 – At a later date, once one or more default events have occurred on the transaction or on a counterparty resulting in an adverse effect on the estimated future cash flows, the Company recognises the full lifetime expected credit losses. At this stage, the financial asset is credit-impaired.

In determining whether a significant increase in credit risk has occurred since initial recognition, and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and forward-looking information.

The assessment of whether an asset is in stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument, and is not assessed based on the change in the amount of the expected credit losses. This involves setting quantitative tests combined with additional indicators such as credit risk classification and other observable inputs. Assets that are more than 30 days past due, but not credit-impaired, are classed as stage 2.

Changes in credit loss, including the impact of movements between the first stage (12 month expected credit losses) and the second stage (lifetime expected credit losses), are recorded in the statement of profit or loss.

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

(d) Impairment of financial assets (continued)

Policy applicable from January 1, 2018 (continued)

IFRS 9 requires the use of more forward looking information including reasonable and supportable forecasts of future economic conditions. The requirement to consider a range of economic scenarios and their possible impact on impairment allowances is a subjective feature of the IFRS 9 ECL model. The Company continues to develop its capability to model a number of economic scenarios and capture the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes.

The application of IFRS 9 does not alter the current definition of default currently used to determine whether or not there is objective evidence of impairment of a financial asset.

The Company considers a financial asset to be in default when:

– The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company through actions such as realizing security (if any held);
– The financial asset is more than 90 days past due; or
– The borrower is on principal only repayment terms.

Impairment losses for financial assets measured at amortised cost are deducted from the gross carrying amount of assets.

(e) Income and expense

Policy applicable prior to and after January 1, 2018

The effective interest method is a method of calculating the amortised 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.

Policy applicable prior to January 1, 2018

Interest income and expense were recognised in the statement of profit or loss and other comprehensive income for all financial instruments measured at amortised cost using the effective interest method, based on the gross carrying amount of the instrument.

(f) 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 recognised amounts

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

(f) Offsetting financial instruments (continued)

and there is an intention to settle on a net basis, or realise 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.

(g) Related party

A related party is a person or entity that is related to the Company and includes:

i. A person or close member of that person's family who
   a. has control or joint control of the Company
   b. has significant influence over the Company; or
   c. is a member of the Company's key management personnel, including directors.

ii. An entity that is related to the Company as follows:
   a. An entity that is a member of the same group as the Company;
   b. An entity that is associated with, or is a joint venture partner with the Company;
   c. An entity that is a post-employment benefit plan for the benefit of employees of the Company;
   d. An entity that has the ability to control or exercise significant influence over the Company in making financial or operational decisions; and
   e. An entity that is jointly controlled or significantly influenced by parties described in i) and ii) above.

Transactions with related parties are disclosed in Note 5.

(h) Taxation

The Company is required to pay value added tax (VAT) at a rate of 12% on goods and services as prescribed by the Value Added Tax Act. Effective July 1, 2018 VAT was increased from 7.5% to 12%.

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.

(i) 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.

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

(i) Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

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.

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 recognised in the financial statements.

Key judgments

Fair value of financial instruments

IFRS 13 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 that the entity can access at the measurement date.
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 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 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.

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 is quoted price in an active market. In most cases, however, the Company's financial instruments are not typically exchangeable or exchanged and therefore management applies judgement to determine their fair value.

All of the Company's financial assets and liabilities are valued as Level 2 instruments.

No transfers were made during the period for any investments within the hierarchy.

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

(i) Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

Key judgments (continued)

Fair value of financial instruments (continued)

Since the calculation of fair value is based on management's estimates, which involve uncertainties, the amount realised in a sale or immediate settlement of the instruments may differ from the estimated amount.

4. Financial Instruments

The following table analyses the carrying amounts of financial assets and financial liabilities as defined by IFRS 9 *Financial Instruments* for 2018 and IAS 39 *Financial Instruments: Recognition and Measurement* for 2017:

2018

	Amortised Cost	Amortised Cost	Total
Financial Assets			
Cash and deposit with Parent	$ 114,702	–	114,702
Due from Parent	2,870,334	–	2,870,334
Financials Liabilities			
Other liabilities	$ –	5,000	5,000

2017

	Loans and Receivables	Other Financial Liabilities	Total
Financial Assets			
Cash and deposit with Parent	$ 114,600	–	114,600
Due from Parent	2,604,316	–	2,604,316
Financials Liabilities			
Other liabilities	$ –	9,000	9,000

The Company's financial instruments comprise cash, short-term instruments and instruments payable on demand. Due to the nature of the Company's financial instruments, management estimates that their carrying amounts approximate fair value.

5. Related Party Transactions and Balances

During the year the Company received commissions of $373,201 (2017: $227,501) from its sister company, Laurentide Insurance and Mortgage Company Limited, for selling credit- life insurance business.

The Company maintains a current account with the Parent. The account earned interest at 0.10% per annum up to September 30, 2018. After this date, the Parent discontinued paying interest on current accounts. (2017: 0.75% per annum up to January 30, 2017 and 0.35% per annum thereafter). Interest income was $103 (2017: $407).

The due from Parent balance is unsecured, earns interest at the Bahamian prime rate of 4.25% (2017: 4.25%) per annum and is repayable on demand. Interest income was $106,467 (2017: $131,252).

The Company paid management fees for the year of $186,601 (2017: $113,750) to its Parent for undertaking its administrative activities.

6. Risk Management

Capital risk management

The Company manages its capital to ensure that it exceeds regulatory capital requirements of $30,000 (2017: $30,000) and will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balances. 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 Company's risk appetite and policies, and the maximization of shareholder's return.

The capital structure of the Company consists of equity attributable to the common equity holders of the Company, comprising issued capital, share premium and retained earnings.

The Company's Board of Directors 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'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 fulfill their contractual obligations to the Company. Due to the nature of its operations, the Company has significant credit risk with the Parent.

The Company is also exposed to credit risk from its cash at bank. The Company conducts its banking business with the Parent which is in good standing with the Central Bank of The Bahamas.

6. Risk Management

Credit risk (continued)

Maximum credit exposure at the end of the year approximates the carrying value of all financial assets (Note 4). There have been no changes in the policies and procedures for managing credit risk compared to the prior year.

Expected Credit Loss Measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate, defined as follows:

Exposure at default (EAD) is an estimate of the amount the Bank expects to be owed at the time of default, over the next 12 months (12-month EAD) or over the remaining lifetime (Lifetime EAD), taking into account expected changes after the reporting period, including repayments of principal and interest,

Probability of default (PD) represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12-month PD), or over the remaining lifetime (Lifetime PD) of the obligation;

Loss given default (LGD) represents the Company's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of EAD expected to be non-recoverable if the default occurs in the next 12 months and lifetime LGD is the percentage of EAD expected to be non-recoverable, if the default occurs over the remaining expected lifetime of the loan;

Discount Rate The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof. The expected losses are discounted to present value at the end of the reporting period. The estimate of the loss arising on default is based on the difference between the contractual cash flows due and those that the Company would expect to receive from its receivables.

The ECL is estimated via three components:

- EAD: Depends on the IFRS 9 asset classification. The EAD for cash and due from Parent is the carrying amount on the statement of financial position.
- PD: The estimated 12-month and lifetime PD is based on credit risk rating of the Parent. The credit risk of the Parent is determined by historical and current financial loss experiences and other qualitative factors.
- LGD: LGD for the Parent is aligned with historical experiences and financial strength of the Parent.

6. Risk Management *(continued)*

Credit risk (continued)

Significant increase in credit risk (SICR)

A significant deterioration in credit quality of the Parent represented by the Parent's inability to repay contractual amounts owed is defined as an SICR.

Definition of default

The definition of default for the purpose of determining expected credit losses is consistent with the regulatory definition of default which considers following indicators:

- an obligor is highly vulnerable to non-payment, e.g. a bankruptcy petition has been filed;
- an obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner;
- an obligor has failed to pay one or more of its financial obligations (rated or unrated);
- if the exposure is more or equal to 90 days past due, it is automatically assessed as defaulted; or
- financial asset has a "defaulted" external rating.

ECL approach: Cash and deposit with Parent and due from Parent

The cash on deposit is accessible on demand and the related party loan with the Parent is repayable on demand. Expected credit losses of the Company are based on the assumption that repayment of the loan is demanded at the reporting date. The Parent has sufficient accessible highly liquid assets if required to repay the loan at the reporting date, and any expected losses is more than likely to be immaterial.

Under IFRS 9, the maximum period over which expected impairment losses should be measured is the longest contractual period where the Company is exposed to credit risk. In the case of loans repayable on demand, the contractual period is the short period needed to transfer the cash once demanded. The Company has used the most recent sovereign credit rating of the Bahamas of BBB- and used the country's risk rate of .38% and adjusts the PD based on risk changes of the Parent. The Company applies an LGD of 13.65% based on the average sovereign default cased in the Caribbean region from 1983-2016 and adjusts the percentage for risk specific to the Parent. The LGD applied is 15%.

ECL approach: Cash and deposit with Parent and due from Parent (continued)

The ECL impact was not material to the Company and therefore an ECL impairment provision has not been recorded.

All financial assets are Stage 1.

6. **Risk Management** *(continued)*

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 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 recognised, and the Company is in compliance with all regulatory requirements.

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.

The primary source of the Company's interest rate risk relates to balances due from Parent. The interest rates on these are disclosed in Note 4.

An increase / decrease of 50 basis points in interest rates would decrease / increase total profit by $14,352 (2017: 13,022).

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.

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 policies and procedures for managing liquidity risk compared to the prior year.

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