LAURENTIDE INSURANCE AGENCY LIMITED
2020 AUDITED FINANCIAL STATEMENTS

KPMG
PO Box N-123
Montague Sterling Centre
13 East Bay Street
Nassau, Bahamas

INDEPENDENT AUDITORS' REPORT

To the Shareholder of: Laurentide Insurance Agency Limited

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, 2020, the statements of profit or loss, changes in equity and 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, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 International Code of Ethics for Professional Accountants (including International Accounting Standards) ("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.

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 IFRS, 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 ISA 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 ISA, 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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May 31, 2021
Nassau, Bahamas

LAURENTIDE INSURANCE AGENCY LIMITED
STATEMENT OF FINANCIAL POSITION
As at December 31, 2020, with corresponding figures as of December 31, 2019
(Expressed in Bahamian dollars)

	2020	2019
ASSETS		
Cash and deposit with Parent (Note 4)	$ 114,632	$ 114,668
Due from Parent (Notes 4 and 5)	3,599,296	3,215,499
Other assets	2,543	280
TOTAL ASSETS	$ 3,716,471	$ 3,330,447
LIABILITIES AND EQUITY		
LIABILITIES:		
Other liabilities (Note 4)	$ 10,000	$ 4,960
TOTAL LIABILITIES	$ 10,000	$ 4,960
EQUITY:		
Share capital		
Authorized, issued and fully paid:		
5,000 shares at $1.00	5,000	5,000
Contributed Suprlus	5,000	5,000
Retained earnings	3,696,471	3,315,487
Total equity	3,706,471	3,325,487
TOTAL LIABILITIES AND EQUITY	$ 3,716,471	$ 3,330,447

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

These financial statements were approved by the Board of Directors on May 31, 2021, and are signed on its behalf by:

Director

Raymond L. Winder
Director

LAURENTIDE INSURANCE AGENCY LIMITED
STATEMENT OF PROFIT OR LOSS

Year ended December 31, 2020, with corresponding figures for 2019

(Expressed in Bahamian dollars)

	2020	2019
INCOME:		
Commissions (Note 5)	$ 543,400	$ 513,360
Interest income, effective interest rate method (Note 5)	135,840	121,514
Total income	679,240	634,874
EXPENSES:		
General and administrative:		
Management Fees - Parent (Note 5)	274,637	256,680
Other	23,619	32,826
Total expenses	298,256	289,506
TOTAL PROFIT	$ 380,984	$ 345,368

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

LAURENTIDE INSURANCE AGENCY LIMITED
STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2020, with corresponding figures for 2019

(Expressed in Bahamian dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance as at December 31, 2018	$ 5,000	$ 5,000	$ 2,970,119	$ 2,980,119
Total profit and comprehensive income	-	-	345,368	345,368
Balance as at December 31, 2019	5,000	5,000	3,315,487	3,325,487
Total profit and comprehensive income	-	-	380,984	380,984
Balance as at December 31, 2020	**$ 5,000**	**$ 5,000**	**$ 3,696,471**	**$ 3,706,471**

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

LAURENTIDE INSURANCE AGENCY LIMITED
STATEMENT OF CASH FLOWS

Year ended December 31, 2020, with corresponding figures for 2019

(Expressed in Bahamian dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total profit and comprehensive income	$ 380,984	$ 345,368
(Increase) in due from Parent	(383,797)	(345,165)
(Increase) in other assets	(2,263)	(197)
Increase (decrease) in other liabilities	5,040	(40)
Net cash used in operating activities	(36)	(34)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(36)	(34)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	114,668	114,702
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 114,632	$ 114,668

The accompanying notes form an integral part of these 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 borrowers from 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") as issued by the International Accounting Standards Board ("IASB").

(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).

(d) 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.

2. Basis of Preparation *(continued)*

(d) ***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 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.

(e) ***Going concern***

Management continues to have a reasonable expectation that the Company has adequate resources to continue in operation for at least the next 12 months and that the going concern basis of accounting remains appropriate. The outbreak of COVID-19 pandemic and the measures adopted by the government of the Bahamas to mitigate its spread has impacted the operations of Parent and the Company. However, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

(f) ***New standards, amendments and interpretations adopted by the Company***

The adoption of the following standards and amendments has not led to any changes in the Company's accounting policies:

IFRS 3	Definition of a business (amendments)
IFRS 7 and IFRS 9	Interest Rate Benchmark Reform (amendments)
IAS 1 and IAS 8	Definition of material (amendments)

Conceptual Framework References to the Conceptual Framework in IFRS Standards (amendments)

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

IFRS 17 Insurance Contracts ("IFRS 17") was issued in May 2017. The current standard, IFRS 4, allows insurers to use local GAAP. IFRS 17 defines clear and consistent rules that aims to 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.

The new standard is applicable for annual periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of adopting this standard and the proposed amendments.

3. Summary of Significant Accounting Policies

(a) Financial instruments

Financial assets

<u>*Classification*</u>

Financial assets are measured at fair value on initial recognition. The Company then classifies its financial assets in the following measurement categories:

i. 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 ("SPPI") 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.

ii. Fair value through other comprehensive income ("FVOCI")

A financial asset is measured at FVOCI 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 SPPI on the principal amount outstanding.

iii. Fair value through profit or loss ("FVTPL")

A financial asset is measured at FVTPL if it is does not meet the criteria to be measured at amortised cost or at FVOCI.

The classification of financial assets is generally based on the business model under which the asset is held and its contractual cash flow characteristics as described below.

Business model assessment

A business model assessment is performed to determine how a portfolio of financial assets is managed in order to achieve the Company's business objectives. Judgment is used in determining the appropriate business model for a financial asset. The three categories of business models are hold to collect, hold to collect and sell, and other.

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

(a) Financial instruments (continued)

Business model assessment (continued)

For the assessment of a business model, the Company takes into consideration the following factors:

- How the performance of assets in a portfolio is evaluated and reported to Executives and other key decision makers within the Company's business lines.
- How compensation is determined for the Company's business lines management that manages the assets.
- Whether the assets are held for trading purposes i.e., assets held within a business model and how those risks are managed; and
- The frequency and volume of sales in prior periods and expectations about future sales activity. Information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are not held to collect, or both held to collect, and sell are assessed at a portfolio level reflective of how the asset or group of assets are managed together to achieve a particular business model. Financial assets whose performances are evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Contractual cash flow assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are SPPI on the principal amount outstanding.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- terms that limit the Company claim to cash flows from specified assets; and features that modify consideration of the time value of money.

Contractual cash flow assessment(continued)

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount. Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the Company identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

With the exception of investments in equity securities, all financial instruments are classified at amortised cost at the reporting date. Investments in equity securities are classified at FVTPL.

Recognition and derecognition

The Company initially recognises financial assets and liabilities 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.

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. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability. 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.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

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).

Modification

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different.

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

(a) ***Financial instruments*** *(continued)*

Modification (continued)

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.

When a new financial asset is recognized, it will generally be recorded in Stage 1, unless it is credit impaired on recognition.

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. The financial asset continues to be monitored for increases in credit risk and impairment.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated using the original effective interest rate of the asset and the adjustment is recognized as a modification gain or loss in profit or loss.

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; and
ii. Contracts that will or may be settled in the Company’s own equity instruments and are 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.

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

(a) ***Financial instruments*** *(continued)*

Modification (continued)

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.

Financial liabilities classified at amortised cost 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.

The Company's financial liabilities comprise deposits accepted from customers, life insurance fund liability and other liabilities. Financial liabilities (or parts thereof) are derecognised when the liability has been extinguished and the obligation specified in the contract is discharged, cancelled, or expires.

(b) ***Impairment of financial assets***

The Company recognises loss allowances for expected credit losses ("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.

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.

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

(b) Impairment of financial assets *(continued)*

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.

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.

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

(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 from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and is used by the Company in the management of its short term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(d) Income and expense

Interest income is recognized in the statement of profit or loss using the effective interest method. 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.

Commission income is recognized on an accrual basis. Commission earned on insurance policies are recognized when the policies are written and the Company has no further significant service obligations associated with the insurance policy.

(e) 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 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.

(f) Dividends

Dividends are recognized in the statement of changes in equity when approved by the Board of Directors.

(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 is related to a reporting entity if the person:

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

(g) Related party *(continued)*

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.

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, 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 underlying assumptions are reviewed on an ongoing basis. The following are the judgments and estimates that management has made in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the financial statements:

Key judgments

i. Classification of financial assets

On an annual basis, management assesses the business models within which the financial assets are held. The assessment is made as to whether the contractual

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

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

i. Classification of financial assets *(continued)*

terms of a financial asset are solely payment of principal and interest ("SPPI") on the principal amount outstanding.

ii. 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.

None of the Company's assets are carried at fair value. For purposes of disclosing fair values, all of the Company's financial assets and liabilities have been classified as Level 2 in the fair value hierarchy.

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

4. Financial Instruments

The carrying amounts of financial assets and financial liabilities are as follows:

	2020	
	Amortised Cost	Total
Financial Assets		
Cash and deposit with Parent	$ 114,632	$ 114,632
Due from Parent	$ 3,599,296	$ 3,599,296
Financial Liabilities		
Other liabilities	$ 10,000	$ 10,000

	2019	
	Amortised Cost	Total
Financial Assets		
Cash and deposit with Parent	$ 114,668	$ 114,668
Due from Parent	$ 3,215,499	$ 3,215,499
Financial Liabilities		
Other liabilities	$ 4,960	$ 4,960

The Company's financial instruments primarily comprise cash and deposit with Parent, due from Parent and other liabilities. Due to the short-term 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 earned commissions of $543,400 (2019: $513,360) from its sister company, Laurentide Insurance and Mortgage Company Limited, for selling credit life insurance business.

The amount due from parent balance is unsecured, earns interest at the Bahamian prime rate 4.25% (2019: 4.25%) and is repayable on demand. Interest income earned during the year was $135,840 (2019: $121,514).

The Company incurred management fees for the year of $274,637 (2019: $256,680) payable to its Parent for undertaking its administrative activities.

6. Risk Management

It is inherent in the nature of the Company and given the limited operations of the Company to incur concentrations of risk. The most important types of financial risk to which the Company is exposed is capital risk, credit risk, operational risk, interest rate risk and liquidity risk. The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the Company are discussed below.

Concentration of risk arise from financial instruments that have similar characteristics and are affected similarly by the financial condition of the Parent.

Capital risk management

The Company manages its capital to ensure that it exceeds regulatory capital requirement of $30,000 (2019: $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 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 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, 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'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 and counterparty risk are the potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour a financial obligation.

The Company's credit policies are designed to maximize the risk/return trade off. The Company's credit policies, including authorized lending limits, are based on a segregation of authority and centralized management approval with periodic independent review by the Company's Internal Audit department.

Credit risk arises from the potential failure of counterparty to fulfill their contractual obligations to the Company. Due to the nature of its operations, the Company has credit risk with the Parent. The Company is also exposed to credit risk from its cash and deposit with Parent. The Company monitors its credit risk by evaluating the financial stability of the Parent.

6. Risk Management *(continued)*

Credit risk *(continued)*

Maximum credit exposure at the end of the year approximates the carrying value of all financial assets. 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; and

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)*

Expected Credit Loss Measurement (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 1.19% (2019: .38%) and adjusts the PD based on risk changes of the Parent. The Company applies an LGD of 16.99% (2019: 16.06%) based on the average sovereign default cased in the Caribbean region from9 1983-2019 (2019: 1983-2018) and adjusts the percentage for risk specific to the Parent. The LGD applied is 18% (2019: 17%).

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 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 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 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 $17,928 (2019: $16,077).

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.

The following table summarizes the cash flows from financial instruments into maturity groupings, based on the remaining period to the contractual maturity dates. The cash flows presented are discounted.

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

Liquidity risk (continued)

As of December 31, 2020	Within 3 Months	3 - 12 months	Over 1 - 5 Years	Over 5 years	Total
Assets					
Cash and deposit with Parent	$ 114,632	$ -	$ -	$ -	$ 114,632
Due from Parent	-	3,599,296	-	-	3,599,296
Other assets	-	2,543	-	-	2,543
Total financial assets	$ 114,632	$ 3,601,839	$ -	$ -	$ 3,716,471
Liabilities					
Other liabilities	$ -	$ 10,000	$ -	$ -	$ 10,000
Total financial liabilities	-	10,000	-	-	10,000
Net liquidity gap	**$ 114,632**	**$3,591,839**	**$ -**	**$ -**	**$3,706,471**

As of December 31, 2019	Within 3 Months	3 - 12 months	Over 1 - 5 Years	Over 5 years	Total
Assets					
Cash and deposit with Parent	$ 114,668	$ -	$ -	$ -	$ 114,668
Due from Parent	-	3,215,499	-	-	3,215,499
Other assets	-	280	-	-	280
Total financial assets	$ 114,668	$ 3,215,779	$ -	$ -	$ 3,330,447
Liabilities					
Other liabilities	$ -	$ 4,960	$ -	$ -	$ 4,960
Total financial liabilities	$ -	$ 4,960	$ -	$ -	$ 4,960
Net liquidity gap	**$ 114,668**	**$3,210,819**	**$ -**	**$ -**	**$3,325,487**

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