

**BAHAMAS FIRST GENERAL INSURANCE
COMPANY LIMITED**

**Financial Statements For The Year
Ended December 31, 2008 and
Independent Auditors' Report**

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Bahamas First General Insurance Company Limited:

We have audited the financial statements of Bahamas First General Insurance Company Limited (the "Company") which comprise the balance sheet as of December 31, 2008, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

July 9, 2009

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

BALANCE SHEET

AS OF DECEMBER 31, 2008

(Expressed in Bahamian dollars)

		2008	2007
ASSETS	Notes		
Cash	5	\$ 3,061,929	\$ 6,813,378
Term deposits	6	3,671,036	3,479,529
Investments	7	18,342,800	21,265,010
Trade accounts receivable	8, 18	22,617,378	20,742,672
Sundry receivables and prepayments		892,983	748,746
Receivable from reinsurers		-	235,213
Interest receivable		92,922	91,331
Deferred commission costs	9	6,995,985	7,009,654
Unpaid claims recoverable from reinsurers	10	11,099,147	10,670,394
Deferred reinsurance premiums	9	28,665,499	26,827,559
Deferred reinsurance cost	9	3,787,991	4,035,334
Receivables from related companies	18	23,582,108	23,293,948
Property and equipment	11	2,029,929	2,044,192
Intangible asset	12	2,692,559	2,692,559
		<u>\$ 127,532,266</u>	<u>\$ 129,949,519</u>

(Continued)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

BALANCE SHEET

AS OF DECEMBER 31, 2008

(Expressed in Bahamian dollars)

		2008	2007
LIABILITIES AND EQUITY	Notes		
LIABILITIES:			
Payable to reinsurers		\$ 3,415,600	\$ 14,225,843
Unearned commission income	9	6,750,135	5,839,199
Unearned premiums	9	42,674,996	42,686,985
Bank overdraft	6	4,089,092	-
Payable to agents and brokers	18	8,915	466,983
Accrued liabilities		2,292,066	1,462,020
Unpaid claims	10	20,729,176	19,352,292
		<u>79,959,980</u>	<u>84,033,322</u>
EQUITY:			
Share capital	13	7,500,000	7,500,000
Contributed surplus		14,100,000	14,100,000
General reserve	14	3,500,000	3,500,000
Revaluation surplus	15	1,269,268	1,269,268
Retained earnings		21,203,018	19,546,929
Total equity		<u>47,572,286</u>	<u>45,916,197</u>
TOTAL		<u>\$ 127,532,266</u>	<u>\$ 129,949,519</u>

(Concluded)

See notes to financial statements.

These financial statements were approved by the Board of Directors on July 9, 2009 and are signed on its behalf by:



Director



Director

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF INCOME YEAR ENDED DECEMBER 31, 2008 (Expressed in Bahamian dollars)

	Notes	2008	2007
UNDERWRITING INCOME:			
Gross premiums written	18	\$103,095,929	\$104,391,461
Movement in unearned premiums	9	<u>11,989</u>	<u>(2,953,927)</u>
		103,107,918	101,437,534
Premiums ceded to reinsurers		<u>(67,097,096)</u>	<u>(65,754,616)</u>
Movement in deferred reinsurance premiums	9	<u>1,107,524</u>	<u>537,533</u>
Net premiums earned		37,118,346	36,220,451
Commission income from reinsurers		<u>17,641,094</u>	<u>15,345,442</u>
Total underwriting income		<u>54,759,440</u>	<u>51,565,893</u>
UNDERWRITING EXPENSES:			
Net claims incurred	10	8,591,753	7,158,997
Commission expense	18	19,502,262	18,783,743
Cost of excess of loss reinsurance		15,121,511	16,500,715
Premium tax		<u>3,002,794</u>	<u>3,016,530</u>
Total underwriting expenses		<u>46,218,320</u>	<u>45,459,985</u>
Net underwriting income		8,541,120	6,105,908
OTHER EXPENSES:			
Management fees	18	2,060,555	956,699
Salaries, benefits and bonuses	17, 18	1,768,477	1,801,249
General and administrative expenses		1,420,948	1,354,461
Depreciation and amortisation	11	<u>66,396</u>	<u>73,700</u>
Total other expenses		<u>5,316,376</u>	<u>4,186,109</u>
NET TECHNICAL RESULTS		3,224,744	1,919,799
OTHER INCOME	16, 18	1,353,555	1,330,851
UNREALIZED (LOSS) GAIN ON INVESTMENTS		<u>(2,922,210)</u>	<u>8,958,600</u>
NET INCOME		<u>\$ 1,656,089</u>	<u>\$ 12,209,250</u>

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2008

(Expressed in Bahamian dollars)

	<u>Share Capital</u>	<u>Contributed Surplus</u>	<u>General Reserve</u>	<u>Revaluation Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2006	\$2,500,000	\$ 14,100,000	\$3,500,000	\$1,079,779	\$ 7,337,679	\$28,517,458
Shares issued (Note 13)	5,000,000	-	-	-	-	5,000,000
Net increase (Notes 11 and 15)	-	-	-	189,489	-	189,489
Net income	-	-	-	-	12,209,250	12,209,250
Balance at December 31, 2007	7,500,000	14,100,000	3,500,000	1,269,268	19,546,929	45,916,197
Net income	-	-	-	-	1,656,089	1,656,089
Balance at December 31, 2008	<u>\$7,500,000</u>	<u>\$ 14,100,000</u>	<u>\$3,500,000</u>	<u>\$1,269,268</u>	<u>\$21,203,018</u>	<u>\$47,572,286</u>

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2008

(Expressed in Bahamian dollars)

	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		\$ 1,656,089	\$ 12,209,250
Adjustments for:			
Depreciation and amortization	11	66,396	73,700
Unrealised loss (gain) on investments		2,922,210	(8,958,600)
Loss on disposal of property and equipment		(2,683)	172
Net income from operations		4,642,012	3,324,522
Increase in trade accounts receivable from agents and brokers		(1,874,706)	(2,980,126)
Decrease in receivable from reinsurers		235,213	6,223
Increase in interest receivable		(1,591)	(7,376)
Increase in receivable from related company		(288,160)	(9,031,814)
Increase in sundry receivables and prepayments		(144,237)	(79,845)
(Decrease) increase in deferred commission costs		13,669	(579,919)
Increase in net unpaid claims		948,131	823,157
Increase in deferred reinsurance premiums		(1,837,940)	(537,533)
Decrease in deferred reinsurance cost		247,343	579,405
Increase in unearned commission income		910,936	143,338
(Decrease) increase in unearned premiums		(11,989)	2,953,927
(Decrease) increase in payable to reinsurers		(10,810,243)	1,887,547
(Decrease) increase in payables to agents and brokers		(458,068)	130,491
Increase in accrued liabilities		830,046	189,433
Net cash used in operating activities		(7,599,584)	(3,178,570)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	11	(55,900)	(39,569)
Proceeds from disposals of investments		6,450	-
(Increase) decrease in term deposits maturing after ninety days		(60,735)	997,773
Net cash (used in) from investing activities		(110,185)	958,204

(Continued)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2008

(Expressed in Bahamian dollars)

	Notes	2008	2007
CASH FLOWS FROM FINANCING ACTIVITY:			
Proceeds from issue of shares		\$ -	\$ 5,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		(7,709,769)	2,779,634
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR		<u>9,174,850</u>	<u>6,395,216</u>
END OF YEAR		<u>\$ 1,465,081</u>	<u>\$ 9,174,850</u>
CASH AND CASH EQUIVALENTS IS COMPRISED OF:			
Cash	5	\$ 3,061,929	\$ 6,813,378
Bank overdraft	6	(4,089,092)	-
Term deposits maturing within ninety days	6	<u>2,492,244</u>	<u>2,361,472</u>
		<u>\$ 1,465,081</u>	<u>\$ 9,174,850</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:			
Interest received		<u>\$ 255,377</u>	<u>\$ 229,315</u>
Interest paid		<u>\$ 104,072</u>	<u>\$ 83,464</u>

(Concluded)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

(Expressed in Bahamian dollars)

1. GENERAL

Bahamas First General Insurance Company Limited (the "Company") was incorporated on September 8, 1982 under the laws of the Commonwealth of The Bahamas. Effective January 1, 1998 the Company became a wholly-owned subsidiary of Bahamas First Holdings Limited ("BFH"). It is registered to carry on general insurance business. Three of BFH's subsidiaries, Nassau Underwriters Agency Insurance and Agents Brokers Ltd. ("NUA"), Moseley Burnside Insurance Agency Limited ("MBI") and Carib Insurance Agency Limited ("CIA"), act as insurance agents for the Company.

The Company, BFH and the other subsidiaries of BFH are hereinafter collectively referred to in these financial statements as the "Group". All of the Group companies are incorporated in The Bahamas.

The registered office of the Company is located at 32 Collins Avenue, Nassau, Bahamas.

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective in the current period

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2008. In October 2008, the IASB issued amendments to IAS 39 and IFRS 7 on reclassifying financial assets. The Company has not reclassified its investments.

At the date of authorization of these financial statements the following standards which have not been applied in these financial statements were in issue but not yet effective and have not yet been adopted by the Company:

- IFRS 1/IAS 27 (Amended) Cost of an investment in a Subsidiary, Jointly Controlled or Associate
- IFRS 2 (Amended) Share-based Payment - Vesting Conditions and Cancellations
- IFRS 3 (Revised 2007) Business Combinations
- IAS 1 (Revised 2007) Presentation of Financial Statements
- IAS 23 (Revised 2007) Borrowing Costs
- IAS 27 (Revised 2008) Consolidated and Separate Financial Statements
- IAS 32/IAS 1 (Amended) Puttable Financial Instruments and Obligations Arising on Liquidation

(Continued)

- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- Improvements to IFRS (May 2008)

Management anticipates that the adoption of the relevant Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

(Concluded)

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The following is a summary of the significant accounting policies:

- a. ***Basis of preparation*** - These financial statements have been prepared on the accrual basis and under the historical cost convention, except for investments carried at fair value through profit or loss and land and buildings which are revalued every three years.

The accounting policies are consistent with those used in previous years.

- b. ***Financial instruments:***

Classification and measurement - On initial recognition, a financial asset or liability is measured at its fair value plus transaction costs directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition, financial assets are classified as either financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; or available-for-sale; and are measured at their fair values without any deduction for transaction costs, except for the following financial assets:

- (i) loans and receivables and held-to-maturity financial instruments are measured at amortized cost using the effective interest rate method;
- (ii) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(Continued)

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value. Term deposits are classified as held-to-maturity financial instruments. They have fixed or determinable payments and fixed maturity dates, and the Company has the intent and ability to hold them to maturity.

Trade accounts receivable, sundry receivables and receivable from insurers that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables and are carried at cost, which equates to amortized cost, less provision for bad debts. Trade accounts payable and accrued liabilities are financial liabilities, which are carried at cost.

Investments in Bahamas Registered Stock are designated as held-to-maturity and are carried at amortized cost. Preference share investments are classified as available-for-sale and are carried at cost, as this is considered to be the fair value at the balance sheet date. Gains and losses arising from changes in fair value of available-for-sale investments are recognised through the statement of changes in equity until the investments are disposed of or are determined to be permanently impaired, at which time the cumulative gain or loss previously recognised in equity is included in the statement of income for the period. All other investments are classified as financial assets at fair value through profit or loss. They are measured at fair value with reference to market prices, or, for non-listed companies, financial information on the company.

Recognition and derecognition - The Company recognizes/derecognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Company recognizes/derecognizes financial assets purchased or sold on the trade date. The gain or loss on investments classified as at fair value through profit or loss is recognized in the statement of income.

Investments held-to-maturity are recognized/derecognized on the day they are transferred to/by the Company. Financial liabilities are derecognized when they are extinguished. For financial asset and liabilities carried at amortised cost, a gain or loss is recognized in the statement of income when it is derecognized or impaired, as well as through the amortization process.

- c. **Trade accounts receivable** - Trade accounts receivable are stated at cost less provision for bad debts. The bad debt provision is based on management's evaluation of the accounts receivable portfolio.
- d. **Property and equipment** - Property and equipment, other than freehold land and buildings, are stated at cost less accumulated depreciation and amortization and impairment losses.

Expenditure incurred in the construction or replacement of property and equipment is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the property and equipment. All other expenditure is recognized in the statement of income as an expense as incurred.

(Continued)

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives. Land is not depreciated and expenditure incurred in the construction-in-progress is not depreciated until construction is completed.

The estimated useful lives as follows:

Buildings	40 years
Furniture and equipment	5 - 10 years
Leasehold improvements and others	3 - 5 years

Freehold land and buildings are stated at fair market value, based on independent professional appraisals, which are performed every three years. Revaluation increments are recorded in the revaluation surplus in the statement of changes in equity unless they reverse a revaluation decrease of the same asset previously recognized as an expense and are transferred to retained earnings to the extent realized by complete or partial disposal of the related asset. Any revaluation decrease is recognized as an expense unless it reverses a revaluation increase that was previously recognized in revaluation surplus.

- e. ***Intangible assets*** - For insurance portfolios acquired, an intangible asset is accounted for under IFRS 4, representing the difference between the fair value of the contractual insurance rights acquired and insurance obligations assumed and any liability for insurance contracts that it issues. The subsequent measurement of this intangible asset is consistent with the measurement of the related insurance liability. IAS 38 *Intangible Assets* does not apply to this intangible asset; however, it does apply to customer lists and relationships reflecting the expectation of future contracts that are not part of the contractual insurance rights and insurance obligations that existed at the date of the business combination or portfolio transfer. Intangible assets recognized under IAS 38 are initially carried at cost. After initial recognition, an intangible asset with a finite useful life is amortized, whereas an intangible asset with an indefinite useful life is not amortized. An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the entity. The intangible asset is tested for impairment at least annually.

An intangible asset shall be derecognized on disposal or when no future economic benefit is expected from its use or disposal. The gain or loss arising from the derecognition is recognized in the statement of income.

- f. ***Impairment*** - The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the statement of income.

An impairment loss in respect of held-to-maturity assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

(Continued)

Intangible assets are considered impaired when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is determined using the future cash flows and applying the appropriate discount rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

- g. **Unpaid claims** - The provision for unpaid claims represents an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred on or before each balance sheet date. The provision is periodically reviewed and evaluated in the light of emerging claims experience and changing circumstances. Changes in estimate of the ultimate liability are included in net claims incurred in the statement of income.
- h. **Premiums** - Premiums written are recognized as income over the periods covered by the related policies taking into consideration the exposure period to which they relate. The adjustment to apportion the gross premiums written and ceded over the life of the policy is made through the movement in the unearned premiums.

Unearned premiums at year end represent the proportion of the premiums which relate to periods of insurance subsequent to the balance sheet date. This amount is calculated on a quarterly pro-rated basis.

- i. **Premiums ceded** - Premiums ceded to reinsurers are recognized as expense over the periods covered by the related policies taking into consideration the exposure period to which they relate.

Deferred reinsurance premiums in the balance sheet at year end represent the proportion of the premiums ceded which relate to periods of insurance subsequent to the balance sheet date. This amount is calculated on a quarterly pro-rated basis.

- j. **Deferred acquisition cost**

Reinsurance cost - Certain costs related to excess of loss reinsurance contracts are deferred and matched with the income related to these costs. Deferred reinsurance costs in the balance sheet at year end represent the deferred portion of these costs.

Deferred and unearned commissions - The amounts at year end represent the proportion of the commission paid to agents and brokers and received from reinsurers which relate to periods of insurance subsequent to the balance sheet date. This amount is calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

(Continued)

- k. ***Commission income and expense*** - Base commissions paid to agents and received from insurers and reinsurers are calculated based on gross premiums written and reinsured. Base commission paid and received is adjusted so they are recognized over the period covered by the related policies taking into consideration the exposure period to which they relate.

Profit commissions received from reinsurers and non-group insurers, calculated based on past underwriting results, are received from other insurance companies for whom Group agents may act and from the Group's reinsurers. The agency profit commissions are recorded in the year in which Group agents receive notification of the commission and reinsurance profit and override commissions are recorded on an accruals basis.

- l. ***Dividend and interest income*** - Dividend income is recorded when the dividend is declared. Interest income is accounted for on an accrual basis.
- m. ***Cash and cash equivalents***- Cash and cash equivalents consist of cash on hand, cash at bank, bank overdraft, and term deposits with banks maturing within 90 days.
- n. ***Related parties*** - Related parties include key management personnel, officers, directors, associated companies, shareholders and companies that are controlled by these parties.

(Concluded)

4. **CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. 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.

i. ***The ultimate liability arising from claims made under insurance contracts***

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Company will ultimately pay to settle such claims.

Significant areas requiring estimation and judgments include:

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims provisions ("IBNR") included within provisions for insurance and reinsurance contracts.
- The corresponding estimate of the amount of reinsurance recoveries which will become due as a result of these estimated claims.
- The recoverability of amounts due from reinsurers.
- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

The carrying value at the balance sheet date of gross claims reported and loss adjustment expenses and claims incurred but not reported was \$20,729,176 (2007: \$19,352,292). The amount of reinsurance recoveries estimated at the balance sheet date is \$11,099,147 (2007: \$10,670,394).

ii. ***Impairment of intangible asset***

Determining whether intangible assets are impaired requires an estimation of the value in use or fair value less costs to sell of the cash-generating unit to which the value has been allocated. The value in use calculation requires the Company to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value both of which are material sources of uncertainty. Fair value less costs to sell is the amount obtainable from the sale of an asset or cash generating unit between knowledgeable willing parties, less the costs of disposal.

The carrying value at the balance sheet date for intangible asset is \$2,692,559 (2007: \$2,692,559).

5. CASH

Cash consist of the following:

	2008	2007
Cash on hand	\$ 16,533	\$ 15,336
Cash at bank	<u>3,045,396</u>	<u>6,798,042</u>
	<u>\$ 3,061,929</u>	<u>\$ 6,813,378</u>

6. TERM DEPOSITS AND BANK OVERDRAFT

Term deposits are denominated in Bahamas dollars with an average interest rate of 5.42% (2007: 5.25%) per annum.

	2008	2007
Term deposits maturing within 90 days	\$ 2,492,244	\$ 2,361,472
Term deposits maturing after 90 days	<u>1,178,792</u>	<u>1,118,057</u>
	<u>\$ 3,671,036</u>	<u>\$ 3,479,529</u>

The Company also has a bank overdraft facility with Commonwealth Bank Limited up to \$4,500,000. The facility, if exercised, bears interest at prime plus 1.5% per annum and is secured by the Term deposits. The amount of the facility utilized at December 31, 2008 was \$4,089,092 (2007: NIL).

7. INVESTMENTS

Investments are as follows:

	2008	2007
Held-to-maturity:		
Bahamas Government Registered Stock - at amortized cost		
\$231,000 5.53% (2007: 5.53%) per annum 2015	\$ 231,000	\$ 231,000
\$180,800 5.69% (2007: 5.69%) per annum 2020	<u>180,800</u>	<u>180,800</u>
	<u>411,800</u>	<u>411,800</u>
At fair value through profit or loss:		
Commonwealth Bank Limited		
2,133,000 (2007: 2,133,000) common shares		
Cost \$4,076,754 (2007: \$4,076,754)	<u>14,931,000</u>	<u>17,853,210</u>
	<u>14,931,000</u>	<u>17,853,210</u>
Available-for-sale:		
Commonwealth Bank Limited		
4,000 'A' Class preferred shares of \$500 each - at cost	2,000,000	2,000,000
FamGuard Corporation Limited		
500 variable rate cumulative redeemable preference shares - at cost	500,000	500,000
FOCOL Holdings Limited		
500,000 preference shares of \$1 each - at cost	<u>500,000</u>	<u>500,000</u>
	<u>3,000,000</u>	<u>3,000,000</u>
	<u>\$18,342,800</u>	<u>\$21,265,010</u>

The Commonwealth Bank Limited "A" Class preferred shares are redeemable at the option of the bank and bear interest at the rate of prime plus 1.50% (presently 7.00%) (2007: 7.00%) per annum.

In 2007, 711,000 common shares of the Bank were subject to a three-for-one split resulting in a total of 2,133,000 common shares. At December 31 2008, the Bank's common shares were valued at \$7.00 (2007: \$8.37), which is the price quoted by BISX.

The Company owns 500 variable rate cumulative redeemable preference shares in FamGuard Corporation Limited (the "Corporation"). The shares bear interest at the rate of prime plus 1.50% (presently 7.00%) (2007: 7.00%) per annum.

The Company owns 500,000 cumulative redeemable preference shares in FOCOL Holdings ("FOCOL"). The shares are redeemable at the option of the FOCOL and bear interest at the rate of prime plus 1.5% (presently 7.25%) (2007: 7.25%) per annum.

8. TRADE ACCOUNTS RECEIVABLE

Included in the Company's trade receivable are debtors with a carrying amount of \$8,669,320 (2007: \$10,251,137) which are past due at the reporting date. In this past due amount are trade receivables totaling \$4,703,199 (2007: \$4,204,459) which are secured by collateral over real estate or parent company guarantees. In view of the long-term relationship with the majority of the agency entities, their payment history and the fact that there has been no significant change in the credit quality, management does not deem any provision necessary.

Aging of past due balances:

	2008	2007
91 - 120 days	\$ 6,092,240	\$ 7,121,578
121 - 180 days	1,497,204	1,623,394
180 days and over	<u>1,079,876</u>	<u>1,506,165</u>
	<u>\$ 8,669,320</u>	<u>\$10,251,137</u>

The average age of the Company's receivables is 137 days (2007: 124 days).

9. INSURANCE ASSETS AND LIABILITIES

The movement in the deferred/unearned insurance assets and liabilities are as follows:

	Insurance Assets			Insurance Liabilities		
	Deferred Reinsurance Premiums	Deferred Commission Costs	Deferred Reinsurance Cost	Unearned Premiums	Unearned Commission Income	Net
Balance at December 31, 2006	\$26,290,026	\$ 6,429,735	\$ 4,614,739	\$(39,733,058)	\$(5,695,861)	\$ (8,094,419)
Movement during the year	<u>537,533</u>	<u>579,919</u>	<u>(579,405)</u>	<u>(2,953,927)</u>	<u>(143,338)</u>	<u>(2,559,218)</u>
Balance at December 31, 2007	26,827,559	7,009,654	4,035,334	(42,686,985)	(5,839,199)	(10,653,637)
Portfolio transfer as a result of change in net retention	730,416	-	-	-	(266,602)	463,814
Movement during the year	<u>1,107,524</u>	<u>(13,669)</u>	<u>(247,343)</u>	<u>11,989</u>	<u>(644,334)</u>	<u>214,167</u>
Balance at December 31, 2008	<u>\$28,665,499</u>	<u>\$ 6,995,985</u>	<u>\$ 3,787,991</u>	<u>\$(42,674,996)</u>	<u>\$(6,750,135)</u>	<u>\$ (9,975,656)</u>

10. UNPAID CLAIMS AND CLAIMS INCURRED

	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
Unpaid claims at December 31, 2006	\$ 21,441,913	\$(13,583,172)	\$ 7,858,741
Claims incurred	20,517,423	(13,358,426)	7,158,997
Claims paid	<u>(22,607,044)</u>	<u>16,271,204</u>	<u>(6,335,840)</u>
Unpaid claims at December 31, 2007	19,352,292	(10,670,394)	8,681,898
Claims incurred	20,623,149	(12,031,396)	8,591,753
Claims paid	<u>(19,246,265)</u>	<u>11,602,643</u>	<u>(7,643,622)</u>
Unpaid claims at December 31, 2008	<u>\$ 20,729,176</u>	<u>\$(11,099,147)</u>	<u>\$ 9,630,029</u>

The table below shows the development of claims over a period of time on a gross basis. The table shows the cumulative incurred claims, including both notified and IBNR claims for each successive accident year.

The claims have been adjusted to make them comparable on a year to year basis.

	<u>Accident years</u>					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Total</u>
Gross claims incurred at end of reporting year	\$ 101,635,745	\$ 21,233,541	\$ 15,131,676	\$ 18,731,278	17,093,172	
One year later	99,051,431	21,952,158	18,026,630	22,092,362		
Two years later	97,449,270	23,309,773	17,409,169			
Three years later	96,850,953	23,591,223				
Four years later	96,379,213					
Total incurred to date	96,379,213	23,591,223	17,409,169	22,092,362	17,093,172	
Cumulative payments to date	<u>(95,560,083)</u>	<u>(21,367,773)</u>	<u>(16,080,073)</u>	<u>(22,260,534)</u>	<u>(7,726,766)</u>	
Liability included in Balance Sheet	<u>\$ 819,130</u>	<u>\$ 2,223,450</u>	<u>\$ 1,329,096</u>	<u>\$ (168,172)</u>	<u>\$ 9,366,406</u>	\$ 13,569,910
Reserves for prior years						<u>7,159,266</u>
Total unpaid claims including amounts recoverable from reinsurers in the Balance Sheet						<u>\$ 20,729,176</u>

11. PROPERTY AND EQUIPMENT

The movement of property and equipment for the year is as follows:

	2008			
	Land	Buildings	Leasehold improvements, furniture and equipment	Total
COST/VALUATION:				
At January 1, 2008	\$ 498,750	\$ 1,590,739	\$ 229,787	\$ 2,319,276
Additions	-	-	55,900	55,900
Disposals	-	-	(50,106)	(50,106)
At December 31, 2008	<u>498,750</u>	<u>1,590,739</u>	<u>235,581</u>	<u>2,325,070</u>
ACCUMULATED DEPRECIATION/ AMORTIZATION:				
At January 1, 2008	\$ -	\$ 116,212	\$ 158,872	\$ 275,084
Charge for the year	-	34,717	31,679	66,396
Disposals	-	-	(46,339)	(46,339)
At December 31, 2008	<u>-</u>	<u>150,929</u>	<u>144,212</u>	<u>295,141</u>
NET BOOK VALUE:				
At December 31, 2008	<u>\$ 498,750</u>	<u>\$ 1,439,810</u>	<u>\$ 91,369</u>	<u>\$ 2,029,929</u>

(Continued)

2007				
			Leasehold improvements, furniture and equipment	Total
	Land	Buildings		
COST/VALUATION:				
At January 1, 2007	\$ 427,500	\$ 1,472,500	\$ 268,969	\$ 2,168,969
Appreciation	71,250	118,239	-	189,489
Additions	-	-	39,569	39,569
Disposals	-	-	(78,751)	(78,751)
At December 31, 2007	<u>498,750</u>	<u>1,590,739</u>	<u>229,787</u>	<u>2,319,276</u>
ACCUMULATED DEPRECIATION/ AMORTIZATION:				
At January 1, 2007	\$ -	\$ 77,416	\$ 202,547	\$ 279,963
Charge for the year	-	38,796	34,904	73,700
Disposals	-	-	(78,579)	(78,579)
At December 31, 2007	<u>-</u>	<u>116,212</u>	<u>158,872</u>	<u>275,084</u>
NET BOOK VALUE:				
At December 31, 2007	<u>\$ 498,750</u>	<u>\$ 1,474,527</u>	<u>\$ 70,915</u>	<u>\$ 2,044,192</u>

In May 2007, the land and building were revalued to fair market value based on a valuation performed by an independent appraiser. The fair value of the land and building was estimated to be \$498,750 and \$1,501,250, respectively, based on the combined effect of the cost, income and sales comparison approach. The surplus arising on the revaluation of \$189,489 is included in revaluation surplus in shareholders' equity. The net book value of the land and building, ignoring the effects of the revaluation, would have been \$427,500 and \$1,327,492 (2007: \$427,500 and \$1,356,288) respectively.

(Concluded)

12. INTANGIBLE ASSET

Intangible asset of \$2,692,559 arises on the acquisition of an insurance portfolio and is a separate cash-generating unit. The recoverable amount has been determined to be the fair value less costs to sell, which is higher than the carrying value and accordingly there is no requirement for an impairment loss to be recognized. The fair value is based on a multiple of the cash flow, which is projected to be generated from underwriting the portfolio.

	<u>Total</u>
Balance December 31, 2006	\$ 2,692,559
Additions	<u>-</u>
Balance December 31, 2007	2,692,559
Additions	<u>-</u>
Balance December 31, 2008	<u>\$ 2,692,559</u>

At December 31, 2008 there is no indication of impairment loss in value of this asset.

13. SHARE CAPITAL

The authorized share capital is 10,000,000 (2007: 10,000,000) at \$1.00 each, while issued and fully paid was \$7,500,000 (2007: \$7,500,000). In 2007, 5,000,000 shares were issued for cash.

14. GENERAL RESERVE

The Company has established a general reserve from retained earnings in the amount of \$3,500,000 (2007: \$3,500,000), which the directors have determined is not available for distribution.

15. REVALUATION SURPLUS

The movement in the revaluation surplus is as follows:

	Freehold		
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2007	\$210,478	\$ 869,301	\$1,079,779
Appreciation	<u>71,250</u>	<u>118,239</u>	<u>189,489</u>
Balance at December 31, 2007	<u>281,728</u>	<u>987,540</u>	<u>1,269,268</u>
Balance at December 31, 2008	<u>\$281,728</u>	<u>\$ 987,540</u>	<u>\$1,269,268</u>

16. OTHER INCOME

Other income is as follows:

	2008	2007
Investment income	\$ 893,545	\$ 789,074
Interest	256,968	271,729
Rental income (Note 18)	120,000	120,000
Claims handling fees	57,375	146,190
Other income	25,667	3,858
	<u>\$ 1,353,555</u>	<u>\$ 1,330,851</u>

17. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a profit sharing bonus payable to certain directors, management and staff amounting to \$377,623 (2007: \$269,189). This bonus amount was approved by the Board of Directors.

The majority of the Company's employees participate in a defined contribution pension plan into which the Company contributes 3% to 5% per annum of base salary. The Company paid contributions for the year amounting to \$42,404 (2007: \$44,193), which is included in salaries, benefits and bonuses in the statement of income.

18. RELATED PARTY BALANCES AND TRANSACTIONS

	2008	2007
Gross premiums written for the year	<u>\$53,661,288</u>	<u>\$52,498,854</u>
Commission expense paid for the year	<u>\$10,545,868</u>	<u>\$ 9,071,966</u>
Management fees paid to BFCS	<u>\$ 2,060,555</u>	<u>\$ 956,699</u>
Rental income received from NUA	<u>\$ 120,000</u>	<u>\$ 120,000</u>
Trade accounts receivable from agents and brokers at December 31	<u>\$ 7,227,408</u>	<u>\$ 6,958,447</u>
Balances payable to agents and brokers at December 31	<u>\$ 8,915</u>	<u>\$ 466,983</u>
Receivables from related parties	<u>\$23,582,108</u>	<u>\$23,293,948</u>

(Continued)

Key management personnel include members of the Company's management team having authority and responsibility for planning, directing and controlling the activities of the Company's operation. Compensation to key management personnel are as follows:

	2008	2007
Salaries and benefits	\$ 595,904	\$ 594,611
Post retirement benefits	<u>21,006</u>	<u>20,250</u>
	<u>\$ 616,910</u>	<u>\$ 614,861</u>
Receivables from key management personnel	<u>\$ 179,706</u>	<u>\$ 179,107</u>

These balances are interest free and unsecured with no fixed terms of repayment.

(Concluded)

19. CONTINGENCIES

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

20. INSURANCE RISK

The Company issues contracts that transfer insurance or financial risk or both. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The Company follows the policy of underwriting and reinsuring contracts of insurance, which generally limits the liability of the Company for any one risk to a maximum amount of not more than 2% of its capital and reserves. In addition, catastrophe reinsurance is obtained to limit liability to a maximum of 20% of the capital and reserves in the event of a series of claims arising out of a single occurrence.

The frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. Underwriting limits are in place to enforce appropriate risk selection criteria. The Company actively manages and pursues early settlement of all claims to reduce its exposure to unpredictable developments.

21. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

The Company's investments are exposed to market price risk, interest rate risk, credit risk and liquidity risk. The Company is also exposed to credit risk on accounts receivable and amounts due from reinsurers.

Market risk - Market risk is the risk that the value will fluctuate as a result of changes in market prices.

Interest rate risk - Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This is primarily a concern with fixed interest rate investments, which the Company intends to hold for the long-term.

The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvency.

Liquidity risk - Liquidity risk is the risk that the Company may have difficulty liquidating its positions due to existing or unforeseen market constraints. The Company's investment in quoted available-for-sale shares are in a market that is not highly active and comprises large blocks of shares in each investment. The other investments in preferred shares do not have a market and therefore may not be readily realizable. As a result, the Company may not be able to quickly liquidate its investments at an amount close to their fair value in order to meet liquidity requirements. Management does not anticipate that it will be required to quickly liquidate its investments to meet its commitments.

Credit risk - Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Management assesses the credit rating of its primary reinsurers to ensure that they are financially viable to meet their reinsurance commitments. Other receivables are monitored for impairment and provided for if considered necessary.

22. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of the Company's financial assets and liabilities are estimated to approximate their carrying values at the balance sheet date for one or all of the following reasons:

- a. Short-term maturities; or
- b. Interest rate approximate current market rates; or
- c. Carrying values approximate current market values.

23. CAPITAL STRUCTURE

Management assesses on a regular basis whether the Company's capital structure is in accordance with the Company's and Shareholders' interests. The overall objective is to ensure a capital structure that supports maximising returns to the shareholders of the Company by optimising the debt to equity ratio. The Company's strategy remains the same as last year.

24. EVENTS AFTER THE BALANCE SHEET DATE

Effective May 1, 2009, the business portfolio of MBI and CIA were merged with NUA.

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