

**BAHAMAS FIRST GENERAL INSURANCE
COMPANY LIMITED**

**Financial Statements For The Year
Ended December 31, 2009 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 statement of financial position as of December 31, 2009, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the 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, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The logo for Deloitte & Touche, featuring the company name in a stylized, cursive script.

May 31, 2010

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2009

(Expressed in Bahamian dollars)

		2009	2008
ASSETS	Notes		
Cash	5	\$ 737,356	\$ 3,061,929
Term deposits	6	3,860,473	3,671,036
Investments	7	18,342,800	18,342,800
Trade accounts receivable	8, 18	22,693,685	22,617,378
Sundry receivables and prepayments		1,233,587	985,905
Deferred commission costs	9	7,466,297	6,995,985
Unpaid claims recoverable from reinsurers	4, 10	12,002,885	11,099,147
Deferred reinsurance premiums	9	28,344,905	28,665,499
Deferred reinsurance costs	9	3,789,271	3,787,991
Receivables from related companies	18	25,025,200	23,582,108
Property and equipment	11	1,955,176	2,029,929
Intangible asset	4, 12	2,692,559	2,692,559
		<u>\$ 128,144,194</u>	<u>\$ 127,532,266</u>

(Continued)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2009

(Expressed in Bahamian dollars)

		2009	2008
LIABILITIES AND EQUITY	Notes		
LIABILITIES:			
Payable to agents and brokers		\$ -	\$ 8,915
Bank overdraft	6	1,645,302	4,089,092
Accrued liabilities		1,438,519	2,292,066
Payable to reinsurers		3,793,222	3,415,600
Unearned commission income	9	6,862,738	6,750,135
Unearned premiums	9	42,073,491	42,674,996
Unpaid claims	10	21,849,016	20,729,176
Total liabilities		<u>77,662,288</u>	<u>79,959,980</u>
EQUITY:			
Share capital	13	7,500,000	7,500,000
Contributed surplus		14,100,000	14,100,000
Reserves	14, 15	4,769,268	4,769,268
Retained earnings		24,112,638	21,203,018
Total equity		<u>50,481,906</u>	<u>47,572,286</u>
TOTAL		<u>\$128,144,194</u>	<u>\$127,532,266</u>

(Concluded)

See notes to financial statements.

These financial statements were approved by the Board of Directors on May 31, 2010 and are signed on its behalf by:



Director



Director

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2009

(Expressed in Bahamian dollars)

	Notes	2009	2008
UNDERWRITING INCOME:			
Gross premiums written	18	\$ 98,769,728	\$103,095,929
Movement in unearned premiums	9	601,505	11,989
		99,371,233	103,107,918
Premiums ceded to reinsurers		(64,525,626)	(67,097,096)
Movement in deferred reinsurance premiums	9	(320,594)	1,107,524
Net premiums earned		34,525,013	37,118,346
Commission income from reinsurers		17,525,551	17,641,094
Total underwriting income		52,050,564	54,759,440
UNDERWRITING EXPENSES:			
Net claims incurred	10	8,306,093	8,591,753
Commission expense	18	19,212,110	19,502,262
Cost of excess of loss reinsurance		14,763,080	15,121,511
Premium tax		2,876,788	3,002,794
Total underwriting expenses		45,158,071	46,218,320
Net underwriting income		6,892,493	8,541,120
OTHER EXPENSES:			
Management fees	18	2,197,239	2,060,555
Salaries, benefits and bonuses	17, 18	1,749,910	1,768,477
General and administrative expenses		1,131,421	1,420,948
Depreciation and amortisation	11	74,753	66,396
Total other expenses		5,153,323	5,316,376
NET TECHNICAL RESULTS		1,739,170	3,224,744
OTHER INCOME	16, 18	1,170,450	1,353,555
UNREALIZED LOSS ON INVESTMENTS		-	(2,922,210)
PROFIT AND COMPREHENSIVE INCOME		\$ 2,909,620	\$ 1,656,089

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2009

(Expressed in Bahamian dollars)

	<u>Share Capital</u>	<u>Contributed Surplus</u>	<u>General Reserve</u>	<u>Revaluation Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2007	\$ 7,500,000	\$ 14,100,000	\$ 3,500,000	\$ 1,269,268	\$ 19,546,929	\$ 45,916,197
Profit	-	-	-	-	1,656,089	1,656,089
Balance at December 31, 2008	7,500,000	14,100,000	3,500,000	1,269,268	21,203,018	47,572,286
Profit	-	-	-	-	2,909,620	2,909,620
Balance at December 31, 2009	<u>\$ 7,500,000</u>	<u>\$ 14,100,000</u>	<u>\$ 3,500,000</u>	<u>\$ 1,269,268</u>	<u>\$ 24,112,638</u>	<u>\$ 50,481,906</u>

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2009

(Expressed in Bahamian dollars)

	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit		\$ 2,909,620	\$ 1,656,089
Adjustments for:			
Depreciation and amortization	11	74,753	66,396
Unrealised loss on investments		-	2,922,210
Gain on disposal of property and equipment		-	(2,683)
Net income from operations		2,984,373	4,642,012
Increase in trade accounts receivable		(76,307)	(1,874,706)
Decrease in receivable from reinsurers		-	235,213
Increase in receivable from related company		(1,443,092)	(288,160)
Increase in sundry receivables and prepayments		(247,682)	(145,828)
(Decrease) increase in deferred commission costs		(470,312)	13,669
Increase in net unpaid claims		216,102	948,131
Decrease (increase) in deferred reinsurance premiums		320,594	(1,837,940)
(Increase) decrease in deferred reinsurance cost		(1,280)	247,343
Increase in unearned commission income		112,603	910,936
Decrease in unearned premiums		(601,505)	(11,989)
Increase (decrease) in payable to reinsurers		377,622	(10,810,243)
Decrease in payables to agents and brokers in trade accounts payable		(8,915)	(458,068)
(Decrease) increase in accrued liabilities		(853,547)	830,046
Net cash from (used in) operating activities		308,654	(7,599,584)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	11	-	(55,900)
Proceeds from disposals of investments		-	6,450
Increase in term deposits maturing after ninety days		(58,150)	(60,735)
Net cash used in investing activities		(58,150)	(110,185)

(Continued)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2009

(Expressed in Bahamian dollars)

	Notes	2009	2008
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		250,504	(7,709,769)
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR		<u>1,465,081</u>	<u>9,174,850</u>
END OF YEAR		<u>\$ 1,715,585</u>	<u>\$ 1,465,081</u>
CASH AND CASH EQUIVALENTS ARE COMPRISED OF:			
Cash	5	\$ 737,356	\$ 3,061,929
Bank overdraft	6	(1,645,302)	(4,089,092)
Term deposits maturing within ninety days	6	<u>2,623,531</u>	<u>2,492,244</u>
		<u>\$ 1,715,585</u>	<u>\$ 1,465,081</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:			
Interest received		<u>\$ 245,033</u>	<u>\$ 255,377</u>
Interest paid		<u>\$ 57,402</u>	<u>\$ 104,072</u>

(Concluded)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

(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. Two of BFH's subsidiaries, Nassau Underwriters Agency Insurance and Agents Brokers Ltd. ("NUA"), and General Brokers and Agents ("GBA"), 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 except BFH International Limited ("BFHIL") are incorporated in The Bahamas. BFHIL is incorporated under the laws (2009 Revision) of the Cayman Islands.

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

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS)

a. *Standards 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, 2009.

IFRS 7 (Amended) Financial Instruments: Disclosures
IAS 1 (Revised 2007) Presentation of Financial Statements
IAS 39 (Amended) Financial Instruments: Recognition and Measurement

The standards above affect the presentation and disclosure related to these financial statements and have resulted in changes to the titles of the financial statements and increased disclosures.

b. *Standards effective but not affecting the reported results or financial position*

IFRS 1/IAS 27 (Amended) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amended) Share-based Payment - Vesting Conditions and Cancellations
IFRS 8 Operating Segments
IAS 23 (Revised 2007) Borrowing Costs

IAS 28	(Amended) Investments in Associates
IAS 31	(Amended) Interest in Joint Ventures
IAS 32/IAS 1	(Amended) Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 38	(Amended) Intangible Assets

The above standards have not led to changes in the financial position of the Company during the current year.

c. ***Standards and Interpretations in issue but not yet effective***

IFRS 3	(Revised 2007) Business Combinations
IFRS 5	(Amended) Non-current Assets Held-for-Sale and Discontinued Operations
IFRS 9	Financial Instruments
IAS 7	(Amended) Statement of Cash Flows
IAS 17	(Amended) Leases
IAS 24	(Revised 2009) Related Party Disclosure
IAS 27	(Revised 2008) Consolidated and Separate Financial Statements
IAS 36	(Amended) Impairment of Assets
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Management has not assessed whether the relevant adoption of these standards and interpretations in future periods will have a material impact on the financial statements of the Company.

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.

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 Government 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 statement of financial position date. Gains and losses arising from changes in fair value of available-for-sale investments are recognised in other comprehensive income until the investments are disposed of or are determined to be permanently impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in profit or loss 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 comprehensive 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 comprehensive income as an expense as incurred.

Depreciation is charged to the statement of comprehensive 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. A revaluation increment is recorded in the statement of comprehensive income unless it reverses a revaluation decrease of the same asset previously recognized as an expense and is transferred to retained earnings to the extent realized by complete or partial disposal of the related asset.

- 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 comprehensive income.

- f. **Impairment** - The carrying amounts of the Company's assets are reviewed at each statement of financial position 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 comprehensive 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.

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 comprehensive 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 statement of financial position 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 comprehensive 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 statement of financial position 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 statement of financial position at year end represent the proportion of the premiums ceded which relate to periods of insurance subsequent to the statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

j. ***Deferred acquisition cost***

Reinsurance costs - 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 statement of financial position 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 statement of financial position date. This amount is calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

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 commissions paid and received are 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. 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.

o. ***Pension benefits*** - The Company employees participate in a defined contribution plan. Under the plan, the Company contributes a fixed percentage of annual salary that is expensed in the year. Once the contributions have been made, the Company has no further obligations. The expensed amount is included in salaries, benefits and bonuses in the statement of comprehensive income.

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 statement of financial position date of gross claims reported and loss adjustment expenses and claims incurred but not reported was \$21,849,016 (2008: \$20,729,176). The amount of reinsurance recoveries estimated at the statement of financial position date is \$12,002,885 (2008: \$11,099,147).

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 statement of financial position date for intangible asset is \$2,692,559 (2008: \$2,692,559).

5. CASH

Cash consists of the following:

	2009	2008
Cash on hand	\$ 5,409	\$ 16,533
Cash at bank	<u>731,947</u>	<u>3,045,396</u>
	<u>\$ 737,356</u>	<u>\$ 3,061,929</u>

6. TERM DEPOSITS AND BANK OVERDRAFT

Term deposits are denominated in Bahamas dollars with an average interest rate of 5.08% (2008: 5.42%) per annum.

	2009	2008
Term deposits maturing within 90 days	\$ 2,623,531	\$ 2,492,244
Term deposits maturing after 90 days	<u>1,236,942</u>	<u>1,178,792</u>
	<u>\$ 3,860,473</u>	<u>\$ 3,671,036</u>

The Company also has a bank overdraft facility with Commonwealth Bank Limited up to \$3,000,000 (2008 \$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, 2009 was \$1,645,302 (2008: \$4,089,092).

7. INVESTMENTS

Investments are as follows:

	2009	2008
Held-to-maturity:		
Bahamas Government Registered Stock - at amortized cost		
\$231,000 5.53% (2008: 5.53%) per annum 2015	\$ 231,000	\$ 231,000
\$180,800 5.69% (2008: 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 (2008: 2,133,000) common shares		
Cost \$4,076,754 (2008: \$4,076,754)	<u>14,931,000</u>	<u>14,931,000</u>
	<u>14,931,000</u>	<u>14,931,000</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>\$ 18,342,800</u>

The Commonwealth Bank Limited (the "Bank") "A" Class preferred shares are redeemable at the option of the bank and bear interest at the rate of 7% per annum (2008: 7%).

At December 31, 2009, the Bank's common shares were valued at \$7.00 (2008: \$7.00), which was the price quoted at BISX at that date.

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% per annum, presently 7% (2008: 7%).

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 1.75%, presently 7.25% (2008: 7.25%).

8. TRADE ACCOUNTS RECEIVABLE

Included in the Company's trade receivable are debtors with a carrying amount of \$13,494,695 (2008: \$8,669,320) which are past due at the reporting date. In this past due amount are trade receivables totaling \$7,027,095 (2008: \$4,703,199) 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:

	2009	2008
91 - 120 days	\$ 7,365,793	\$ 6,092,240
121 - 180 days	2,759,972	1,497,204
180 days and over	3,368,930	1,079,876
	<u>\$ 13,494,695</u>	<u>\$ 8,669,320</u>

The average age of the Company's receivables is 152 days (2008: 137 days).

9. DEFERRED/UNEARNED PREMIUMS AND COMMISSIONS

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

	<u>Insurance Assets</u>			<u>Insurance Liabilities</u>		
	Deferred Reinsurance Premiums	Deferred Commission Costs	Deferred Reinsurance Costs	Unearned Premiums	Unearned Commission Income	Net
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	28,665,499	6,995,985	3,787,991	(42,674,996)	(6,750,135)	(9,975,656)
Movement during the year	<u>(320,594)</u>	<u>470,312</u>	<u>1,280</u>	<u>601,505</u>	<u>(112,603)</u>	<u>639,900</u>
Balance at December 31, 2009	<u>\$ 28,344,905</u>	<u>\$ 7,466,297</u>	<u>\$ 3,789,271</u>	<u>\$(42,073,491)</u>	<u>\$(6,862,738)</u>	<u>\$ (9,335,756)</u>

10. UNPAID CLAIMS AND CLAIMS INCURRED

	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</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	20,729,176	(11,099,147)	9,630,029
Claims incurred	19,431,064	(11,124,971)	8,306,093
Claims paid	<u>(18,311,224)</u>	<u>10,221,233</u>	<u>(8,089,991)</u>
Unpaid claims at December 31, 2009	<u>\$ 21,849,016</u>	<u>\$ (12,002,885)</u>	<u>\$ 9,846,131</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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Total</u>
Gross claims incurred at end of reporting year	\$21,233,541	\$15,131,676	\$18,731,278	\$17,093,172	\$15,057,157	
One year later	21,952,158	18,026,630	22,092,362	19,349,635		
Two years later	23,309,773	17,409,169	23,014,578			
Three years later	23,591,223	19,023,210				
Four years later	23,251,948					
Total incurred to date	23,251,948	19,023,210	23,014,578	19,349,635	15,057,157	
Cumulative payments to date	<u>(22,044,983)</u>	<u>(16,151,762)</u>	<u>(18,858,957)</u>	<u>(15,617,939)</u>	<u>(11,457,905)</u>	
Liability included in statement of financial position	<u>\$ 1,206,965</u>	<u>\$ 2,871,448</u>	<u>\$ 4,155,621</u>	<u>\$ 3,731,696</u>	<u>\$ 3,599,252</u>	\$15,564,982
Reserves for prior years						<u>6,284,034</u>
Total unpaid claims including amounts recoverable from reinsurers in the statement of financial position						<u>\$21,849,016</u>

11. PROPERTY AND EQUIPMENT

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

		2009			
				Leasehold Improvements, Furniture and Equipment	Total
		Land	Buildings		
COST/VALUATION:					
At January 1, 2009 and at December 31, 2009		\$ 498,750	\$ 1,590,739	\$ 235,581	\$ 2,325,070
ACCUMULATED DEPRECIATION/ AMORTIZATION:					
At January 1, 2009		\$ -	\$ 150,929	\$ 144,212	\$ 295,141
Charge for the year		-	48,609	26,144	74,753
At December 31, 2009		-	199,538	170,356	369,894
NET BOOK VALUE:					
At December 31, 2009		\$ 498,750	\$ 1,391,201	\$ 65,225	\$ 1,955,176
		2008			
				Leasehold Improvements, Furniture and Equipment	Total
		Land	Buildings		
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		498,750	1,590,739	235,581	2,325,070
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		-	150,929	144,212	295,141
NET BOOK VALUE:					
At December 31, 2008		\$ 498,750	\$ 1,439,810	\$ 91,369	\$ 2,029,929

There were no additions or disposals during 2009.

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 \$1,278,962 (2008: \$427,500 and \$1,327,492) respectively.

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, 2008	\$ <u>2,692,559</u>
Balance December 31, 2009	\$ <u>2,692,559</u>

At December 31, 2009 there is no indication of impairment loss in the value of this asset.

13. SHARE CAPITAL

The authorized share capital is 10,000,000 (2008: 10,000,000) at \$1.00 each, while issued and fully paid was \$7,500,000 (2008: \$7,500,000).

14. GENERAL RESERVE

The Company has established a general reserve from retained earnings in the amount of \$3,500,000 (2008: \$3,500,000), which the directors have determined is not available for distribution.

15. REVALUATION RESERVE

The movement in the revaluation reserve is as follows:

	Freehold		
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at December 31, 2008	\$ 281,728	\$ 987,540	\$ 1,269,268
Balance at December 31, 2009	\$ 281,728	\$ 987,540	\$ 1,269,268

In accordance with the Company's accounting policy, freehold land and buildings are subject to a revaluation exercise that is performed by an independent professional appraiser every three years. The next appraisal is due on 2010.

16. OTHER INCOME

Other income is as follows:

	2009	2008
Investment income	\$ 744,500	\$ 893,545
Interest	256,574	256,968
Rental income (Note 18)	120,000	120,000
Claims handling fees	45,775	57,375
Other income	3,601	25,667
	<u>\$ 1,170,450</u>	<u>\$ 1,353,555</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 \$365,769 (2008: \$377,623). 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 \$52,389 (2008: \$42,404), which is included in salaries, benefits and bonuses in the statement of comprehensive income.

18. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances and transactions are as follows:

	2009	2008
Gross premiums written for the year	<u>\$ 48,106,158</u>	<u>\$ 53,661,288</u>
Commission expense paid for the year	<u>\$ 9,519,899</u>	<u>\$ 10,545,868</u>
Management fees paid to BFCS	<u>\$ 2,197,239</u>	<u>\$ 2,060,555</u>
Rental income received from NUA	<u>\$ 120,000</u>	<u>\$ 120,000</u>
Trade accounts receivable from agents and brokers	<u>\$ 5,213,654</u>	<u>\$ 7,227,408</u>
Balances payable to agents and brokers	<u>\$ -</u>	<u>\$ 8,915</u>
Receivables from related parties	<u>\$ 25,025,200</u>	<u>\$ 23,582,108</u>

Receivables from related parties are interest free and unsecured with no fixed terms of repayment.

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 is included in salaries, benefits and bonuses in the statement of comprehensive income as follows:

	2009	2008
Salaries and benefits	\$ 595,904	\$ 595,904
Post retirement benefits	<u>21,006</u>	<u>21,006</u>
	<u>\$ 616,910</u>	<u>\$ 616,910</u>
Receivables from key management personnel	<u>\$ 178,786</u>	<u>\$ 179,706</u>

Receivables from key management personnel are interest free and unsecured with no fixed terms of repayment and are included in sundry receivables and prepayment in the statement of financial position.

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.

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.

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.

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 statement of financial position 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.

Fair Value of Financial Instruments

Fair value measurements recognised in the statement of financial position.

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial instruments, where this would be relevant are fair value through profit or loss - Commonwealth Bank Limited which would be in level 1. The other investments would be in level 3.

Significant assumptions used in determining fair value of financial assets and liabilities:

Unlisted shares

Investments for which observable market prices in active markets do not exist are reported at fair value, as determined in good faith by Management. Fair value is based on the best information available and is determined by reference to information including, but not limited to, the following: projected revenues, net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), book value, relevant public or private transactions, valuations for publicly-traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and restrictions on disposition. The amount determined to be fair value may incorporate Management's own assumptions (including appropriate risk adjustments for non-performance and lack of marketability).

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. SUBSEQUENT EVENT

Subsequent to year-end, the Company advanced \$6 million to its parent that is interest free and unsecured with no fixed terms of repayment.

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