EXPANDING OUR FIRSTPRINT

Bahamas First Holdings Limited | 2010 ANNUAL REPORT

// In sports, there are teams and individual players in every league that set themselves apart as winners. These are the clubs and superstars that finish first or very near to it year in and year out. They accomplish this by demanding consistent excellence from themselves and from everyone in their organizations on a year-round basis. They are innovators who discover new and better ways to play, thereby elevating the overall quality of the game and producing a better product for their fans and increased revenues for their owners.

Bahamas First could be considered the Manchester United of insurance in The Bahamas and the Cayman Islands. The Company was founded with the vision of building a domestically capitalized property and casualty insurance Group that would be the undisputed market leader in The Bahamas and the greater Caribbean. The relentless pursuit of this objective has remained our number-one priority ever since.

Until this year, all of the Company's activities have been centered in The Bahamas. Much of the Company's development has come through acquisitions, with many smaller firms and agencies being welcomed into the BFH family. This year, we ventured beyond the horizon into a new market with the purchase of controlling interest in one of the leading insurance companies in the Cayman Islands, and renaming it Cayman First.

It can be said 2010 is the year Bahamas First came of age. The voyage of exploration to the Cayman Islands was a bold step in the Company's strategy that required a maturation of thinking in the executive suite. To paraphrase Chairman Ian Fair, it took a "quantum leap" in corporate governance culture to first make the bid to secure an offshore subsidiary and second to make it work.

Our goal in the Cayman Islands, as it remains in The Bahamas, is to be the leading general insurer in the market by providing innovative and customized insurance solutions and by continually improving product lines to meet the changing needs of the marketplace. We're pleased to report a smooth transition at Cayman First that will continue into the new year.

Our theme for 2010 is "Expanding Our FirstPrint". Our foray into the Cayman Islands is only one part of the story. Each of the companies under the BFH umbrella has been fully engaged in growth and development activities that further expand our "FirstPrint", from opening new Service Centres to harmonizing operations, to sponsoring and supporting new social and cultural programs in their communities.

All of these actions further solidify our standing as a perennial winner in the eyes of our customers and stakeholders. Bahamas First is indeed a champion of insurance in The Bahamas, and as of this year in the Cayman Islands as well.

BAHAMAS FIRST HOLDINGS LIMITED

Annual Report and Consolidated Financial Statements for the Year Ended December 31, 2010

EXPANDING OUR FIRSTPRINT

Message from the Chairman

2010 marked another significant First for your Company, with our first acquisition outside The Bahamas.

We welcome Cayman First to our family and are doing everything we can to integrate them into our culture as quickly and seamlessly as possible.

It has been clear to your Board for some time now that our ability to grow much further in one country was becoming very limited. It was a question of finding the right acquisition candidate in the right location. Cayman First, in our view, fitted the requirements.

If one looks around the region the other leading Property and Casualty providers are, in the most part, multi-jurisdictional and have become major players in the region. This includes companies in Bermuda, Barbados, Jamaica and Trinidad.

To date Bahamian companies, in many different fields, have not ventured far outside home ground. One has to ask why, as many are greatly respected in the region.

We had strong support for this initiative from our panel of reinsurers, who were of the view that with such a strong international reputation we should build on this in the region.

2010 was a challenging year for The Bahamas economy, as it was for much of the world's major economies. In most cases it was a slow and steady progress, as opposed to anything dynamic. That is the general prognosis for the next few years, as most of the developed world unwinds its excesses of the past, particularly as it relates to debt.

There is a growing realization and acceptance that the world order is changing. No longer will it be North America, Europe, Japan and a few others who will drive the world forward, but that a good number of past emerging economies will step forward and make a significant contribution.

The obvious names are China and India, but Brazil and Indonesia are playing a greater part, too. In the case of Brazil, in the past recession, which impacted the world so significantly, they experienced hardly a blip in their growth! One interesting fact is that for many centuries up to 1800, the world's two largest economies were China and Brazil. Also, last year the developing world's contribution to global GDP growth surpassed that of the developed world for first time since the 1800's.

As a result of retirement and other changes at The Economical Insurance Group in Canada, we have to say farewell to Noel Walpole and Sandeep Uppal as Directors of Bahamas First Holdings Limited. During their tenure, they provided wise counsel and expert advice for which we thank them. We welcome Economical's CEO, Katherine Mabe and their Vice President of Finance and Controller, Bharat Kannan, as nominees to the Board. They bring with them a wealth of knowledge in our industry.

We look forward with great anticipation to a challenging and successful 2011. Certainly, prospects for The Bahamas economy are encouraging. My thanks, on behalf of your Board, to all of our stakeholders for your continued support.

IAN D. FAIR
Chairman

Message from the President

The year under review was a particularly active year for your Company. While most organizations within and without the region were focused on scaling down their operations, BFH was actively engaged in expanding its footprint in the various business segments in which we actively participate.

The anemic economic environment created many challenges for our business units but, at the same time, it lowered the cost that would otherwise be associated with the expansion and development activities initiated or concluded in 2010.

The future benefits that will accrue from the full consolidation of GBA into our Group, and the acquisition of the controlling stake (75.24%) in the entity, now branded as Cayman First Insurance (CFI), are not readily apparent in 2010. This is as a direct consequence of a number of non-recurrent or extraordinary charges that were expensed during the year either as a result of corporate intent or accounting rules. The charges relate primarily to reorganization and acquisition expenses and the bad debt provisions related to the business produced by the intermediary base of the Company.

In the case of the latter, we have been prudent and, one has to say fortunate, in managing the possible downside of such risks as evidenced by the disproportionately low level of provisions compared to our market share of the industry.

The combined total of these extraordinary expenses, together with the financing costs associated with the 2010 Bond issue are in the range of $2 million, and account for the majority of the decline in comprehensive income attributable to owners of the parent from $5.2 million to $3.7 million.

In addition to the impact to the statement of comprehensive income, equity was reduced by a further $2.5 million, which relates to the elimination of goodwill booked for the GBA transactions concluded in 2010. While the accounting rules require this treatment, it does not imply a diminution in the value of the assets acquired.

As a result of the additional business acquired, we saw net underwriting income surge to over $24.0 million, compared to $16.7 million the prior year. As expected, we also experienced a significant rise in the general and administrative (including staff benefits) expenses, from $13.8 million to $22.9 million, but, as alluded to earlier, a significant portion of this is non-recurrent.

Having regard to all of the factors impacting the performance of the Company in 2010, the Director's were of the view that the core or underlying results were sufficiently strong to justify a continuation of the dividend payment established over the last three (3) years.

The total equity attributable to owners of the parent reduced by 5% to $45.6M, compared to 2009 and this, together with the substantial increase in net written premiums, has resulted in a reduced solvency margin of 73%, as compared to 140% for 2009. However, we continue to maintain sufficient capital to support the net exposures underwritten by the Group.

During the year, A.M. Best reaffirmed the A-(Excellent) rating of the two risk taking entities, BFG and CFI, and we are committed to ensuring that the future outlook for both operations remains positive.

During December 2010, we were delighted to host a retirement function for John Dunkley to honour the more than 40 years of continuous service to the Group. John has played a very significant role in many different parts of our expanding organization and the many positive testimonials we heard provided insight into just how far and wide his influence extended. While John's service has now transitioned out of active involvement in the day-to-day affairs of NUA, he will continue to provide a major contribution to this entity, and the entire Group, through his activities as a member of the respective Boards. We wish him, and Sue Anne, a happy retirement.

The Board approved the appointment of Warren Rolle, as the incoming Managing Director of NUA.

PATRICK G. W. WARD
President and CEO

EXPANDING OUR FIRSTPRINT

SUMMARY OF RESULTS

// Financial Summary
Year Ended December 31, 2010

In Bahamian $ '000s, except for per share data and ratios	2010	2009	% Change	2008
BALANCE SHEET				
Total assets	185,162	128,846	44%	128,041
Equity attributable to owners of the parent	45,570	47,949	-5%	46,366
Book value per common share	**1.12**	**1.19**		**1.15**
STATEMENT OF OPERATIONS				
Gross premiums written	153,089	100,064	53%	105,401
Net written premiums	62,036	34,282	81%	36,066
Net premiums earned	61,509	34,563	78%	37,185
Commission received	25,742	18,843	37%	17,842
Net claims incurred	26,982	7,426	263%	7,771
Net underwriting income	24,019	16,679	44%	16,884
Other income	2,490	1,677	48%	(1,191)
Total comprehensive income attributable to owners of the parent	3,700	5,187	-29%	3,465
Earnings per common share	**0.10**	**0.13**		0.10
RATIOS				
Solvency ratio	73%	140%		129%
Combined ratio	98%	90%		87%
Loss ratio	44%	21%		21%
Expense ratio	37%	38%		33%

SOLVENCY RATIO Total equity attributable to owners of the parent as a percentage of net written premiums
COMBINED RATIO Net underwriting expense & administrative cost as a percentage of net premiums earned
LOSS RATIO Claims incurred as a percentage of net premiums earned
EXPENSE RATIO Administrative expenses as a percentage of net premiums earned

2010 Year in Review

On reflection, 2010 will be seen as a year that provided a very mixed bag of economic developments for both the developed economies and the emerging markets around the world. It will also be remembered for a number of high profile disasters, both in the region and far away from The Bahamas.

The earthquakes in Chile, Haiti and New Zealand, the Gulf oil spill and winter storms within Europe are all reminders of just how volatile man-made and natural peril events can be for both life and property.

Despite a close brush with weather related events in 2010, we were able to conclude the catastrophe season without any significant claims activity. The absence of any material claims event provided us with an opportunity to devote our full attention to the other priorities that characterized the year for BFH.

Last year we highlighted the fact that regulatory changes would become a point of intense focus for the entire insurance sector. Despite the deferral in the date for full implementation with regard to a number of important provisions, there was quite a flurry of activity in this regard in The Bahamas.

The changing environment will create challenges and opportunities and we have taken steps to properly analyze how BFH should position itself as events unfold. The current regulatory environment and changes that have already or are due to come on stream have validated the Group's organizational structure which enhances client focus, capital efficiency and transparency.

Expanding our Regional Footprint

The acquisition of CFI has added complexity to our operations but it has also significantly increased our scale while bringing on the additional benefits of geographical and product diversification. BFH is now firmly entrenched as one of the leading regional property and casualty insurance groups in the Caribbean with a revenue base that is over 50% higher than it was in 2009.

Gross Written Premium (GWP):

2010	2009
$153,089,047	**$100,063,789**

Net Written Premium (NWP):

2010	2009
$ 62,035,966	**$ 34,281,793**

While the top line growth was primarily fuelled by the acquisition, we did see a reversal of the prior year decline in premiums, which resulted from the prevailing economic conditions.

For our Bahamas based business, we registered a 2% increase in gross written premiums, and a small decline in net written premiums, related to a change in cession for the related reinsurance contract.

The incoming portfolio of business that is based in Cayman, has a Health Insurance component, representing 43% of the total GWP produced by CFI, and 15% of the Group's combined GWP. All of the premium income associated with the Health book of business is written on a net basis, and this accounts for the sharp increase in overall NWP during 2010.

There are many similarities with the operating environments within Cayman and The Bahamas, particularly as it relates to the important link between reinsurance capacity and costs, and original rates or pricing in the respective markets.

Our philosophy of prudent pricing for sustainable growth, through appropriate distribution channels, has not changed. Maintaining a disciplined underwriting approach resulted in the delivery of strong property and casualty results across the Group. The Health portfolio did not deliver acceptable results but we have implemented a plan to dramatically improve the performance going forward. The recent expansion into Cayman allows the Group to pursue a strategy of active cycle management for business written in both locations, by allowing us to resist the need to add volume when pricing and terms are not favorable and conversely to grow when these factors are aligned with our interests.

An examination of the main product lines and business segments of the Group shows both a record of successful execution and opportunities for improvement.

Property: In The Bahamas, we registered a modest gain of just over 2% in premium growth compared to 2009, but more importantly we reversed a declining trend established in the prior years. As a result of adhering to prudent pricing practices, we saw a small reduction in gross written premiums for property business in Cayman, some 3.7%, but the upside is that underwriting profitability was ahead of budget for the full year, notwithstanding unusual claims activities. Our property portfolios in both Cayman and Bahamas delivered positive underwriting contributions to the overall net technical result.

Motor and Liability: Here again we experienced a positive turnaround in the growth factor for the Bahamas based business, as we were able to increase our vehicle count by an appreciable number.

Premium income was essentially flat compared to the prior year, and the underwriting result was broadly in line with expectations.

Similarly for Cayman, the premium income was flat compared to the prior year, despite the intense competitive factors that have been escalated in recent times by the new entrants to the motor market. The loss ratios associated with this segment of our portfolio continue to be excellent and we have already begun to integrate proven underwriting and claims management techniques into CFI to ensure the sustainability of these results.

Marine: During the year we were able to introduce this line of business into CFI, allowing them the opportunity to expand their product lineup for the benefit of their customer base. The process of building a profitable portfolio within the framework of established underwriting criteria has already begun.

The underwriting results in The Bahamas continue to be challenging, principally as a result of the crime related claim incidents, but we continue to look for ways to deliver a more acceptable outcome.

Health: The health portfolio, written only in Cayman, did not perform well in 2010, continuing a trend that was established in prior years. Following a comprehensive review, the Group implemented a multifaceted strategy to tackle both the pricing and other deficiencies identified for both new and renewal business. The revised strategy was fully launched in the last quarter of 2010, and while we have seen early signs of progress, we will continue to closely monitor events to ensure that we achieve our target result for this line of business.

Capital & Investment Management

By the close of 2010, the Group's investment assets had grown to $38.3 million, compared to $18.3 million in 2009. The major contributing factors were the additional assets acquired with the CFI purchase and the Bond series issue which occurred in the second half of 2010. The composition or mix of the investment assets are now much more diversified than in prior years, as demonstrated by the figures below:

	2010	2009
Government Registered Stocks:	**12%**	**2%**
Equities:	**39%**	**81%**
Fixed Income:	**48%**	**16%**

During the year, we disposed of 150,000 common shares of Commonwealth Bank stock at the prevailing market rates at the time of each transaction. This, together with the other investment activities resulted in a 124% increase in cash and investments to $55.4 million from $24.8 million in the prior year.

Closing Old Chapters

During the year, we were able to successfully conclude separate transactions that resulted in 100% of the ownership of the GBA agency transferring to BFH. During the year, the property and casualty portfolio of the agency was combined with that of NUA, with very little additional costs, both in New Providence and Grand Bahama. These transactions combined with the pending sale of the building previously occupied by GBA, will result in a full recovery of all amounts due to GBA and other Group entities.

Allied Bahamas Insurance Company will, subject to regulatory approvals, cease to exist as an entity in 2011, bringing to a close the winding down of this company that was once a risk taking unit within a group of companies acquired in 1998. The residual liabilities will be transferred to BFG, as the company no longer performs a useful corporate purpose.

Corporate Governance

The Group has continued to make steady progress towards full compliance with the Insurance specific, and broader based financial services, legislation that are now part of the operating landscape.

We have extended significant help in this regard to our intermediary business partners to ensure that we reduce the opportunity for unintended actions, or lack thereof, to derail our overall success.

In The Bahamas, our agency subsidiaries are well placed to meet the September 2011 deadline for re-registration and BFG is already in compliance with the solvency requirements mandated by the new laws. The Cayman Islands scenario is unfolding in a similar direction and we look forward to participating in the consultative process with other industry participants within that jurisdiction, as the legislation begins to take shape.

Human Resource Milestones

We mentioned earlier the retirement of John Dunkley from an active executive role within the Group and the promotion of Warren Rolle as the incoming Managing Director of NUA. The fact that this seamless transition was possible is testament to the importance that the Board places on succession planning for key positions within the Group. Looking further ahead, we were very pleased to note the successful completion of the first Future Leaders Development Program. The graduation ceremony in September of 2010 capped a two year program of intense learning and development opportunities for the participants and will position them for future success in their careers and personal pursuits. We intend to start a new program for other worthy candidates later this year and to continue to focus on learning and development at all levels of the Group.

Future Outlook

The beginning of 2011 has ushered in a series of major natural catastrophes which serve as a stark reminder of the need for us to assess and manage the risks we underwrite throughout the year. Our reinsurance and broader enterprise risk management programs have been redesigned to take into account the more diverse exposure that the Group has to manage. The new acquisitions and reorganization efforts expended in 2010 involved a significant amount of heavy lifting, but we are now in an excellent position to capture the bottom line benefits of future revenue flows in both Cayman and The Bahamas. As the global economy and conditions in the region improve, the prospects for better returns will be enhanced for companies that have the right mix of capital and human resources to exploit those opportunities.

As we survey the business landscape, it is becoming increasingly obvious that certain drivers will ultimately influence the insurance markets on a worldwide and regional basis. To varying degrees, economic trends, the need for and cost of state-of-the-art technology and regulatory changes will have a huge impact on our future outlook. It seems almost inevitable that these pressures will result in more consolidation for the property and casualty sector, within the Caribbean, and the dominant players in the future will be characterized by their scale and scope of operations. We are optimistic about our prospects.

PATRICK G. W. WARD
President and CEO

GLEN O. RITCHIE
Group VP and CFO

Directors & Officers

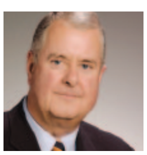
IAN D. FAIR, Chairman | Mr. Fair has been the Chairman of the Board and a member of the Board of Directors since 1999. He is Chairman of the Bahamas International Securities Exchange and Deputy Chairman of Butterfield Bank (Bahamas) Limited. He also serves as Chairman of The Bahamas Maritime Authority.

PATRICK G.W. WARD, Group President and CEO | Mr. Ward has been a Director since 1998 and prior to that President and Managing Director of Bahamas First General Insurance Company Ltd. He is President and CEO of Bahamas First Holdings Limited, Bahamas First General Insurance Company Limited, Allied Bahamas Insurance Company Limited and Bahamas First Corporate Services. He also serves as Chairman of the National Insurance Board.

JOHN A.G. DUNKLEY, Vice President and Director | Mr. Dunkley has been a Director and Vice President since 1996. He was President and Managing Director of Nassau Underwriters Brokers & Agents up to December 31, 2010, and a Director of Bahamas First Corporate Services Ltd. He was also a Board member for Bahamas First General Insurance Company Limited from 1991 to 1997.

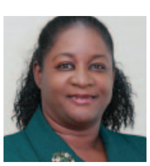
QUENTIN CHISNALL, Director | A Director since the inception of Bahamas First Holdings Limited (BFH) in 1996, Mr. Chisnall also served as the first President until December 2003. He has served and is still a Director on the Boards of several BFH subsidiary companies. Mr. Chisnall was also the Managing Director of Nassau Underwriters Agency Limited for a 23 year period until 1996.

JUDITH WHITEHEAD, Director | A Director since 2005, Mrs. Whitehead is the Managing Partner of Graham Thompson & Co, a leading law firm in Nassau, Bahamas. She has served on various other company and civic boards.



NOEL WALPOLE, Director | A Director since 2008, Mr. Walpole is President and Chief Executive Officer of The Economical Insurance Group. He held various senior management positions in the insurance industry before joining The Economical Insurance Group. In addition to his membership on The Group's Board of Directors where he is the Chairman of the Investment Committee, he holds, or has held, directorships with the Facility Association, Insurance Bureau of Canada, The Insurance Institute of Canada, the Centre for Study of Insurance Operations. He is also a Member of the Dean's Advisory Council, School of Business and Economics for Wilfred Laurier University, in Waterloo, Ontario.

SANDEEP UPPAL, Director | A Director since 2008, Mr. Uppal is Senior Vice President and Chief Financial Officer at The Economical Insurance Group. He serves on all committees of The Group's Board of Directors. He is a member of the Board of Directors for Family Insurance, Westmount Financial Inc., and Mattei Companies. Mr. Uppal is also President and CEO of Mattei Holding Company, Inc. and Corporate Secretary of TEIG Holding Company (U.S.), Inc. He is a member of the Institute of Chartered Accountants of Ontario (ICAO) and an advisor for two not-for-profit organizations. He is a past member of the Board of Directors for the Canadian Insurance Accounting Association and a current member of several professional associations.



J. LASHELL ADDERLEY, Secretary | Miss Adderley is the Corporate Secretary of BFH and its subsidiary companies. She also serves as the Group's Legal and Compliance Manager. Prior to joining BFH, Miss Adderley worked as a Civil Litigation Attorney.

EXPANDING OUR FIRSTPRINT

Bahamas First General Insurance

BAHAMAS FIRST
FIRST IN INSURANCE. TODAY. TOMORROW.

Bahamas First General Insurance Company Ltd. remains the flagship, the primary holding and major source of earnings for BFH. The company has built and maintained an impeccable record of achievement and demonstrated leadership with many impressive firsts: First general insurance company in The Bahamas to reach $100 million in gross premiums written; First in The Bahamas to receive an A–(Excellent) financial strength rating from A.M. Best; First to offer a drive-in 60 point auto inspection and insurance valuation service; First to introduce an on-site accident assistance program, FirstResponse, with claims processing at the scene; First in ownership of key agents and strategic agency relationships, to deliver unrivalled levels of service across the length and breadth of The Bahamas.

Bahamas First provides a wide range of property and casualty insurance coverage. Principal lines of business are: Accident & Crime; Engineering (Construction All Risks); Marine; Motor; Professional Indemnity; Property; Public and Personal Liability.

The company's goal remains to stay first in every aspect of our business, from offering innovative products and services that satisfy our customers' changing needs, to making it faster and easier to file and settle claims, to recognizing our corporate responsibility to give back to the communities we serve by supporting worthy social and cultural programs.

A further reflection of this goal is the Future Leaders Development Programme ("FLDP") which reinforces our commitment to developing internal resources through the support of education and career development opportunities. The objective of the 18 month to two year programme is to prepare candidates for opportunities to function in supervisory/management positions within the Bahamas First Group and to satisfy personal and professional goals. The second cycle of FLDP begins in September 2011.

The Bahamas First website address is: **www.bahamasfirst.com**.

Cayman First

In a decisive move to expand the Bahamas First "FirstPrint" into new markets, Cayman First became a member of the BFH family this year through the acquisition and rebranding of Sagicor General Insurance (Cayman) Ltd. based on Grand Cayman. Growing beyond The Bahamas has been a corporate imperative for some time. Among the key factors that led to this acquisition are the many similarities between the Bahamian and Cayman markets and the opportunities to diversify the Bahamas First revenue base and to mitigate risk.

CAYMAN FIRST
FIRST IN INSURANCE. TODAY. TOMORROW.

Cayman First has been a leader in insurance in the Cayman Islands for more than 25 years under the Sagicor and earlier Cayman General Insurance banners and brings a wealth of leadership experience, local knowledge, customer goodwill and independent financial strength to the partnership. The company was rated "A–" (Excellent) by A.M. Best in November 2008 and retains that favourable rating post-merger.

Senior leadership and staff have been retained and the company is actively engaged in marketing its new brand and adjusting to the Bahamas First corporate culture. Senior management includes Michael Gayle, General Manager and Senior Vice President, Property & Casualty and Gordon Phillip, Senior Vice President and Chief Financial Officer.

MICHAEL GAYLE
General Manager and Senior VP

An integration committee appointed by BFH is helping the Cayman staff complete these vital transition steps. A clear benefit for Cayman First staff and their customers downstream is the availability of more and better training opportunities in The Bahamas and in Canada with The Economical Insurance Group, one of the largest insurers in Canada and a shareholder in Bahamas First Holdings.

Cayman First currently offers a full range of personal, commercial and group insurance products and services to protect real property, motor vehicles and personal health. As integration progresses, innovative and successful products and services now available in The Bahamas will be introduced to the Cayman Islands.

A new Cayman First branch office opened in September in the Savannah Country Side Shopping Centre.

Through the Cayman First website, clients may review products and request quotes. Access to a wider range of services will be added to the site in the near future.

The Cayman First website address is: **www.caymanfirst.com**.

NUA Insurance Agents & Brokers

WARREN ROLLE
Managing Director

No member of the Bahamas First family has embraced the quest to expand our "FirstPrint" more relentlessly than NUA Insurance Agents & Brokers ("NUA"). This has been an exciting and busy year for a pioneer-spirited agency that has been helping Bahamian families and businesses satisfy their insurance needs for more than four decades. NUA was one of two founding agencies of the Bahamas First General Insurance Company in 1982, and which continues to be the largest contributor to gross written premiums among all of BFG's authorized agents.

Acquisitions and consolidating operations continued to be a priority in 2010. Following the transition of Carib Insurance Brokers & Agents Ltd. and Moseley Burnside Insurance Agency Ltd. to the NUA brand in 2009, NUA further extended its "FirstPrint" this year when Bahamas First Holdings acquired a total interest in General Brokers & Agents Ltd. ("GBA"). The Property and Casualty Division of GBA became part of NUA in November 2010 with a small number of GBA staff relocated to the R.H. Bobby Symonette Building on Third Terrace at Collins Avenue. In Freeport, the agency will continue to operate as GBA (Grand Bahama), reporting to NUA. The portfolio of the Carib Insurance Agency (Grand Bahama) Ltd., which operates as a Branch of NUA, was combined with that of GBA (Grand Bahama). Carib's operations and staff were relocated to the GBA office in the Regent Centre.

NUA also expanded its "FirstPrint" in Nassau with the opening of a third Service Centre to serve the Carmichael Road area. The new facility is under the capable management of Frances McKenzie-Oliver who previously ran the Moseley Burnside Insurance Agency Ltd., which became part of NUA in April 2009.

The retirement of Managing Director John Dunkley this year ends a long and storied chapter in the agency's history. John is a true hands-on executive who has delivered more than 40 years of distinguished leadership and service. Happily, he will continue to contribute his expertise as a Director of the company.

For NUA the relentless pursuit of new firsts will continue, but under the hand of a new captain. Incoming Managing Director Warren Rolle follows John's footsteps in terms of experience and knowledge of all facets of the insurance industry. Warren has been with the Bahamas First Group since 1993 and has filled a series of progressively senior roles. He was promoted to Assistant Managing Director in 2010. Other members of the senior management team are Business Development Manager Stanford Charlton and Underwriting Manager Jacqueline Smith.

The NUA website address is: **www.nuainsurance.com**.

Bahamas First Corporate Services

Bahamas First Corporate Services Ltd. ("BFCS") was incorporated on June 9, 1999 under the laws of the Commonwealth of The Bahamas and is a wholly-owned subsidiary of Bahamas First Holdings Ltd. ("BFH").

BFCS provides corporate services in the areas of Human Resource Management, Information Technology, Legal and Compliance, Corporate Governance, and Accounting and Finance to all of the following Group Companies:

- Bahamas First General Insurance Company Limited
- Allied Bahamas Insurance Company Limited
- NUA Insurance Agents & Brokers Ltd.
- General Brokers & Agents Limited
- First Response Limited
- BFH International Limited
- Cayman First Insurance Company Limited

As a result of the establishment of BFCS and the centralization of such key functions, an estimated savings of approximately 20 percent is realized by the Group.

The Group bolstered its executive team in May 2010 with the appointment of Glen Ritchie as Group VP & Chief Financial Officer. Glen is charged with overseeing all financial information, technology and risk management related functions and holds a leadership role in the management of certain product lines and other operational functions.

Glen has worked in the financial services sector for more than 20 years and has held a number of senior management and leadership roles with banking and insurance institutions before joining BFH.

GLEN RITCHIE
Group VP and CFO

// FINANCIAL STATEMENTS

Independent Auditors' Report

Deloitte.

Deloitte & Touche
Chartered Accountants
and Management Consultants
2nd Terrace, Centreville
P. O. Box N-7120
Nassau, Bahamas

Tel: +1 (242) 302-4800
Fax: +1 (242) 322-3101
http://www.deloitte.com.bs

To the Shareholders of
Bahamas First Holdings Limited:

We have audited the consolidated financial statements of Bahamas First Holdings Limited (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

April 26, 2011

A member firm of
Deloitte Touche Tohmatsu

EXPANDING OUR FIRSTPRINT

Consolidated Statement of Financial Position

YEAR ENDED DECEMBER 31, 2010. EXPRESSED IN BAHAMIAN DOLLARS.

ASSETS:	Notes		2010		2009
Cash		$	9,001,888	$	2,334,409
Term deposits	6		8,073,973		3,898,509
Trade accounts receivable, net	9, 24		33,740,514		27,942,471
Sundry receivables and prepayments	24		3,058,314		4,750,870
Provision for litigation recoverable	12		1,177,015		-
Due from escrow agent	12		2,940,680		-
Deferred commission costs	10		5,433,185		5,018,135
Deferred reinsurance premiums	10		38,070,944		28,344,905
Deferred reinsurance costs	10		2,703,865		3,789,271
Unpaid claims recoverable from reinsurers	4, 11		17,022,413		12,070,918
Investments	7		38,057,890		18,348,357
Investment in associate	8		305,769		234,826
Property and equipment	13		14,081,798		14,327,286
Intangible assets and goodwill	15		11,493,455		7,785,717
TOTAL		**$**	**185,161,703**	**$**	**128,845,674**

LIABILITIES AND EQUITY	Notes		2010		2009
LIABILITIES:					
Bank overdraft	6	$	-	$	1,648,893
Accrued liabilities			2,838,945		3,041,699
Trade accounts payable			7,523,797		4,158,220
Unearned commission income	10		8,979,515		6,896,626
Unearned premiums	10		53,895,111		42,073,491
Unpaid claims	4, 11		34,025,371		21,922,049
Provision for litigation	12, 25		9,774,748		-
Loan payable	14		5,398,258		-
Bonds payable	16		15,276,563		-
Total liabilities			**137,712,308**		**79,740,978**
EQUITY:					
Common shares	17		363,055		362,955
Preference shares	17		5,000,000		5,000,000
Contributed surplus	14, 17		14,639,446		17,101,172
Treasury shares	17		(256,316)		(256,316)
General reserves	18		4,000,000		4,000,000
Revaluation reserve	19		2,287,486		1,932,558
Retained earnings			19,535,923		19,808,310
Total equity attributable to owners of the parent			45,569,594		47,948,679
Non-controlling interest	14		1,879,801		1,156,017
Total equity			**47,449,395**		**49,104,696**
TOTAL		**$**	**185,161,703**	**$**	**128,845,674**

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on April 26, 2011 and are signed on its behalf by:

_____________________Chairman
Ian D. Fair

_____________________Director
Patrick G. W. Ward

Consolidated Statement of Comprehensive Income

YEAR ENDED DECEMBER 31, 2010. EXPRESSED IN BAHAMIAN DOLLARS.

	Notes		2010		2009
UNDERWRITING INCOME:					
Gross premiums written	20, 24	$	153,089,047	$	100,063,789
Movement in unearned premiums	10		2,217,462		601,505
			155,306,509		100,665,294
Premiums ceded to reinsurers			(91,053,081)		(65,781,996)
Movement in deferred reinsurance premiums	10		(2,744,083)		(320,594)
Net premiums earned			61,509,345		34,562,704
Commission income			25,742,428		18,842,931
Total underwriting income			**87,251,773**		**53,405,635**
UNDERWRITING EXPENSES:					
Net claims incurred	11		26,982,489		7,426,176
Commission expense			16,458,535		11,622,553
Cost of excess of loss reinsurance			16,835,866		14,763,080
Premium tax			2,956,383		2,914,480
Total underwriting expenses			**63,233,273**		**36,726,289**
Net underwriting income			**24,018,500**		**16,679,346**
OTHER EXPENSES:					
Salaries, benefits and bonuses	22, 23 ,24		12,041,870		7,304,649
General and administrative expenses			10,950,790		6,491,948
Total other expenses			**22,992,660**		**13,796,597**
NET TECHNICAL RESULTS			1,025,840		2,882,749
MOVEMENT IN PROVISION FOR LITIGATION	12		(3,908,400)		-
LITIGATION RECOVERY	12		2,940,680		-
OTHER INCOME	21		2,490,267		1,676,610
PROFIT FOR THE YEAR			2,548,387		4,559,359
OTHER COMPREHENSIVE INCOME:					
Unrealized gains on available-for-sale investments	19		508,404		-
Revaluation of land and buildings	19		(153,476)		-
OTHER COMPREHENSIVE INCOME FOR THE YEAR			354,928		-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**$**	**2,903,315**	**$**	**4,559,359**
ATTRIBUTABLE TO:					
OWNERS OF THE PARENT			3,699,633		5,187,031
NON-CONTROLLING INTEREST			(796,318)		(627,672)
		$	2,903,315	$	4,559,359
BASIC AND DILUTED EARNINGS PER					
COMMON SHARE	17	**$**	**0.10**	**$**	**0.13**

See notes to consolidated financial statements.

EXPANDING OUR FIRSTPRINT

Consolidated Statement of Changes in Equity

YEAR ENDED DECEMBER 31, 2010. EXPRESSED IN BAHAMIAN DOLLARS.

	Attributable to owners of the parent								
	Common Shares	**Preference Shares**	**Contributed Surplus**	**Treasury Shares**	**General Reserve**	**Revaluation Reserve**	**Retained Earnings**	**Non-Controlling Interest**	**Total**
Balance at December 31, 2008	**$359,819**	**$5,000,000**	**$16,840,529**	**$ -**	**$4,000,000**	**$1,932,558**	**$18,232,813**	**$ -**	**$46,365,719**
Profit (loss) for the year	-	-	-	-	-	-	5,187,031	(627,672)	4,559,359
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income (loss)	-	-	-	-	-	-	5,187,031	(627,672)	4,559,359
Opening equity in management controlled subsidiary	-	-	-	-	-	-	-	1,783,689	1,783,689
Shares issued (Note 17)	3,136	-	260,643	-	-	-	-	-	263,779
Treasury shares (Note 17)	-	-	-	(256,316)	-	-	-	-	(256,316)
Preference shares dividend paid (Note 17)	-	-	-	-	-	-	(350,000)	-	(350,000)
Dividends paid ($0.09 per common share)	-	-	-	-	-	-	(3,261,534)	-	(3,261,534)
Balance at December 31, 2009	**$362,955**	**$5,000,000**	**$17,101,172**	**$(256,316)**	**$4,000,000**	**$1,932,558**	**$19,808,310**	**$1,156,017**	**$49,104,696**
Profit (loss) for the year	-	-	-	-	-	-	3,344,705	(796,318)	2,548,387
Other comprehensive income	-	-	-	-	-	354,928	-	-	354,928
Total comprehensive income (loss)	-	-	-	-	-	354,928	3,344,705	(796,318)	2,903,315
Changes in shareholders' interest in subsidiaries (Note 14)	-	-	(2,476,626)	-	-	-	-	1,520,102	(956,524)
Shares issued (Note 17)	100	-	14,900	-	-	-	-	-	15,000
Preference shares dividend paid (Note 17)	-	-	-	-	-	-	(350,000)	-	(350,000)
Dividends paid ($0.09 per common share - Note 17)	-	-	-	-	-	-	(3,267,092)	-	(3,267,092)
Balance at December 31, 2010	**$363,055**	**$5,000,000**	**$14,639,446**	**$(256,316)**	**$4,000,000**	**$2,287,486**	**$19,535,923**	**$1,879,801**	**$47,449,395**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

YEAR ENDED DECEMBER 31, 2010. EXPRESSED IN BAHAMIAN DOLLARS.

CASH FLOWS FROM OPERATING ACTIVITIES:	Notes	2010	2009
Profit for the year		$ 2,548,387	$ 4,559,359
Adjustments for:			
Depreciation	13	1,505,642	1,161,782
Amortization of intangible assets	15	116,248	-
Amortization of premiums and discounts on bonds	7	84,480	-
Amortization of fair value loss on debt securities	7	161,604	-
Share of net earnings of associates	8	(70,943)	(101,099)
Realized losses on sales of investments	7	99,624	-
Impairment recovery on investment	7	(50,620)	-
Loss attributed to non-controlling interest		796,318	627,672
Loss on disposal of property and equipment	13	21,449	10,219
Profit from operations		**5,212,189**	**6,257,933**
Decrease in trade accounts receivable, net		377,477	2,197,629
Decrease (increase) in sundry receivables and prepayments		3,386,519	(3,290,538)
Decrease in provision for litigation recoverable		2,132,380	-
Increase in due from escrow agent		(2,940,680)	-
Decrease (increase) in deferred reinsurance costs		1,085,406	(1,280)
Decrease (increase) in deferred commission costs		795,742	(962,735)
Decrease in deferred reinsurance premiums		1,830,628	320,594
Decrease in trade accounts payable		(1,622,175)	(44,649)
(Decrease) increase in unearned commission income		(424,000)	127,933
Increase in net unpaid claims		1,308,457	208,604
Decrease in accrued liabilities		(1,022,846)	(87,771)
Increase in accrued interest on bonds		276,563	-
Increase in provision for litigation		2,955,849	-
Decrease in unearned premiums		(2,217,462)	(601,505)
Net cash from operating activities		**11,134,047**	**4,124,215**

(Continued)

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

YEAR ENDED DECEMBER 31, 2010. EXPRESSED IN BAHAMIAN DOLLARS.

CASH FLOWS FROM INVESTING ACTIVITIES:	Notes		2010		2009
Additions of property and equipment	13	$	(1,287,700)	$	(2,400,907)
Acquisition of subsidiary, net of cash acquired	14		(6,314,693)		-
Elimination of investment in management controlled subsidiary	8		-		517,755
Dividends received from associate	8		-		40,000
Proceeds from sale and maturity of investments	7		6,293,288		-
Purchase of investments	7		(10,512,886)		-
Proceeds from disposal of property and equipment	13		-		6,711
Increase in term deposits maturing after ninety days	6		(57,717)		(14,852)
Net cash used in investing activities			**(11,879,708)**		**(1,851,293)**
CASH FLOWS FROM FINANCING ACTIVITIES:					
Preference shares dividend paid	17		(350,000)		(350,000)
Change in non-controlling interest			(1,139,760)		1,156,017
Equity transactions between non-controlling interest	14		(2,476,626)		-
Common shares dividend paid	17		(3,267,092)		(3,261,534)
Proceeds from loan	14		5,398,258		-
Proceeds from issuance of bonds	16		15,000,000		-
Transaction on treasury shares	17		-		(256,316)
Proceeds from issuance of common shares	17		15,000		263,779
Net cash from (used in) financing activities			**13,179,780**		**(2,448,054)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			**12,434,119**		**(175,132)**
CASH AND CASH EQUIVALENTS:					
BEGINNING OF YEAR			3,353,263		3,528,395
END OF YEAR		**$**	**15,787,382**	**$**	**3,353,263**
CASH AND CASH EQUIVALENTS ARE COMPRISED OF:					
Cash		$	9,001,888	$	2,334,409
Term deposits maturing within ninety days	6		6,785,494		2,667,747
Bank overdraft	6		-		(1,648,893)
		$	**15,787,382**	**$**	**3,353,263**
SUPPLEMENTAL CASH FLOW DISCLOSURES:					
Interest received		$	904,471	$	268,476
Dividends received		$	542,080	$	744,500
Interest expense paid		$	170,386	$	95,297

See notes to consolidated financial statements.

(Concluded)

1. GENERAL

Bahamas First Holdings Limited ("BFH" or the "Company") and its subsidiaries are incorporated under the laws of the Commonwealth of The Bahamas, except BFH International Limited ("BFHIL") and Cayman First Insurance Company Limited ("CFI"), which are incorporated under the laws (2009 Revision) of the Cayman Islands. These consolidated financial statements include the accounts of BFH and its subsidiaries, which are hereinafter collectively referred to as "the Group". The primary activity of the Group is the carrying on of general insurance business (property and casualty) and health and group life insurance. The subsidiaries are as follows:

Registered insurers:

- Bahamas First General Insurance Company Limited ("BFG")
- Allied Bahamas Insurance Company Limited ("ABI")
- Cayman First Insurance Company Limited ("CFI")

Registered insurance agencies:

- Nassau Underwriters Agency Insurance Agents & Brokers Ltd. ("NUA")
- Moseley Burnside Insurance Agency Limited ("MBI")
- Carib Insurance Agents & Brokers Limited ("CIA")
- General Brokers & Agents Limited ("GBA")

Management company:

- Bahamas First Corporate Services Ltd. ("BFCS")

BFCS provides administrative and corporate services to the Group and charges management fees to the various Group companies, which are eliminated on consolidation.

Claims servicing company:

- First Response Limited ("FRL")

FRL provides motor claim roadside assistance and claim adjusting services to BFG.

Insurance holding company:

- BFH International Limited ("BFHIL")

All of the above subsidiaries are wholly-owned except for CFI.

BFHIL acquired a 75.24% equity interest in Sagicor General Insurance (Cayman) Ltd. ("SGI") on June 17, 2010, with an effective date of January 01, 2010. Sagicor General Insurance (Cayman) Ltd. was renamed Cayman First Insurance Company Limited on August 4, 2010.

At its Board of Directors meeting held on March 9, 2009, the Company resolved to combine effective January 1, 2009, the business portfolios of MBI and CIA with NUA, all wholly owned subsidiaries. NUA is now the operating company. The property & casualty portfolio of GBA was combined with NUA, effective December 1, 2010.

The registered office of the Group 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 or after January 1, 2010.

YEAR ENDED DECEMBER 31, 2010. EXPRESSED IN BAHAMIAN DOLLARS.

IFRS 3	(Revised 2008) Business Combinations
IFRS 5	(Amended) Non-current Assets Held-for-Sale and Discontinued Operations
IFRS 8	(Amended) Operating Segments
IAS 27	(Revised 2008) Consolidated and Separate Financial Statements
IAS 36	(Amended) Impairment of Assets

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

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

IFRS 2	(Amended) Share-based Payment – Group Cash – Settled Share-based Payment Transactions
IAS 7	(Amended) Statement of Cash Flows
IAS 17	(Amended) Leases
IAS 39	(Amended) Financial Instruments: Recognition and Measurement – Eligible Hedged Items
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

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

c. Standards and Interpretations in issue but not yet effective

IFRS 1	(Amended) Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
IFRS 7	(Amended) Financial Instruments: Disclosures – Transfers of Financial Assets
IFRS 9	(Amended) Financial Instruments
IAS 1	(Amended) Presentation of Financial Statements
IAS 24	(Revised 2009) Related Party Disclosure
IAS 28	(Amended) Investments in Associates
IAS 32	(Amended) Classification of Rights Issues
IFRIC 14	(Amended) Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Management does not anticipate that the relevant adoption of these standards and interpretations in future periods will have a material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The preparation of consolidated 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 consolidated 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 consolidated financial statements have been prepared on the accrual basis and under the historical cost convention, except for investments carried at fair value and land and buildings, which are revalued every three years.

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

b. Basis of consolidation – Subsidiaries are those enterprises controlled by BFH. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment in the associates.

Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Company shares held by a subsidiary are classified as Treasury shares and are included in the consolidated statement of changes in equity at cost. No gain or loss will be recognized in the profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Consideration paid or received will be recognized directly in equity.

c. Business combination – Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the consideration transferred (measured at acquisition date fair value), and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition cost incurred are expensed.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Changes in the Company's ownership in a subsidiary that do not result in a loss of control are accounted for as equity transactions, and are recognized in contributed surplus in the consolidated statement of changes in equity.

d. Investment in associates – An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results, and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially carried at cost and the carrying amount is increased or decreased to recognise the Company's share of the profit or loss of the associate after the date of acquisition. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Company's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Company's share of those changes is recognized in other comprehensive income of the Company.

After application of the equity method, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Losses of associates in excess of the Group's interest in those associates are not recognized.

Where a company within the Group transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

e. 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 ("AFS"); 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.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the classification at each reporting date.

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 Group has the intent and ability to hold them to maturity.

Trade accounts receivable, sundry receivables and receivable from insurers 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 consolidated statement of financial position date. Investment in fixed income debt securities and mutual funds are classified as available-for-sale and are carried at fair value. Gains and losses arising from changes in fair value of available-for-sale investments are recognized through the consolidated statement of comprehensive income until the investments are disposed of or are determined to be permanently impaired, at which time the cumulative gain or loss previously recognized 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 Group recognizes/derecognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Group 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 consolidated statement of comprehensive income.

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

f. **Trade accounts receivable** – Trade accounts receivable are stated at cost less provision for bad debts. The provision for bad debts is based on management's evaluation of the accounts receivable portfolio.

g. **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 consolidated statement of comprehensive income as an expense as incurred.

Depreciation is charged to the consolidated 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 are as follows:

Buildings	40 years
Furniture and equipment	5 - 10 years
Leasehold improvements and others	3 - 5 years
Computer software	3 - 7 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 other 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.

Any revaluation decrease is recognized as an expense unless it reverses a revaluation increase that was previously recognized in other comprehensive income.

h. Intangible assets and goodwill – On acquisition of an investment in an associate/subsidiary any difference between the cost of the investment and the investor's share of the net fair value of the identifiable assets, liabilities and contingent liabilities is accounted for as follows:

(i) any goodwill arising on the acquisition i.e., the excess of the cost of the investment over the investor's share of the fair value of the net assets is included in the carrying amount of the investment for associate; and for subsidiaries, is included as goodwill in the consolidated statement of financial position. Amortization of goodwill is not permitted; instead goodwill is tested for impairment at least annually.

(ii) other intangible assets identified on acquisition are recognized only if future economic benefits attributable to the asset will flow to the Group, and if the fair value of the asset can be measured reliably. In addition, for purposes of recognition, the intangible asset must be separable from the business being acquired or must arise from contractual or legal rights. On acquisition, the useful life of the asset is estimated and determined to be either finite or indefinite.

(iii) any excess of the investor's share of the fair value of the net assets over the cost of the investment is included in the consolidated statement of comprehensive income in the period in which the investment is acquired.

After initial recognition, an intangible asset with a finite useful life is amortized using the straight-line method over the estimated useful life, and is included in general and administrative expenses in the consolidated statement of comprehensive income. 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 consolidated statement of comprehensive income.

i. Impairment – The carrying amounts of the Group's assets, including goodwill and intangible assets are reviewed at each consolidated 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. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated 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.

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.

j. Insurance contracts

Product classification – Insurance contracts are those that transfer significant insurance risk at the effective date of the contract. Insurance risk is transferred when the Group agrees to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract under IFRS 4 Insurance Contracts are classified as investment contracts. The main insurance contracts issued by the Group are as follows:

Property and casualty insurance contracts: Property and casualty contracts are generally one year renewable contracts issued by the Group covering insurance risks over property, motor, marine, engineering and general accident.

Health and Group Life insurance contracts: Health and Group Life contracts are one year renewable contracts. Health insurance contracts cover insureds for medical expenses incurred. Group Life insurance contracts protect the Group's customers from the consequences of events (such as death or disability). Guaranteed benefits paid on occurrence of the specified insurance event are fixed.

Reinsurance contracts: Contracts with reinsurers under which the Group is compensated for losses are classified as reinsurance contracts held. Insurance contracts in which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

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 consolidated statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

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

k. Unpaid claims and unpaid claims recoverable from reinsurers – The provision for unpaid claims, and the reinsurers' share thereof, 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 consolidated 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 consolidated statement of comprehensive income.

l. Acquisition costs

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 consolidated statement of financial position at year end represent the deferred portion of these costs.

Deferred and unearned commissions – At year end, deferred and unearned commissions represent the proportion of the commission paid to agents and brokers and received from reinsurers which related to periods of insurance subsequent to the consolidated statement of financial position date. These amounts are calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

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 that 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.

m. Dividend and interest income – Dividend income is recorded when the dividend is declared. Interest income is accounted for on an accrual basis.

n. Cash and cash equivalents – Cash and cash equivalents consist of cash on hand and deposits with banks maturing within 90 days from the year end.

o. Foreign currency translation – Assets and liabilities of the foreign subsidiary are translated from its functional currency into Bahamian dollars at the exchange rate in effect at the consolidated statement of financial position date for monetary assets and liabilities, and at historical rate in effect for non-monetary assets and liabilities. With the exception of amortization expense, revenues and expenses are translated at the rate at transaction date, which is approximated by the weighted average rate prevailing during the year.

Amortization expense is translated at the same historic rate as the related asset. The adjustments resulting from the translation of the statement of financial position of the foreign operation have been included in "General and administrative expenses" in the consolidated statement of comprehensive income.

p. **Related parties** – Related parties include key management personnel, directors, associated company, shareholders with shareholding in excess of 10% of outstanding common shares, and companies that are controlled by these parties.

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

r. **Earnings per share** – Earnings per share is computed by dividing the comprehensive income attributable to the common shareholders by the weighted average number of common shares outstanding during the year. There is no material difference between basic earnings per share and fully diluted earnings per share.

s. **Leases** – Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All of the Group's leases are operating leases. Payments made under operating leases are recognized as an expense on a straight line basis over the term of the lease.

t. **Taxation** – Subsidiaries of the Group operating in The Bahamas are subject to tax on taxable gross premium income at the flat rate of 3% (2009: 3%). There are no other taxes on corporate income or capital gains levied on the Group in any of the jurisdictions in which the Company operates.

u. **Segment reporting** – In identifying its operating segments, management generally follows the Group's business operating activities by geographic location, which represent the general insurance segment (property and casualty) and the health and group life insurance segment. The general insurance segment comprises fire, motor, marine, engineering and general accident. The health and life insurance segment includes group life and medical insurance.

v. **Contingent liabilities** – A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably.

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group will be required to settle that obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle that obligation at the reporting date and are discounted to present value.

Potential recoveries from third parties are recognized as a receivable when it is virtually certain that the recoveries will be received and the amount can be measured reliably.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and 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 Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Group will ultimately pay to settle such claims.

Significant areas requiring judgment 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 consolidated statement of financial position date of gross claims reported and loss adjustment expenses and claims incurred but not reported was $34,025,371 (2009: $21,922,049). The amount of reinsurance recoveries estimated at the consolidated statement of financial position date is $17,022,413 (2009: $12,070,918).

ii. Impairment of goodwill and intangible assets

Determining whether goodwill or intangible assets are impaired requires an estimation of the value in use or fair value less costs to sell of the cash-generating unit or group of units to which the value has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit(s) 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(s) between knowledgeable willing parties, less the costs of disposal. The carrying value at the consolidated statement of financial position date for intangible assets and goodwill was $11,493,455 (2009: $7,785,717).

iii. Provision for bad debts

As described in Note 3f, provision for bad debts is based on management's evaluation of the respective portfolios. This evaluation is based on the aged analysis of the trade accounts receivable. Trade accounts receivable, which are shown net of provision for bad debts, is comprised of (1) amounts receivable from insurance agents that have signed agency agreements with the Group insurers ("insurer trade receivables"), and (2) clients of the Group's agency subsidiaries ("agency receivables"). Full provisions are recorded for agency receivables in excess of 12 months.

The carrying value at the consolidated statement of financial position date for trade accounts receivable was $33,740,514 (2009: $27,942,471).

iv. Provision for litigation

The provision for litigation is based on the ruling by the Grand Court of the Cayman Islands (the "Court") dated March 14, 2011 and management's estimate of interest payable to the third parties based on advice from legal counsel.

Refer to Note 12 for further information related to this provision.

v. Fair value of financial assets and liabilities

The fair values of listed equities are based on current bid prices reported on recognized exchanges. The fair value of debt securities is based on either current bid prices reported on recognized exchanges or pricing data provided by internationally recognized pricing services. Mutual funds are carried at fair value based on the net asset value per share provided by the administrator of the fund. If prices are not readily available, the fair value is estimated using either dealer quotes or pricing models or discounted cash flow models or management's estimate of amounts that could be realized under current market conditions and which are based on observable market-based inputs when available.

Where fair value has been determined using data provided by a recognized pricing service, dealer quotes, pricing models or net asset value per share, the Group has obtained an understanding of the methods, models and inputs used in pricing and has controls in place that management considers sufficient to validate that prices represent fair value.

For fair value of unlisted shares, fair value is estimated using assumptions that may not be supported by observable market prices or rates. In determining the fair value, the following information was used: the cost, cost less impairment and the book value available at the consolidated statement of financial position date.

Investments, for which observable market prices 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 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).

For certain financial instruments carried at cost, the carrying amounts approximate to fair value due to the short term nature of these instruments. Such instruments include, premiums receivable, reinsurance balances receivable, other receivables, reinsurance balances payable and other short term liabilities.

Refer to Notes 5 and 7 for further information on the fair value of financial assets and liabilities.

5. RISK MANAGEMENT

As an insurance Company, the Group is concerned about the risks inherent in its business activities (insurance risk) and the risks associated with the management of the financial assets and liabilities (financial risk) which support the operational activities. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management structure. The Group has established the Technical Review and Risk Compliance Committee, and the Finance and Investment Committee to ensure that management has a system which details the risk policies, procedures, measurement, reporting and compliance. The committees report regularly to the Board of Directors on their activities.

The Group has exposures to risks in each class of business within each operating segment that may develop and that could have a material impact upon the Group's financial position.

INSURANCE RISK

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, the risk is random and therefore unpredictable.

Risk factors that affect insurance are many and include the lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Group insures the risks of entities within The Bahamas and the Cayman Islands. There is a concentration of insurance risk in those territories.

Below is a discussion of insurance risks specific to the lines of coverage provided by the operating segments within the Group.

Property and casualty insurance risks

Property risks are comprised of physical damage to property. Property policies are underwritten by reference to the commercial replacement value of the properties and content insured.

Casualty risks are comprised of personal injury from motor claims, public liability, employers' liability, workmen's compensation and personal liability coverage.

For the Group's property and casualty insurance contracts, significant risk exposure arises from low frequency, high severity events such as hurricanes. Single events, such as flooding and fires may also generate significant claims.

Claim payment limits are always included to cap the amount payable on occurrence of the insured event. The costs of rebuilding properties, replacement or indemnity for contents are the key factors that influence the level of claims under these policies.

The frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. The Group manages this risk through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. Underwriting limits are in place to enforce appropriate risk selection criteria. The Group actively manages and pursues early settlement of all claims to reduce its exposure to unpredictable developments. It has a dedicated in-house claims department and uses third party loss adjusters as necessary. The Company will, where necessary, appoint lawyers to act on the Company's behalf in respect of serious bodily injury claims thus ensuring settlements and avoiding claims development.

The Group follows the policy of underwriting and reinsuring contracts of insurance, which generally limit the liability for any one risk. In addition, catastrophe reinsurance is obtained to limit liability to a maximum of 10% of the Group's capital and reserves in the event of a series of claims arising out of a single occurrence.

The Group is exposed to contractual disputes with its reinsurers and the possibility of default by its insurers. The Group is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance constraints. The Group's strategy is to select reinsurers with the best combination of financial strength, price and capacity.

In the event that the Group's reinsurers were unable to meet their obligations under the reinsurance programs in place, the Group would still be able to pay all claims made under the insurance policies it issues, but would only receive reimbursement to the extent that the reinsurers could meet their above mentioned obligations.

Management does not anticipate that there will be any issues with the collection of amounts due from reinsurers as they become due, and is not aware of any disputes with reinsurers, overdue amounts or any specific credit issues.

Health and group life insurance risks

The most significant factors that could increase the overall frequency of claims relating to health and group life insurance contracts are epidemics (such as AIDS, SARS, human form of avian flu or H1N1) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

The reinsurance program used by the Group is reviewed and approved by the Technical Review and Risk Compliance Committee on an annual basis.

FINANCIAL RISK

The Group is exposed to financial risk through its financial assets and liabilities. The components of financial risk that have an impact on the Group are credit risk, market risk and liquidity risk. Market risk exposure result from adverse movements in market rates and prices and as a result the Group is exposed to interest rate risk, foreign currency risk and price risk.

Financial risk is a significant risk for the Group's operations. The risk framework combines investment policies, limits, stress tests and regular monitoring to control the nature and level of financial risk and to ensure adherence to Group and regulatory policies and guidelines.

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The following table reconciles financial assets and financial liabilities to the Group's statement of financial position:

	2010	2009
Financial assets:		
Cash and term deposits	$ 17,075,861	$ 6,232,918
Investments:		
Held-to-maturity	4,459,000	411,800
At fair value through profit and loss	13,886,557	14,936,557
Available-for-sale	19,712,333	3,000,000
Loans and receivables:		
Trade accounts receivables, net	33,740,514	27,942,471
Provision for litigation recoverable	1,177,015	-
Due from escrow agent	2,940,680	-
Other receivables *	2,481,386	4,209,181
Total financial assets	**95,473,346**	**56,732,927**
Non-financial assets	89,688,357	72,112,747
Total assets	**$ 185,161,703**	**$ 128,845,674**
Financial liabilities:		
Payables at amortized cost:		
Trade accounts payable, accrued expenses		
and other liabilities	$ 10,362,742	$ 7,199,919
Bond and loan payables	20,674,821	-
Bank overdraft	-	1,648,893
Total financial liabilities	**31,037,563**	**8,848,812**
Non-financial liabilities	106,674,745	70,892,166
Total liabilities	**$ 137,712,308**	**$ 79,740,978**

* excludes prepaid expenses of $576,928 (2009: $541,689).

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. Key areas where the Group is exposed to credit risk are in the investment portfolios, reinsurance receivables, premiums receivable, and other receivables.

The Group's investment policy permits the Group to invest in fixed income securities, private placements of financial institutions, term deposits, and to limit exposure to any one issuer. The Group's deposits are placed with well-known high quality financial institutions. Policies and guidelines are in place to limit the exposure faced by the Group.

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The Group is exposed to credit risk with respect to the amounts recoverable from its reinsurers. The Group's liability as primary insurer is not discharged if a reinsurer defaults on the obligation to pay. The Technical Review and Risk Compliance Committee ensures that management assesses the creditworthiness of all reinsurers by reviewing credit ratings as determined by independent rating agencies and other publicly available financial information. The concentration of credit risk is also monitored to minimize the Group's exposure to significant losses from reinsurer insolvency. The following assets of the Group are exposed to credit risk:

	2010	2009
Available-for-sale securities:		
Fixed income debt securities	$ 14,393,185	$ -
Mutual funds	1,126,606	-
Preference shares	3,000,000	3,000,000
Loans and receivables:		
Trade accounts receivables, net	33,740,514	27,942,471
Provision for litigation recoverable	1,177,015	-
Due from escrow agent	2,940,680	-
Other receivables	2,481,386	4,209,181
Cash and term deposits	17,075,861	6,232,918
Total	**$ 75,935,247**	**$ 41,384,570**

Fixed income debt securities are analyzed in the table below using Standard & Poor's ("S&P") ratings (or an equivalent rating when not available from S&P).

	2010
AAA	$ 3,229,182
AA	1,602,605
A	7,424,297
BBB	1,606,481
Below BBB or not rated	530,620
Total debt securities	**$ 14,393,185**

Financial assets exposed to credit risk that are neither past due nor impaired, past due but not impaired and those that are impaired are analyzed in the table below:

At December 31, 2010	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Available-for-sale debt securities	$ 18,519,791	$ -	$ -	$ 18,519,791
Loans and receivables:				
Trade accounts receivables, net	19,830,981	13,789,720	119,813	33,740,514
Provision for litigation recoverable	1,177,015	-	-	1,177,015
Due from escrow agent	2,940,680	-	-	2,940,680
Other receivables	2,391,386	-	90,000	2,481,386
Cash and term deposits	17,075,861	-	-	17,075,861
Total assets exposed to credit risk	**$ 61,935,714**	**$ 13,789,720**	**$ 209,813**	**$ 75,935,247**

At December 31, 2009		Neither past due nor impaired		Past due but not impaired		Impaired		Total
Available-for-sale debt securities	$	3,000,000	$	-	$	-	$	3,000,000
Loans and receivables:								
Trade accounts receivables, net		12,715,686		15,226,785		-		27,942,471
Other receivables		4,209,181		-		-		4,209,181
Cash and term deposits		6,232,918		-		-		6,232,918
Total assets exposed to credit risk	**$**	**26,157,785**	**$**	**15,226,785**	**$**	**-**	**$**	**41,384,570**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above. The Group does not hold collateral as security.

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 Group intends to hold for the long-term.

The Group's investment in fixed income debt securities, money market fund, and cash and cash equivalents, are all subject to interest rate risk. Fluctuations in interest rates impact the level of gains and losses on the Group's interest bearing investments. The coupon rates associated with the fixed interest debt securities held by the Group range from 2.6% to 6.5%. The underlying debt securities of the money market fund may be affected by changes in interest rates.

The Group's investment income will move with interest rates over the medium to long term with short term interest rate fluctuations creating unrealized gain or losses in other comprehensive income.

The average interest yields of investments held during the year are as follows:

Debt securities	3.7% (2009: 5.6%)
Cash, term deposits and money market funds	2.2% (2009: 3.2%)

FOREIGN CURRENCY RISK

Foreign currency risk relates to the Group operating in different currencies and converting non-Bahamian earnings at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Group is not directly exposed to foreign currency risk, as investments are denominated in Bahamian dollars and US dollars. The Group's investments in The Bahamas are denominated in Bahamian dollars, which is fixed to the US dollar at the following rate: B$1 = US$1. CFI has investments denominated in US dollars. The Cayman Island dollar is fixed to the US$ at the following rate: CI$1 = US$1.20, at the date of the consolidated statement of financial position. The Group is indirectly exposed to foreign currency risk, where it holds investments in mutual funds. The underlying investments of the mutual funds could be denominated in foreign currencies, resulting in exposure to fluctuations in foreign exchange rates.

PRICE RISK

The Group is subject to price risk on its equity securities due to changes in market values. One of the primary objectives of the Group's risk management policy is to mitigate potential adverse impacts of market movements. Diversified portfolios of assets are held in order to reduce exposure to individual equities.

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LIQUIDITY RISK

Liquidity risk is the risk that the Group may have difficulty liquidating its positions due to existing or unforeseen market constraints to meet obligations associated with financial instruments. In respect of catastrophic events, the Group is exposed to liquidity risk associated with the timing differences between cash flows and expected reinsurance recoveries to meet its insurance liability obligation. Most of the Group's investments are either in a market that is not highly active or do not have a market and therefore may not be readily realizable. As a result, the Group may not be able to quickly liquidate its investments at an amount close to their fair value in order to meet liquidity requirements. The Group mitigates this risk by maintaining significant holdings in cash and term deposits and also ensures that there are set guidelines for asset allocations, portfolio limit structures and maturity profiles of investments.

The following tables indicate the timing of undiscounted cash flows arising from financial liabilities as at December 31, 2010 and 2009:

			Cash flows		
2010 Financial liabilities		**Total**	**< 1 year**	**1 - 5 years**	**> 5 years**
Accrued expenses and other liabilities		$ 2,838,945	$ 2,799,977	$ 38,968	$ -
Bonds payable		15,276,563	276,563	-	15,000,000
Loan payable		5,398,258	211,348	2,420,695	2,766,215
Trade accounts payable		7,523,797	7,523,797	-	-
Total undiscounted cash flows		**$ 31,037,563**	**$ 10,811,685**	**$ 2,459,663**	**$ 17,766,215**

			Cash flows		
2009 Financial liabilities		**Total**	**< 1 year**	**1 - 5 years**	**> 5 years**
Bank overdraft		$ 1,648,893	$ 1,648,893	$ -	$ -
Accrued expenses and other liabilities		3,041,699	3,003,663	38,036	-
Trade accounts payable		4,158,220	4,158,220	-	-
Total undiscounted cash flows		**$ 8,848,812**	**$ 8,810,776**	**$ 38,036**	**$ -**

SENSITIVITY ANALYSIS

The Group predominantly funds its net insurance liabilities through its cash and term deposits generated in the normal course of its operations. In the event of a catastrophe, the net insurance liabilities may be required to be funded through the Group's portfolio of fixed income debt and equity securities.

Insurance liabilities are calculated using historical claims data to determine 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 at the date of the statement of financial position. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based. As such, the sensitivity of the insurance liabilities is based on the financial impact of changes to the reported loss ratio. The provision for long tail claims is determined by using the incurred loss method and loss ratio method. The loss development factors used are based on the Group's experience.

The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant.

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The analysis assume that there is no correlation between the assumptions.

Sensitivity factor	Description of sensitivity factor applied
Interest rate – cash and term deposits, money market funds & debt securities	The impact of a change in market interest rates by 1%
Underwriting expenses	The impact of a change in underwriting expenses by 5%
Loss ratios	The impact of a change in loss ratio by 5%

December 31, 2010	Interest rates		Underwriting expenses		Loss ratio	
In $	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	170,759	(170,759)	(1,812,539)	1,812,539	(3,075,467)	3,075,467
Impact on equity	494,959	(494,959)	(1,812,539)	1,812,539	(3,075,467)	3,075,467

December 31, 2009	Interest rates		Underwriting expenses		Loss ratio	
In $	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	188,913	(188,913)	(1,465,006)	1,465,006	(1,728,135)	1,728,135
Impact on equity	188,913	(188,913)	(1,465,006)	1,465,006	(1,728,135)	1,728,135

Price risk arises primarily from changes in the value of equity investments that may be bought and sold. The Group is sensitive to price risk on its fair value through profit or loss and available-for-sale securities. These securities are managed according to the benchmarks as specified in the Group's statement of investment policy and guidelines. The effect of a 10% increase (2009: 10%) and a 10% decrease (2009: 10%) in equity prices at the date of the statement of financial position are set out below:

At December 31, 2010		Carrying Value		Effect on profit and equity +10%		Effect on profit and equity -10%
Listed on stock exchanges / markets	$	13,886,557	$	1,388,656	$	(1,388,656)
Listed / unlisted mutual funds		1,126,606		112,660		(112,660)
Total	**$**	**15,013,163**	**$**	**1,501,316**	**$**	**(1,501,316)**
At December 31, 2009						
Listed on stock exchanges / markets	$	14,936,557	$	1,493,656	$	(1,493,656)
Listed / unlisted mutual funds		-		-		-
Total	**$**	**14,936,557**	**$**	**1,493,656**	**$**	**(1,493,656)**

CAPITAL MANAGEMENT

The Group's objectives when managing Capital are:

- to safeguard the Group's ability to continue as a going concern through prudent and sustainable growth, so that it can continue to provide returns for shareholders and maintain an optimal capital structure;
- to ensure that it maintains a strong credit rating (minimum AM Best rating of A- Excellent) and healthy capital ratios in order to support its business objectives; and
- to comply with the insurance capital requirements stipulated for insurance companies in the jurisdictions in which the Group operates.

The Group actively monitors its capital requirements and is in compliance with all relevant laws, rules and regulations.

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6. TERM DEPOSITS AND BANK OVERDRAFT

Term deposits are denominated in Bahamian and United States dollars with an average interest rate of 2.14% (2009: 4.0%) per annum at the consolidated statement of financial position date:

		2010		2009
Term deposits maturing within 90 days	$	6,785,494	$	2,667,747
Term deposits maturing after 90 days		1,288,479		1,230,762
	$	**8,073,973**	**$**	**3,898,509**

The Company also has a bank overdraft facility with Commonwealth Bank Limited up to $3,000,000 (2009: $3,000,000), which bears interest at prime plus 1.5% per annum. The overdraft facility is secured by the term deposits.

7. INVESTMENTS

		2010		2009
Held-to-maturity:				
Bahamas Government Registered Stocks – at amortized cost	$	4,459,000	$	411,800
At fair value through profit or loss:				
Bahamas International Securities Exchange Limited (BISX)				
12 (2009: 12) common shares – at cost $130,556				
(2009: $130,556) less impairment		5,557		5,557
Commonwealth Bank Limited				
1,983,000 (2009: 2,133,000) common shares				
Cost $2,454,208 (2009: $2,639,852)		13,881,000		14,931,000
		13,886,557		14,936,557
Available-for-sale:				
Fixed income debt securities, at fair value		14,393,185		-
(amortised cost $14,038,973)				
Mutual funds, at fair value		1,126,606		-
(cost less impairment $1,117,402)				
Common equities, at fair value		1,192,542		-
(cost $1,006,620)				
Preference shares		3,000,000		3,000,000
		19,712,333		3,000,000
	$	**38,057,890**	**$**	**18,348,357**

Held-to-maturity investments are recorded at amortized cost based on the effective interest rate method. These investments are variable interest rate instruments tied to the B$ Prime Rate, with interest rates ranging from 5.52% to 5.69% per annum (2009: 5.53% to 5.69%) and scheduled maturities between 2015 and 2030 (2009: 2015 and 2020) at the date of the consolidated statement of financial position.

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The investments are carried at amortized cost as the Group has the intent and ability to hold them to maturity. The investment in Commonwealth Bank Limited ('the Bank") was valued at $7.00 (2009: $7.00) per share, which is the listed price at the date of the consolidated statement of financial position on the Bahamas International Stock Exchange ("BISX").

The amortized cost and fair value of fixed income debt securities held at December 31, 2010 by contractual maturities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to repay obligations early without repayment penalties.

Interest rates range from 2.6% to 6.5% per annum at the date of the consolidated statement of financial position.

	2010		2009	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Available-for-sale:				
Due in less than 1 year	$ 1,006,944	$ 1,013,495	$ -	$ -
Due from 1 through 5 years	7,593,314	8,033,075	-	-
Due after 5 years	5,438,715	5,346,615	-	-
	$ 14,038,973	**$ 14,393,185**	**$ -**	**$ -**

The Group's available-for-sale fixed income debt securities is comprised of the following:

	2010	**2009**
Government debt securities	$ 3,724,808	$ -
Corporate debt securities	10,648,377	-
Other debt securities	20,000	-
Total	**$ 14,393,185**	**$ -**

The geographical locations of the Group's portfolio of investments are as follows:

	2010	**%**	**2009**	**%**
Bahamas	$ 22,354,761	59%	$ 18,348,357	100%
Cayman	527,500	1%	-	-
USA	13,255,715	35%	-	-
Latin America	624,710	2%	-	-
Europe	1,263,593	3%	-	-
Asia	31,611	-	-	-
Total	**$ 38,057,890**	**100%**	**$ 18,348,357**	**100%**

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Reconciliations of movements in the balance of investments and loans and receivable are provided below:

	Held-to-maturity	Fair value through profit or loss	Available-for-sale	Loans and receivable	Total
At December 31, 2008	**$ 411,800**	**$ 14,936,557**	**$ 3,000,000**	**$ -**	**$ 18,348,357**
At December 31, 2009	**$ 411,800**	**$ 14,936,557**	**$ 3,000,000**	**$ -**	**$ 18,348,357**
Acquisition of CFI	-	-	13,839,279	1,437,340	15,276,619
Cost of investments purchased	4,047,200	-	6,465,686	-	10,512,886
Proceeds from sales and maturities	-	(1,027,880)	(3,828,068)	(1,437,340)	(6,293,288)
Amortization of premiums / discounts on bonds	-	-	(84,480)	-	(84,480)
Increase in fair value of investments	-	-	508,404	-	508,404
Realized losses on sales of investments	-	(22,120)	(77,504)	-	(99,624)
Amortization of fair value losses on reclassified debt securities	-	-	(161,604)	-	(161,604)
Impairment recovery	-	-	50,620	-	50,620
At December 31, 2010	**$ 4,459,000**	**$ 13,886,557**	**$ 19,712,333**	**$ -**	**$ 38,057,890**

Management believes that there is no objective evidence of impairment of its investment portfolio as there has not been a significant or prolonged decline in the fair value of any of its securities.

FAIR VALUE MEASUREMENT

In accordance with IFRS 7 Financial Instruments: Disclosure, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which 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

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- 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).

  In addition to the measurement hierarchy, financial instruments which have significant unobservable inputs (classified as Level 3) require the disclosures on the transfers into and out of Level 3, a reconciliation of the opening and closing balances, total gains and losses for the period split between those recognized in other comprehensive income, purchases, sales, issues and settlements, and sensitivity analysis of reasonably possible changes in assumptions. Disclosure is also required of the movements between different levels of the fair value hierarchy and the reason for those movements.

The following table presents the Group's financial assets measured at fair value at December 31, 2010, by the level in the fair value hierarchy into which the fair value measurement is categorized.

	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss:				
Equity securities	$ 13,886,557	$ -	$ -	$ 13,886,557
Total	**13,886,557**	**-**	**-**	**13,886,557**
Available-for-sale financial assets:				
Fixed income debt securities	-	14,373,185	20,000	14,393,185
Mutual funds	-	1,009,204	117,402	1,126,606
Preference shares	-	3,000,000	-	3,000,000
Common equities	1,192,542	-	-	1,192,542
Total	**1,192,542**	**18,382,389**	**137,402**	**19,712,333**
Total assets measured at fair value	**$ 15,079,099**	**$ 18,382,389**	**$ 137,402**	**$ 33,598,890**

There were no transfers between the various levels during the year. The following table presents the changes in Level 3 instruments during the year:

	2010
Balance at December 31, 2009	$ -
CFI acquisition	86,782
Impairment recovery	50,620
Balance at December 31, 2010	**$ 137,402**

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8. INVESTMENT IN ASSOCIATE

The Company holds a 20% (2009: 20%) equity interest in Star General Agency (Grand Bahama) Limited ("Star General"). From 2007, the Company held a 30% interest in GBA, an agent of BFG, and accounted for it as an associate. In 2009, the Company acquired management control of GBA and now accounts for it as a subsidiary (See Note 14).

		2010		2009
Balance at January 1	$	234,826	$	691,482
Elimination of associated investment		-		(517,755)
Dividends received during the year		-		(40,000)
Share of net earnings for the year		70,943		101,099
Balance at December 31	**$**	**305,769**	**$**	**234,826**
Share of associates unaudited statement of financial position:				
Total assets	$	1,121,230	$	1,266,585
Total liabilities		(923,461)		(1,088,762)
Net assets		197,769		177,823
Goodwill		108,000		57,003
Carrying value of investment in associate	**$**	**305,769**	**$**	**234,826**
Share of associates unaudited statement of comprehensive income:				
Revenues	**$**	**735,072**	**$**	**654,847**
Net income	**$**	**70,943**	**$**	**101,099**

Investment in associate includes $108,000 (2009: $57,003) in goodwill. At December 31, 2010, the recoverable amount exceeded the carrying amount of the investment in associate, accordingly no provision for impairment was considered necessary.

9. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable, which is shown net of provision for bad debts, is comprised of:

- amounts receivable from insurance agents that have signed agency agreements with the Group insurers ("insurer trade receivables"), and
- clients of the Group's agency subsidiaries ("agency receivables").

		2010		2009
Insurer trade receivables	$	24,960,197	$	18,509,606
Agency receivables		10,565,601		11,292,813
		35,525,798		29,802,419
Provision for bad debts:				
Balance at January 1		1,859,948		1,288,632
Increase in provision for the year		645,056		714,538
Bad debts written off for the year		(719,720)		(143,222)
Balance at December 31		1,785,284		1,859,948
Trade accounts receivable, net	**$**	**33,740,514**	**$**	**27,942,471**

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Ageing of trade accounts receivable, net is as follows:

	2010	2009
Less than 3 months	$ 18,134,681	$ 12,715,686
3-6 months	9,092,739	8,071,514
6 months - 1 Year	5,717,505	5,527,497
Over 1 Year	795,589	1,627,774
	$ 33,740,514	**$ 27,942,471**

10. DEFERRED/UNEARNED PREMIUMS AND COMMISSIONS

	Insurance Assets			Insurance Liabilities		
	Deferred Reinsurance Premiums	**Deferred Commission Costs**	**Deferred Reinsurance Cost**	**Unearned Premiums**	**Unearned Commission Income**	**Net**
Balance at December 31, 2008	**$ 28,665,499**	**$ 4,055,400**	**$ 3,787,991**	**$ (42,674,996)**	**$ (6,768,693)**	**$ (12,934,799)**
Movement during the year	(320,594)	962,735	1,280	601,505	(127,933)	1,116,993
Balance at December 31, 2009	**$ 28,344,905**	**$ 5,018,135**	**$ 3,789,271**	**$ (42,073,491)**	**$ (6,896,626)**	**$ (11,817,806)**
Portfolio transfer as a result of						
change in net retention	913,455	-	-	-	-	913,455
CFI acquisition	11,556,667	1,210,792	-	(14,039,082)	(2,506,889)	(3,778,512)
Movement during the year	(2,744,083)	(795,742)	(1,085,406)	2,217,462	424,000	(1,983,769)
Balance at December 31, 2010	**$ 38,070,944**	**$ 5,433,185**	**$ 2,703,865**	**$ (53,895,111)**	**$ (8,979,515)**	**$ (16,666,632)**

11. UNPAID CLAIMS AND CLAIMS INCURRED

	Gross	Reinsurance	Net
Unpaid claims at December 31, 2008	**$ 20,809,709**	**$ (11,167,182)**	**$ 9,642,527**
Claims incurred	18,551,148	(11,124,972)	7,426,176
Claims paid	(17,438,808)	10,221,236	(7,217,572)
Unpaid claims at December 31, 2009	**$ 21,922,049**	**$ (12,070,918)**	**$ 9,851,131**
Porftolio transfer	-	(143,560)	(143,560)
CFI acquisition	10,276,040	(4,432,670)	5,843,370
Claims incurred	41,719,447	(14,736,958)	26,982,489
Claims paid	(39,892,165)	14,361,693	(25,530,472)
Unpaid claims at December 31, 2010	**$ 34,025,371**	**$ (17,022,413)**	**$ 17,002,958**

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

P&C

	2006	**2007**	**2008**	**2009**	**2010**	**Total**
Gross claims incurred at end of reporting year	$ 15,131,676	$ 18,731,278	$ 17,093,172	$ 15,057,157	$ 19,565,254	
One year later	18,026,630	22,092,362	19,349,635	18,481,176		
Two years later	17,409,169	23,014,578	19,368,689			
Three years later	19,023,210	22,646,062				
Four years later	19,857,542					
Total incurred to date	19,857,542	22,646,062	19,368,689	18,481,176	19,565,254	
Cumulative payments to date	(15,677,760)	(19,305,602)	(16,163,897)	(14,159,873)	(13,426,800)	
Liability included in the consolidated statement of financial position	4,179,782	3,340,460	3,204,792	4,321,303	6,138,454	$ 21,184,791
Reserves for prior years						9,961,780
Total unpaid claims for P&C business including amount recoverable from reinsurer						**$ 31,146,571**

H&L

	2006	**2007**	**2008**	**2009**	**2010**	**Total**
Gross claims incurred at end of reporting year	$ -	$ -	$ -	$ 16,987	$ 18,006,813	$ 18,023,800
Total incurred to date	-	-	-	16,987	18,006,813	18,023,800
Cumulative payments to date	-	-	-	(16,987)	(15,128,013)	(15,145,000)
Liability included in the consolidated statement of financial position	-	-	-	-	2,878,800	2,878,800
Reserves for prior years		-	-	-	-	-
Total unpaid claims for H&L business including amount recoverable from reinsurer						**$ 2,878,800**
Total unpaid claims including amount recoverable from reinsurer in the consolidated statement of financial position						**$ 34,025,371**

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12. PROVISION FOR LITIGATION & PROVISION FOR LITIGATION RECOVERABLE

Hurricane Ivan claims

Effective November 30, 2005, Cayman National Corporation ("CNC") sold a controlling 51% stake in CFI to Sagicor Life of the Cayman Islands Limited ("SLCI"). On October 22, 2007, SLCI purchased an additional 24.24% interest in CFI from CNC. Under the terms of the initial Sales Agreement, CNC provided certain warranties to SLCI, including claims in relation to Hurricane Ivan claims not finally settled at the date of the agreement.

In February 2006, CFI filed suit against certain third parties to recover sums paid for work done in respect of Hurricane Ivan, specifically the "Windsor Village litigation". The understanding of the shareholders (SLCI and CNC) based on discussions held, was that CNC would be entitled to retain any benefits realized from the Windsor Village litigation, and be responsible for all liabilities that might arise from it. CFI and SLCI's position was also that CNC was responsible for the conduct of the litigation.

In December 2008, CFI withdrew its claims against the third parties, and the third parties lodged counterclaims related to abuse of process against CFI. Additionally, having discharged an injunction ("the Mareva Injunction") obtained in the course of the initial litigation, CFI became liable under an undertaking as to damages to compensate the third parties for any loss caused by the injunction.

As noted in note 1, on June 17, 2010, SLCI executed a Share Purchase Agreement ("SPA") for the sale of its 75.24% holding in CFI to BFHIL, with an effective date of January 1, 2010. Based on the terms of the SPA, SLCI agreed to indemnify BFHIL in relation to 75.24% of all costs, claims and demands directly arising out of or in connection with the Windsor Village litigation and certain other specified potential liabilities. SLCI exposure in relation to the above liabilities is unlimited. Additionally, Sagicor Life Jamaica Limited ("SLJ" -SLCI's parent company) has guaranteed the performance of SLCI's obligations (including in relation to the Windsor Village litigation) as stipulated in the SPA or any other agreement entered into in connection with the acquisition to the extent of US$10,000,000. To secure SLCI's obligation under the SPA, US$10,000,000 is currently held in an escrow account pursuant to the terms of an Escrow Agreement dated May 6, 2010 among SLJ, BFHI and Cayman National Trust Co. Ltd ("Escrow Agent").

Subsequent to the year end, on March 14, 2011, the Court issued a judgment ruling in favour of CFI in relation to the counterclaims related to abuse of process, and no damages were awarded to the third parties. The issue of costs remains outstanding, but legal counsel has advised that the Court is likely to award these in CFI's favour in respect of this element of the proceedings.

In the same judgment, in relation to the undertaking as to damages pursuant to the Mareva Injunction, the Court awarded damages to the various third parties totalling $8,613,677, plus interest. Based on advice from legal counsel, management has estimated the interest payable on the damages awarded to be $1,161,071, although the final basis for calculation is yet to be determined by the Court. A provision of $9,774,748 has been recorded in the consolidated statement of financial position at December 31, 2010. The movement in the provision for litigation during the year of $3,908,400 has been recorded in the consolidated statement of comprehensive income.

Based on the Escrow Agreement described above, an amount due from escrow agent and litigation recovery totaling $2,940,680, has been recorded in the consolidated statement of financial position and the consolidated statement of comprehensive income, respectively.

From a review of the judgment and advice obtained from legal counsel, CFI and SLCI are of the view that there are a number of properly arguable grounds for appeal in respect of the Mareva awards, and have subsequently, on March 28, 2011, filed a notice of appeal. Based on discussions with legal counsel, management believes that the total final settlement, including interest and net of costs, following the appeal, will possibly fall below $5,000,000. The Cayman Court of Appeal is yet to quantify the final awards payable to the third parties.

CFI will, in the interim, make payment of the damages awarded into Court as it awaits the ruling from the Cayman Court of Appeal.

Subsequent to the ruling, one of the third parties filed notice of appeal on March 28, 2011 in relation to the counterclaims related to abuse of process. Management's view, supported by legal advice, is that the appeal is likely to be unsuccessful as the judgment was clear and in accordance with decided authorities relating to claims for abuse of process and malicious prosecution.

An amount of $1,177,015 has been recorded as recoverable from CNC under the warranties described above related to the Windsor Village litigation and other amounts related to Hurricane Ivan, and is included in the consolidated statement of financial position as at December 31, 2010. On April 7, 2011, this amount was received from CNC.

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13. PROPERTY AND EQUIPMENT

2010	Land	Buildings	Furniture and Equipment	Leasehold Improvements and Others	Computer Software	Total
COST/VALUATION:						
At January 1, 2010	$ 2,973,750	$ 8,316,545	$ 2,612,142	$ 737,809	$ 3,522,069	$ 18,162,315
Additions	-	578,133	351,552	333,105	24,910	1,287,700
Revaluation of land and buildings (Note 19)	45,000	(827,476)	-	-	-	(782,476)
CFI acquisition	-	-	59,409	637,520	79,450	776,379
Disposals	-	-	(7,355)	(35,226)	-	(42,581)
At December 31, 2010	$ 3,018,750	$ 8,067,202	$ 3,015,748	$ 1,673,208	$ 3,626,429	$ 19,401,337
ACCUMULATED DEPRECIATION:						
At January 1, 2010	$ -	$ 852,813	$ 1,343,155	$ 501,126	$ 1,137,935	$ 3,835,029
Charge for the year	-	218,576	361,676	382,996	542,394	1,505,642
Disposals	-	-	(6,456)	(14,676)	-	(21,132)
At December 31, 2010	$ -	$ 1,071,389	$ 1,698,375	$ 869,446	$ 1,680,329	$ 5,319,539
Carrying amount 2010	**$ 3,018,750**	**$ 6,995,813**	**$ 1,317,373**	**$ 803,762**	**$ 1,946,100**	**$ 14,081,798**

2009	Land	Buildings	Furniture and Equipment	Leasehold Improvements and Others	Computer Software	Total
COST/VALUATION:						
At January 1, 2009	$ 2,493,750	$ 6,892,220	$ 2,234,005	$ 707,906	$ 3,662,787	$ 15,990,668
Additions	-	-	258,797	37,380	2,088	298,265
Additions through management controlled subsidiary	480,000	1,424,325	150,852	-	47,465	2,102,642
Disposals	-	-	(31,512)	(7,477)	(190,271)	(229,260)
At December 31, 2009	$ 2,973,750	$ 8,316,545	$ 2,612,142	$ 737,809	$ 3,522,069	$ 18,162,315
ACCUMULATED DEPRECIATION:						
At January 1, 2009	$ -	$ 640,717	$ 1,026,943	$ 428,162	$ 789,755	$ 2,885,577
Charge for the year	-	212,096	329,187	79,256	541,243	1,161,782
Disposals	-	-	(12,975)	(6,292)	(193,063)	(212,330)
At December 31, 2009	$ -	$ 852,813	$ 1,343,155	$ 501,126	$ 1,137,935	$ 3,835,029
Carrying amount 2009	**$ 2,973,750**	**$ 7,463,732**	**$ 1,268,987**	**$ 236,683**	**$ 2,384,134**	**$ 14,327,286**

In December 2010, the land and buildings were revalued to fair market value based on a valuation performed by an independent appraiser for financial statement purposes. The fair value of the land and buildings was estimated to be $3,018,750 and $6,996,250, respectively, based on the combined effect of the cost, income and sales comparison approach. The net book value of the land and buildings of the Group, ignoring the effects of the revaluation, would have been $2,598,844 and $6,311,897 (2009: $2,598,844 and $5,936,807) respectively.

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14. BUSINESS COMBINATION

BFHIL, a wholly owned subsidiary acquired a 75.24% interest in CFI on June 17, 2010 with an effective date of January 01, 2010. The fair values of the net assets acquired, the purchase consideration and the goodwill arising on the acquisition are set out below.

		Book Value Audited December 31, 2009		**Fair Value Audited January 1, 2010**
Assets:				
Cash and cash equivalents	$	5,083,565	$	5,083,565
Investments		15,439,380		15,439,380
Premiums receivables		6,175,520		6,175,520
Reinsurance receivables		1,145,846		1,145,846
Due from shareholder		3,309,395		3,309,395
Deferred commission costs		1,210,792		1,210,792
Deferred reinsurance premiums		11,556,667		11,556,667
Unpaid claims recoverable from insurers		4,432,670		4,432,670
Sundry receivables and prepayments		385,356		385,356
Intangible assets		79,450		79,450
Property, plant and equipment		696,929		696,929
Total assets	$	49,515,570	$	49,515,570
Liabilities:				
Accrued expenses and other liabilities	$	820,092	$	820,092
Reinsurance payables		4,987,752		4,987,752
Unearned commission income		2,506,889		2,506,889
Unearned premiums		14,039,082		14,039,082
Provision for litigation		6,818,899		6,818,899
Unpaid claims		10,276,040		10,276,040
Total liabilities	$	39,448,754	$	39,448,754
Net assets acquired		10,066,816		10,066,816
Non-controlling interest		2,492,544		2,492,544
The Group's interest	$	7,574,272		7,574,272
Purchase consideration				11,398,258
Intangible assets and goodwill (Note 15)			$	**3,823,986**

The intangible assets and goodwill of $3,823,986 arising from the acquisition consists largely of the synergies and financial benefits (indefinite positive cash flows) expected from combining the operations of CFI with BFH.

The acquiree's comprehensive loss for the year ended December 31, 2010 amounted to $2,474,726. The equity related to the non-controlling interest of $1,879,801 is reflected in the consolidated statement of financial position.

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Purchase consideration for the acquisition was partly funded by a non-revolving 10-year demand loan totaling $5,398,258 from The Cayman National Bank ("the Bank") at a rate of 1.5% above U.S. prime rate (effective rate – 4.75%). As a prerequisite of the facility, CFI entered into a Deed of Guarantee dated June 21, 2010 guaranteeing the payment of the loan, all interest and all other sums payable in respect of the loan facility. Pursuant to a pledge agreement dated June 21, 2010, CFI has provided to the Bank, security interest over its investments as collateral for the credit facility. Consequently, CFI's investments have been hypothecated to the extent required to collateralize the credit facility issued to BFHIL.

In 2009, the Company held a 30% interest in GBA and as a result of acquiring management control, accounted for it as a subsidiary. During the year, the Company acquired the remaining 70% interest in GBA for a consideration of $2,820,067, of which $2,062,572 was applied to GBA's receivable with BFG. In accordance with IAS 27, Consolidated and Separate Financial Statements, a change in ownership without loss of control requires that transactions between parent and non-controlling interest are accounted for as an equity transaction. The effect of this increase in ownership resulted in a decrease of $2,476,626 in Contributed Surplus.

15. INTANGIBLE ASSETS AND GOODWILL

			Intangible Assets	
	Goodwill	Finite Life	Indefinite Life	Total
Balance at January 1, 2009	**$ $5,093,158**	**$ -**	**$ 2,692,559**	**$ 7,785,717**
Additions	-	-	-	-
Balance at December 31, 2009	**$ 5,093,158**	**$ -**	**$ 2,692,559**	**$ 7,785,717**
Additions – acquisition of CFI (Note 14)	2,031,930	1,792,056	-	3,823,986
Amortization	-	(116,248)	-	(116,248)
Balance at December 31, 2010	**$ 7,125,088**	**$ 1,675,808**	**$ 2,692,559**	**$ 11,493,455**

Intangible assets and goodwill acquired through business combinations with indefinite lives have been allocated to two cash-generating units, which are also operating and reportable segments, for impairment testing as follows:

Bahamas' General Insurance cash-generating unit	$ 7,785,717
Cayman's General Insurance cash-generating unit	2,031,930
	$ 9,817,647

The Group performed its annual impairment test as at December 31, 2010. The recoverable amount of the Bahamas' General Insurance cash-generating unit has been determined using the fair value less costs to sell calculation using the most recent price in a binding sale agreement in an arm's length transaction. The recoverable amount of the Cayman's General Insurance cash-generating unit has been determined using the value in use calculation using cash flow projections from financial budgets approved by senior management and the Board of Directors covering a three-year period. As the recoverable amounts exceeded the carrying amounts, management did not identify any impairment for either cash-generating unit.

Intangible assets, with finite useful lives include customer relationships, non competition agreements, and trade name, are amortized using the straight-line method over their estimated useful lives, and is included in general and administrative expenses in the consolidated statement of comprehensive income.

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16. BONDS PAYABLE

On October 15th 2010, the Group effected a private offering of Series I & II Redeemable Cumulative Variable Rate Corporate Bonds ("the bonds"). The net proceeds were used for general corporate purposes. Interest on the bonds are payable at B$ prime rate plus 1.75% and 2.00% respectively.

The bonds rank equally among themselves and with all other existing and future unsubordinated and unsecured debt of the Company. The bonds rank senior to the Company's existing and all future preference and ordinary shares.

Maturity dates are as follows:

- Series I bonds maturing October 15th, 2020, in the outstanding principal amount of $7,500,000. The bonds, while callable only at the option of the Company, may not be called prior to the fifth anniversary date from the closing date of the issue.
- Series II bonds maturing October 15th, 2025, in the outstanding principal amount of $7,500,000. The bonds, while callable only at the option of the Company, may not be called prior to the tenth anniversary date from the closing date of the issue.

The Company may at its option redeem in whole or in part any principal amount invested in the bond subject to a notice period of ninety days on any date following the expiration of the anniversary date for the respective series.

		2010
Series I Corporate Bonds		
$7,500,000 at B$ prime rate + 1.75%, presently 7.25% per annum – Due 2020	$	7,500,000
Series II Corporate Bonds		
$7,500,000 at B$ prime rate + 2.0%, presently 7.5% per annum – Due 2025		7,500,000
Accrued interest		276,563
Total	**$**	**15,276,563**

17. SHARE CAPITAL

The Group's share capital is comprised as follows:

		2010		2009
Authorized: 45,000,000 (2009: 45,000,000) at $0.01 each				
Issued and fully paid: 36,305,471 (2009: 36,295,471) par				
value $0.01 per share	**$**	**363,055**	**$**	**362,955**
Preference shares				
Authorized: 5,000,000 (2009: 5,000,000) at $1.00 each				
Issued and fully paid: 5,000,000 (2009: 5,000,000) par				
value $1.00 per share	**$**	**5,000,000**	**$**	**5,000,000**

The weighted average number of common shares for the purposes of earnings per common share is 36,299,553 (2009: 35,951,336).

Dividends are accounted for in the period in which they are declared by the Group's Board of Directors. During the year, dividends of $0.09 per common share (total dividends $3,267,092) were declared and subsequently paid.

The Preference Shares are non-convertible, non-voting, cumulative, redeemable "A" with a dividend rate of 7% per annum. These shares are redeemable at the option of the Company.

YEAR ENDED DECEMBER 31, 2010. EXPRESSED IN BAHAMIAN DOLLARS.

Under the management bonus profit sharing scheme approved by the Board of Directors in 2007, senior managers may opt to acquire shares of the Company at a rate in lieu of receiving a profit sharing bonus. In August 2010, 10,000 shares were issued under this scheme for $1.50 per share.

In April 2006, the directors extended a share option to a certain executive director to purchase 250,000 common shares of the Company at a purchase price of $0.75. The option was fully exercised on August 1, 2009.

In August 2008, the directors approved a subscription share offer to non management staff to purchase common shares of the Company at a purchase price of $1.20 per share. In April 2009, 63,506 shares were issued as a result of the offer.

Since the Company's shares are not derived from quoted prices, the fair value applied to the shares issued during the year was based on an independent valuation performed during the year.

Treasury shares are stated at cost, and at December 31, 2010, comprise 183,316 (2009: 183,316) of the Company's shares held by a subsidiary. This represents 0.5% of the outstanding shares of the Company.

18. GENERAL RESERVE

The Group has established a general reserve from retained earnings in the amount of $4,000,000 (2009: $4,000,000), which the directors have determined is not available for distribution.

19. REVALUATION RESERVE

		Land & Buildings		AFS Investments		Total
Revaluation of land and buildings	$	(782,476)	$	-	$	(782,476)
Less: GBA's revaluation adjustment recognized in Contributed Surplus, as part of acquisition		629,000		-		629,000
Increase in fair value of AFS investments		-		508,404		508,404
Net change for the year		(153,476)		508,404		354,928
Balance at December 31, 2009		**1,932,558**		**-**		**1,932,558**
Balance at December 31, 2010	**$**	**1,779,082**	**$**	**508,404**	**$**	**2,287,486**

In accordance with the Group's accounting policy, freehold land and buildings are subject to a revaluation exercise that is performed by an independent professional appraiser every three years. Freehold land and buildings were independently valued at December 30, 2010. The next appraisal is due in 2013.

20. GROSS PREMIUMS WRITTEN

		2010		2009
Group agents and insurers	$	97,303,263	$	45,643,913
Non-Group agents		51,448,178		50,663,570
Associates		4,337,606		3,756,306
	$	**153,089,047**	**$**	**100,063,789**

YEAR ENDED DECEMBER 31, 2010. EXPRESSED IN BAHAMIAN DOLLARS.

21. OTHER INCOME

		2010		2009
Dividend income	$	542,080	$	744,500
Claims handling fees		72,717		45,775
Interest income		904,471		268,476
Share of net earnings from associates (Note 8)		70,943		101,099
Gain on sale of subsidiary		283,640		-
Other income		616,416		516,760
	$	**2,490,267**	**$**	**1,676,610**

On August 11, 2010, CFI sold its wholly-owned subsidiary, Sagicor Insurance Managers Ltd. ("SIM"), with an effective date of January 1, 2010. SIM provided captive insurance management services in the Cayman Islands. The transaction resulted in a gain of $283,640.

22. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a profit sharing and performance bonus payable to management and staff amounting to $717,214 (2009: $594,224). This amount was determined and approved by the Board of Directors.

23. PENSION PLAN

Employees of the Group participate in defined contribution plans registered in The Bahamas and in the Cayman Islands. These plans are administered by independent administrators and trustees and membership is mandatory for all eligible employees. Under these plans, the Group paid contributions of 3% – 5% per annum of base salary. Contributions under these plans totaled $302,731 (2009: $187,110) and are included in "Salaries, benefits and bonuses" in the consolidated statement of comprehensive income.

24. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances are as follows:

		2010		2009
Gross premiums written	$	4,337,606	$	3,756,306
Commission expense – associates	$	882,294	$	754,287
Trade accounts receivable – associates	$	1,532,198	$	1,819,266
Directors fees paid	$	225,808	$	200,047

The trade accounts receivable – associate is secured by a guarantee. The receivable balance will be settled in cash. No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Key management personnel include members of the Group's management team having authority and responsibility for planning, directing and controlling the activities of the Group's operation. Compensation to key management personnel is included in salaries, benefits and bonuses in the consolidated statement of comprehensive income and receivables from key management personnel is included in sundry receivables and prepayments in the consolidated statement of financial position and are as follows:

YEAR ENDED DECEMBER 31, 2010. EXPRESSED IN BAHAMIAN DOLLARS.

	2010	2009
Salaries and other benefits	$ 966,072	$ 889,126
Post employment benefits	35,008	32,535
Total	**$ 1,001,080**	**$ 921,661**
Receivables from key management personnel	**$ 38,953**	**$ 175,786**

As part of its reinsurance program, the Group purchases reinsurance from The Economical Insurance Group ("TEIG") for motor and liability quota share. TEIG holds a 20% ownership in the Group. The ceded motor and liability quota share is 50.5% and TEIG's reinsurance participation is 10%.

25. COMMITMENTS AND CONTINGENCIES

Commitments

The Group has commitments relating to leased premises. The Group has leased office space with expiration terms and renewal terms extending up to five years. Leased term varies with the last lease term expiring in 2015. The Group also has a sublease on one of the locations which expires in 2013. Rent expense for the year ended December 31, 2010 totaled $731,056 (2009: $152,092). The related sublease payments were $39,000 (2009: $32,364).

Future lease payments under the operating leases and the sublease income are as follows:

2010	**< 1 year**	**1 -5 years**	**> 5 years**
Operating lease agreements and rental payments	$ 640,895	$ 1,447,912	$ -
Sublease payments receivable	(32,096)	(40,120)	-
	$ 608,799	**$ 1,407,792**	**$ -**

2009	**< 1 year**	**1 - 5 years**	**> 5 years**
Operating lease agreements and rental payments	$ 105,000	$ 227,500	$ -
Sublease payments receivable	(32,096)	(72,216)	-
	$ 72,904	**$ 155,284**	**$ -**

Contingencies

In the normal course of its business, the Group is involved in various legal proceedings arising out of and incidental to its insurance operations. The Group is of the opinion that litigation arising from these legal proceedings will not have a significant impact on the financial position, results of operation or cash flows of the Group.

26. SEGMENTED INFORMATION

In accordance with IFRS 8 Operating Segments, the Group has identified the Chief Operating Decision Maker as the Board of Directors. Key decisions on assessing performance and allocation of resources are reviewed by the Board or its sub-committees.

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The Group's operations are segmented into the following business segments by geographic location:

- General Insurance / Property and Casualty (P&C)
- Health and Life (H&L)

The segment results for the year ended December 31, 2010 are as follows:

	Bahamas	**Cayman**		
	P&C $	**P&C $**	**H&L $**	**Total $**
2010				
Net underwriting income	16,917,022	3,302,115	3,799,363	24,018,500
Depreciation of property & equipment	1,100,764	218,554	186,324	1,505,642
Amortization of intangible assets	116,248	-	-	116,248
Total segment results	5,378,041	(1,304,535)	(1,170,191)	2,903,315
Total segment assets	138,617,801	32,601,342	13,942,560	185,161,703
Total segment liabilities	98,760,495	35,414,518	3,537,295	137,712,308
Capital expenditure	1,086,132	87,864	113,704	1,287,700

27. COMPARATIVE INFORMATION

In accordance with IAS 1 (revised), the Group has re-presented comparative information to conform with the current year presentation.

28. EVENTS AFTER THE REPORTING PERIOD

At the Board of Directors meeting held on February 1, 2011, the directors approved and authorized the public listing on BISX of the Company's common shares, preferred shares and bonds.

In February 2011, management initiated a plan to market GBA's property, appraised at $1,200,000 as of the reporting date, at a listing price of $1,295,000. In March 2011, a bid was accepted for the listing price. In accordance with IFRS 8 Operating Segments, the property is included in the assets of the Bahamas' General Insurance (property & casualty) segment. The sale is expected to close within 2011.

Corporate Governance

As a public company, BFH has pioneered the way for best practice in the area of corporate governance. We believe good governance requires adherence to all legal requirements, regulations and our stated Company policies, as well as a developed culture of responsibility.

For these reasons, BFH has developed a compliance framework that gives each of our employees, agents and strategic partners the resources, guidance and tools necessary to make ethical and value-based decisions that will effectively minimize and manage the risks inherent to our business.

Five corporate governance committees of the Board are in place, each chaired by a non-executive director:

AUDIT COMMITTEE

Chaired by Sandeep Uppal, the committee assists the Board in fulfilling its oversight responsibilities as they relate to the Group's accounting policies, financial reporting, internal control and the legal and regulatory environment. Other committee members include:

- Alison Treco
- Ian Fair
- Graham Garner
- John Dunkley
- Patrick Ward*

CORPORATE GOVERNANCE CONDUCT REVIEW & NOMINATIONS COMMITTEE

Chaired by Ian Fair, the committee measures the Group's governance against best practices and makes recommendations for Board appointments and composition. Other committee members include:

- Judith Whitehead
- Sandeep Uppal

HUMAN RESOURCES & COMPENSATION

The committee is responsible for reviewing and approving the Group's compensation plan, and evaluating executive performance. Members include:

- Ian Fair
- Quentin Chisnall

FINANCE & INVESTMENT COMMITTEE

The committee focuses on two objectives: financial risk management and investment policy oversight. The committee is chaired by Ian Fair. Other members of the committee include:

- Glen Ritchie*
- John Dunkley
- Patrick Ward*
- Quentin Chisnall
- Noel Walpole

TECHNICAL REVIEW & RISK COMPLIANCE COMMITTEE

Chaired by Noel Walpole, the committee is responsible for ensuring adherence to risk management guidelines as well as reviewing and assessing technical and reinsurance matters. Other committee members include:

- John Dunkley
- Patrick Ward*
- Pauline Ward*
- Valarie Darville*
- Tracy Bonczek*
- Glen Ritchie*

* Denotes Executives and Staff.

Future Leaders Development Programme

The Bahamas First Group of Companies is pleased to announce a second cycle of its Future Leaders Development Programme which will commence in September 2011. Bahamas First continues to prove its commitment to developing its internal resources through support of education and career development opportunities.

Objective: The objective of the programme is to prepare candidates for opportunities to function in supervisory/management positions within the Bahamas First Group and to satisfy personal and professional goals. Efforts will be made to identify specific gaps on an individual basis.

Eligibility: Internal candidates with proven track records of high levels of performance, who have demonstrated the potential for supervisory/managerial responsibilities and who meet the minimum criteria as determined by management, will be considered.

EXPANDING OUR FIRSTPRINT

Authorized Agents

OUR EXTENSIVE NETWORK of agents in The Bahamas stretches from Grand Bahama to Inagua and everywhere in between. In the Cayman Islands, we enjoy the support of a vibrant network of agents and brokers for all of our product lines. They have been the backbone of our Company since we first offered insurance services, and continue to deliver the highest quality of service to our customers.

THE BAHAMAS:

NEW PROVIDENCE
A Scott Fitzgerald Insurance Brokers & Agents | (242) 356-5709
Andeaus Insurance Broker Co. Ltd. | (242) 323-4545
Bethel Thompson Agency | (242) 394-7251
Chandler Gilbert Insurance Associates Limited | (242) 676-2306
CMA Insurance Brokers & Agents | (242) 393-6735
Colina General Insurance Agency | (242) 677-2050
Confidence Insurance Brokers & Agents | (242) 323-6920
FG Insurance Agents & Brokers Limited | (242) 396-1300
FINCO | (242) 328-0559
LIV Insurance Agents and Brokers Ltd. | (242) 361-5123
N.U.A. Insurance Agents & Brokers | (242) 328-5992 / (242) 302-9100
Professional Insurance Consultants | (242) 327-2143
Response Insurance Agency Ltd. | (242) 393-3277
Star General Insurance Agency | (242) 393-5529
Sunshine Insurance Agency | (242) 394-0011
ABACO
Abaco Insurance Agency | (242) 367-2549
GRAND BAHAMA
General Brokers & Agents Ltd. | (242) 352-7891
Star General Insurance (G.B.) Ltd. | (242) 352-5705

CAYMAN ISLANDS:

CAYMAN BRAC
Brac Insurance Associates | (345) 948-2266
GRAND CAYMAN
AON Risk Solutions (Cayman) Ltd | (345) 949-0111
Balderamos Insurance Services Ltd. | (345) 945-3450
Caribbean Insurance Practice | (345) 943-2475
Cayman Insurance Centre | (345) 949-4657
Derek Bogle Insurance Ltd. | (345) 949-0579
Fidelity Insurance (Cayman) Ltd. | (345) 949-5836
FIS Insurance Brokers | (345) 945-5616
Island Insurance Brokers Ltd. | (345) 949-0883
Jen International Insurance Brokers | (345) 943-5442
Marsh Management Services Cayman | (345) 949-7988
Quik Care Insurance Brokers | (345) 946-2273

Corporate Information

HEAD OFFICE

Bahamas First Centre
32 Collins Avenue
Nassau, Bahamas
T: (242) 302-3900
F: (242) 302-3901
info@bahamasfirst.com
www.bahamasfirst.com

AUDITORS

Deloitte & Touche
Chartered Accountants
and Management Consultants
2nd Terrace, Centreville
Nassau, Bahamas

ATTORNEYS

Graham Thompson & Co.
Sassoon House
Shirley Street & Victoria Avenue
Nassau, Bahamas

Maples and Calder
Ugland House
Grand Cayman, Cayman Islands

REGISTRAR AND TRANSFER AGENTS

Bahamas Central Securities Depository Limited (BCSD)
50 Exchange Place, Bay Street
Nassau, Bahamas

BAHAMAS FIRST HOLDINGS LTD.

Bahamas First Centre
32 Collins Avenue
Nassau, Bahamas
T: (242) 302-3900
F: (242) 302-3901
info@bahamasfirst.com
www.bahamasfirst.com