BAHAMAS FIRST HOLDINGS
2013 ANNUAL REPORT

Staying The Course

BAHAMAS FIRST HOLDINGS

ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

The consolidated financial statements in this report include the accounts of Bahamas First Holdings Limited ("BFH" or the "Company") and its subsidiaries which are collectively referred to as the "Group". The subsidiaries are as follows: Bahamas First General Insurance Company Limited ("BFG"), Cayman First Insurance Company Limited ("CFI"), Nassau Underwriters Agency Insurance Agents & Brokers Ltd. ("NUA"), Bahamas First Corporate Services Ltd. ("BFCS"), First Response Limited ("FRL") and BFH International Limited ("BFHIL").

IAN D. FAIR

MESSAGE FROM THE CHAIRMAN

"Your Board continues to seek opportunities for future growth, whilst at the same time carefully monitoring our existing activities."

I am pleased to report that your Company recorded a 13.2% increase in comprehensive income for 2013 compared to the previous year. We were fortunate to have a hurricane and tropical storm free year, but our results suffered somewhat from the heavy rain event which took place in New Providence in the early part of last summer.

The year 2013 can be styled as a year of "Staying the Course". Your Company concentrated on our current business and operations, whilst keeping a watch out for opportunities to further expand our reach in a manner consistent with our established risk appetite.

The overall US economy performed well during 2013. Wealth levels have increased and there is a growing confidence, which is having a positive effect on certain parts of the residential market in The Bahamas, particularly New Providence and Abaco. Property developments, such as Albany, Old Fort Bay and Bakers Bay continue to attract foreign investors, which we expect to have a very beneficial long-term effect.

One of the biggest positives coming out of the US is the extremely low cost of energy, which is causing industries, which previously went offshore, to return. The fact that the US is one of the only major developed countries which has a positive birthrate should not be underestimated. This is a major challenge in the future for countries such as Japan and Russia.

There were also optimistic signs coming out of Europe, although this is being offset by lagging emerging markets creating a "drag" during the year. Commodity prices were generally lower, largely caused by a drop in demand for raw materials from China and other Asian producers.

In The Bahamas we continue to be challenged by the fallout from the great recession, although there are signs of improvement. However, the positive momentum that has been built up can be easily derailed by poor local execution or external shocks. The new road system in New Providence has been a great success and the Bahamar development continues on stream; when it opens this will have a positive effect on the unemployment rate.

It is critically important that the Government successfully navigates the process of the broad-based tax reform initiative that it has embarked on.

During 2013, our Cayman subsidiary paid dividends totaling $1.5 million of which 83.52% would have inured to our benefit. Our confidence about the future of Cayman is such that we have entered into a contract to acquire land that will become the future site for a purpose built office building to house all of our operations there. The transaction is expected to close at the end of March 2014.

Your Board continues to seek opportunities for future growth, whilst at the same time carefully monitoring our existing activities.

Thank you to all stakeholders for your continued support.

PATRICK WARD

"The fundamental improvements that we have made to our business infrastructure, together with the enhancements to our reinsurance programme, will greatly improve our ability to meet or exceed our future targets."

DESPITE PREDICTIONS to the contrary, the 2013 North Atlantic hurricane season was an unusually quiet period with only two storms developing into hurricanes. Both Ingrid and Humberto never developed beyond Category One strength resulting in the quietest season since 1982.

This experience contrasts significantly with that of those persons living in parts of Europe, Canada, and the Philippines, where weather related claims generated billions of dollars in economic and insured losses and, sadly, in the case of the Philippines, the loss of over 6,000 lives. Notwithstanding the heightened level of activity in the places noted above, the global insured natural catastrophe losses are likely to be contained near the $30 billion mark, which is below the average for the last 10 years. While the territories, in which we write catastrophe exposed business, were not impacted by a designated weather related "catastrophe", we did experience material losses in the second quarter of 2013 in The Bahamas, as a result of flood claims caused by the combination of localized exceptional rainfall, along with a concurrent springtide.

The event generated 330 claims across all lines of business and net losses of $1.94 million as at 31st December, 2013. The May 2013 floods in New Providence marked only the second such time in the Company's history that such an event has transpired, the last being 1997, but it has nevertheless reinforced the notion that incidents that may not necessarily be classified as a weather related catastrophe can still provide material claims activity. We have already acted on the lessons to be learnt, from both a risk selection and transfer basis. The adverse developments described above were, fortunately, more than offset by the otherwise stellar performance of our core Property and Casualty business both in The Bahamas and Cayman Islands. Additionally, for the second year in a row, the Health business in Cayman, produced a respectable Underwriting Profit in 2013, and we are delighted to note this positive trend. In fact, the Health business has contributed in excess of $2.0 million towards the Group's Comprehensive Income over the past two years.

The overall Claims ratio in 2013 was 45% which is slightly elevated from the result of 43% in the prior year. The same is true for the expense ratio which was 33% in 2012, but finished the current year at 34%, primarily due to the impact of an increased bad debt provision in 2013. The Group's combined ratio of 94% is slightly above the prior year result of 93%, primarily due to the increase in net claims incurred. Overall, the Group has achieved historical results having recorded its highest ever gross premiums written of $161.3 million and Net Underwriting Income of $24.8 million, the latter representing a 4% increase from the 2012 total of $23.8 million. The Group's profit for the year increased to $5.8 million compared to $5.1 million in 2012, notwithstanding the substantial claims impact highlighted above. The total comprehensive income for the year increased to $6.4 million representing a 13.2% increase over the prior year result of $5.7 million, despite the negative impact of the Windsor Village Litigation, details of which are provided in the following sections. The positive earnings for 2013 resulted in the total Shareholders' Equity increasing to $50.2 million in 2013, compared to the prior year total of $47.2 million, representing a 6.2% increase. The payment of a five cents (5¢) dividend was approved by the Directors for distribution in December 2013, which brought the year's total payout to eight cents (8¢) per ordinary share. In the normal course of business the Directors will give consideration to a further dividend payment prior to the 2014 Annual General Meeting.

As anticipated, both BFG and CFI were once again affirmed as A- (Excellent) by A.M. Best during 2013, and the outlook in each case remains stable. Both entities continue to enjoy good working relationships with the regulators in their respective markets. Intense competition and improving, but challenging, economic conditions are characteristics that continue to define the markets in which we operate. We are firmly of the view that the fundamental improvements that we have made to our business infrastructure, together with the enhancements to our reinsurance programme, will greatly improve our ability to meet or exceed our future targets.

We are indeed grateful for the dedicated and hardworking associates throughout our organization; your efforts are very much appreciated!

SUMMARY OF RESULTS

YEAR ENDED DECEMBER 31, 2013

IN BAHAMIAN $ '000S, EXCEPT FOR PER SHARE DATA AND RATIOS

	2013	2012	% Change	2011
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Total assets	**178,720**	175,738	2%	175,806
Equity attributable to owners of the parent	**47,727**	44,501	7%	41,865
Book value per common share	**1.17**	**1.08**		**1.01**
CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME				
Gross premiums written	**161,319**	157,796	2%	151,742
Net written premiums	**61,491**	61,707	0%	61,116
Net premiums earned	**61,504**	60,641	1%	61,531
Commission income	**23,369**	22,479	4%	22,710
Net claims incurred	**27,608**	25,818	7%	31,607
Net underwriting income	**24,823**	23,835	4%	18,877
Other income	**2,277**	2,055	11%	2,494
Total comprehensive income	**6,442**	5,689	13%	808
Total comprehensive income attributable to owners of the parent	**6,467**	5,035	28%	479
Earnings per common share	**0.16**	**0.13**		**0.01**
RATIOS				
Solvency ratio	**78%**	72%		69%
Combined ratio	**94%**	93%		103%
Loss ratio	**45%**	43%		51%
Expense ratio	**34%**	33%		33%

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

CEMENTING A SUCCESSFUL BUSINESS MODEL

The theme that we have adopted for this year's Financial Statements and Annual Report is "Staying the Course". This sentiment accurately reflects the mindset that characterized our approach to both the economic environment and competitive landscapes within the two markets in which we operate. Having taken full advantage of the opportunities to grow both organically and through targeted acquisitions in the past, we were not pressured into having to significantly grow our top line, in what is still a challenging operating environment.

Our primary focus from an operating standpoint, across the Group, was to drive the process of additional innovation and workflow improvements throughout the organization, in an effort to improve flexibility and ultimately customer satisfaction. This effort will continue into 2014 and beyond. Additionally, we continued to take proactive steps to embed Enterprise Risk Management (ERM) throughout our operations by vigorously monitoring our dynamic risk registers, which were established in prior years. It is imperative that we remain focused on business retention and development opportunities for quality risks and this mandate remains as an important part of our ability to deliver acceptable results for all of our stakeholders.

Notable Claims Development

Neither Cayman nor The Bahamas experienced a direct hit from a weather related catastrophe event in 2013, evidence of the fact that the North Atlantic experienced an unusually quiet year for hurricane activity. The May 2013 floods in New Providence produced gross losses of $4.7 million, as at 31st December, 2013, with property claims accounting for 90% of the total or $4.2 million. The net retained losses were contained at $1.943 million for all lines of business, representing 40% of the total gross claims.

While flooding, caused by exceptional rainfall and a concurrent springtide event, are not frequently occurring episodes, we have taken proactive steps to improve our risk selection in exposed areas, and, additionally, alter certain elements of our risk transfer agreements to mitigate the impact of future occurrences.

The Windsor Village litigation case, which is a legacy claim for Cayman First Insurance, was finally concluded during 2013, and in the months immediately following. The net impact to the Group, which is reflected in the 2013 Financial Statements, was $0.8 million.

The combined impact of these two exceptional items was $2.74 million.

Business Development

The intense level of competition in both The Bahamas and Cayman resulted in fewer opportunities to write quality new business, without sacrificing our time-tested underwriting standards.

We did, however, manage to achieve a 2% growth in our top line during 2013, as compared to 2012, reflecting year-over-year growth in both markets.

Net Written Premiums grew marginally in The Bahamas, but declined slightly in Cayman, resulting in an essentially flat change year-over-year on a combined basis.

	2013	2012
Gross Written Premiums (GWP)	$161.3M	$157.8M
Net Written Premiums (NWP)	$61.5M	$61.7M

The Group's Net Underwriting Income increased by 4% to $24.8 million in 2013, compared to $23.8 million the prior year, despite a higher level of Claims spend in 2013.

In overall terms net property and casualty claims for 2013 were 15% higher than the prior year, finishing at $11.8 million compared to $10.2 million. The claims related to our Health business were only 1.4% higher in 2013 at $15.8 million compared to $15.6 million in 2012.

Both the Property and Casualty and Health business lines produced good technical results in 2013, notwithstanding the exceptional claims events described earlier, and we were able to deliver an Underwriting Profit in every line of business. The overall expense ratio increased from 33% in 2012, to 34% in 2013, and this resulted primarily from a non-recurring increase in operational expenses in the Bahamas business segment.

PROPERTY: The intense level of competition for business in The Bahamas was most acute in the Property Class. The gross premiums produced in The Bahamas from all segments of our property business declined by 4% in 2013, compared to 2012. The corresponding decline in both catastrophe and non-catastrophe aggregates was just over 3% which is evidence of the continuation of the trend that we have observed in the last few years, involving a shift by consumers towards non-catastrophe property covers.

In Cayman, we experienced a very different result in the property segment, as gross premiums increased by 12% in 2013, compared to the prior year. The Group's combined property business finished the year at $79 million, which is 2.5% lower when compared to 2012. The Underwriting profit generated by the property business in 2013 exceeded the prior year's result by a material margin, despite the May 2013 flooding event.

MOTOR/LIABILITY: The gross premiums generated by this line of business increased by 4% in 2013, compared to the prior year, in the Bahamian market. In Cayman, the 2013 premium was 5% down compared to 2012.

In overall terms, we generated gross premiums slightly in excess of $35 million which is essentially the same as last year's result. This resulted in a healthy Underwriting Profit in both locations and accounts for a significant portion of the overall Underwriting Profit.

During the year, we engaged a professional Actuarial firm to conduct a comprehensive review of our claims liabilities for this class, in The Bahamas. We are confident that the level of our case reserves and IBNR reserves are adequately stated. On a going forward basis, we will have a formal review of all claims liabilities for every class of business, commencing in 2014. This is in keeping with various pronouncements by the Insurance Commission of the Bahamas all of which indicate that it will be a requirement from 2015. In Cayman, the new Cayman Insurance legislation, which is scheduled to become effective in April 2014, will also make this a requirement, at some stage.

HEALTH: For the second year in a row the Health Account has generated positive Underwriting returns, with an ELR of 72.4%, compared to 70.7% for 2012. Our focus on price adequacy, efficient delivery of services and claims control continues to drive acceptable results from this class of business which generated gross premiums of $22 million in 2013, essentially flat compared to the prior year.

MARINE: The gross premiums generated from this class declined slightly in 2013 compared to 2012, but with an improved ELR, resulting in an increase in the Underwriting Income from this segment of our business. We are continuing our efforts to grow this class of business without jeopardizing the quality of the portfolio.

ENGINEERING: The gross premiums in this class declined in 2013 by 8% and the prevailing outlook for the short to mid-term suggests that growth opportunities will be limited and subject to intense competition.

The main feature of this class is the Contractors' All Risk Cover that Private and Commercial clients take up to protect their insurable interests in the related projects or works, but there has been a noticeable decline in new enquiries in this regard.

INVESTMENT & ASSET MANAGEMENT: Given the variety of challenges we face in the region, we are generally content with both the returns and portfolio development with respect to our investing activity. Our investment activities during the year were guided by the Board Approved Investment Policy Guidelines which mandates risk appropriate investments, in keeping with a high quality diversified portfolio.

The Group's investment return in 2013 was 11.6% higher than the prior year result. The total investment assets increased by 7.2% to $62 million, from the $58 million total recorded in 2012, primarily driven by increases in our Fixed Income Securities. Total Investment Income, including unrealized gains and (losses) on available for sale investments was $2.8 million in 2013, compared to $1.3 million in 2012.

During the year we accelerated the repayment of the loan with Cayman National Bank, with combined payments in 2013 amounting to $3.1 million. As a consequence of this, the outstanding balance was reduced to $1.1 million and will be repaid in full well ahead of schedule. Net Cash Flow from Operating activities was significantly higher in 2013, at $11.4 million compared to $7.4 million in 2012.

CAPITAL & RISK MANAGEMENT: The Group's total equity increased to $50.2 million in 2013, compared to $47.2 million in 2012, primarily as a result of the operational earnings generated during the year. The preservation of our capital base is a prime objective that significantly influences our decisions with regard to the Group's risk appetite and strategic endeavours.

We also take appropriate account of both the rating agencies and the statutory requirements within the respective jurisdictions in which we operate, as it relates to minimum or prescribed levels of risk capital. Our capital oversight actions are guided by our Board Approved Capital Plan, which we review annually.

A significant amount of effort was directed at the goal of ensuring that ERM was more firmly embedded in our day-to-day operations to ensure that our business activities reflect a risk-appropriate approach. In both The Bahamas and Cayman we continue to have substantially more than the minimum capital and solvency levels required in the respective jurisdictions.

Future Outlook

Reinsurance support is a key component of what we do, a reality that we have in common with our regional counterparts. The 2014 renewal exercise demonstrated that the markets that provide support to the Caribbean have abundant levels of capacity and this has resulted in what might be described as a fairly soft market. This is certain to have an impact on the pricing of policies across the major lines of business and a ratcheting up of the competitive threats. In response to these developments, we have determined that we will continue to target prudent organic growth opportunities in those instances where there is a value proposition for the Group. In this regard we intend to utilize, in a more comprehensive way, a number of portfolio management tools to assist in our assessment and pricing of both existing and new business.

PATRICK G. W. WARD
President & CEO

GLEN O. A. RITCHIE
Group VP & CFO

GROUP ACTIVITIES

MICHAEL GAYLE

CAYMAN FIRST

2013 WAS AN INTERESTING AND REWARDING YEAR FOR CAYMAN FIRST.

Having completed its fourth full year as a member of the Bahamas First family, CFI continues to make a significant contribution to the group's net underwriting income. This was achieved by a stronger performance in both the Property & Casualty sector and the Health side of CFI's business.

Like most regional and even worldwide economies, the Caymanian economy is facing challenges. It is in such a challenging environment that Cayman First operates, an environment which is simultaneously very competitive and relatively stagnant from a growth prospective. Nonetheless, there are encouraging signs of improved economic activity on the horizon which are a cause for further optimism.

The benefits of operating in two different countries continue to manifest themselves in various ways reinforcing CFI's presence and growing leadership position in the market.

The successful and seamless launch of the First Response Accident Scene assistance programme in April 2013 is representative of the steps that have been taken to establish a stronger CFI imprint in the Cayman insurance market.

By leveraging the experience gained by BFG in establishing the programme in The Bahamas, CFI was able to offer an enhanced version in Cayman, including coverage 24 hours per day, seven days per week and also including a one day claim processing guarantee.

Cross-training between the two territories is also being maintained as the Group continues to employ a best practices philosophy.

CFI's new Business Development Manager, Kahlill Strachan, spent a month with BFG and NUA in Nassau which has helped him in developing Business Development plans for CFI. This process will be continued in 2014 with further cross-training in both directions.

PROMOTIONS & ACHIEVEMENTS

STAFF DEVELOPMENT HAS BEEN PARAMOUNT in the history of the Bahamas First Group to ensure we continue to enhance our internal resources to meet ever changing and evolving market requirements. 2013 was an exceptional year in that regard with a number of staff rising in the ranks to assume greater roles or attaining new professional stature.

Tracy Bonczek who joined Bahamas First Corporate Services in 1999 and participated in the Future Leaders Development Programme (FLDP) from 2008-2010 was promoted to Technical and Reinsurance Manager, BFG.

Kevin Hudson who joined the Bahamas First in 1994 and who also graduated from the FLDP in 2010 was promoted to Business Development Manager, BFG.

Another graduate from the FLDP in 2010 **Gina Sands**, who joined the Company in 2006, was given added responsibility for NUA's Business Support Unit in addition to her role as Personal Lines Manager.

And NUA's **Rochelle Roberts** who joined the Company in 2008 was promoted to Technical Manager.

Two Company representatives were also elected as Associates of the Chartered Insurance Institute of London, UK last year. **Shakaria Moxey**, a Business Development Officer with BFG, and **Simone Henfield**, an Account Executive with NUA's Broking Unit, are now both entitled to use the designation ACII.

THE BOARD CONGRATULATES these staff members on their achievements and appreciates their ongoing commitment to the Company's continued growth and success. Through their efforts and those of others, Bahamas First will remain First in Insurance Today and Tomorrow.

FUTURE LEADERS DEVELOPMENT PROGRAMME GRADUATES – From L – R: Mr. Patrick Ward, Group President and CEO; Mrs. Area Wilson-Pratt, Technical Accounts, BFCS; Mr. Raymond Imhoff, Development Specialist, BFCS; Mrs. Criselle King, Claims Advisor, FRL; Ms. Drew-Erin Bartlett, CSR, Commercial Lines, NUA; and Ms. Bonnie Nguyen, Group HR & Training, Programme Coordinator.

The second cycle of the Company's Future Leaders Development Programme (FLDP) saw four more graduates in 2013. The innovative two year in-class training programme was introduced in 2008 to prepare employees for greater supervisory and management roles in the Company. With the graduating class of 2013, FLDP has seen 19 staff members become better prepared to assume increased leadership responsibilities and help ensure the Company stays on course for future growth and development.

The 2011-2013 graduating class included Criselle King, Claims Advisor, FRL; Raymond Imhoff, Development Specialist, BFCS; Drew-Erin Bartlett, Customer Service Representative, Commercial Lines, NUA; and Area Wilson-Pratt, Technical Accounts, BFCS.

FLDP sessions cover business related and legal topics; insurance and financial services; training sessions on leadership, supervision, communications, presentation and management skills; and generational issues.

Fifteen candidates are enrolled in the current programme and will complete their FLDP training in December 2015.

STAYING AHEAD IN THE COMMUNITY

The Bahamas First Group of Companies and its employees have a long history of active community involvement. The dedication of Bahamas First staff to the community was recognized in three ways last year by the Bahamas Human Resources Development Association.

Group Human Resources and Training Manager Bonnie Nguyen won the Association's prestigious HR Corporate Leader Award for her efforts in implementing a broad range of innovative programmes for Bahamas First staff; HR Officer Nicole Leary was nominated for the Rising Star Award; and the Bahamas First Group of Companies was awarded the Association's Corporate Citizenship Award for its outstanding contributions in assisting the Bahamian community with donations, resources and internal staff initiatives.

The Company is proud of its staff in both The Bahamas and Cayman for their selfless efforts in enriching the lives of so many. Many organizations in The Bahamas and Cayman as well as various sports, school and church clubs benefited from Group and employee involvement in 2013.

In The Bahamas they included:

- Bahamas Air Sea Rescue Association
- Bahamas Technical and Vocational Institute
- Bahamas Red Cross Society
- Cancer Society of the Bahamas
- International Cultural Festival
- Junior Achievement Bahamas
- New Vision Outreach & Community Services
- North Eleuthera Community Youth Programme
- Persis Rodgers Home for the Aged
- Physically Challenged Children's Committee

- Ranfurly Home for Children
- Rotary Club
- Royal Bahamas Police Force
- Special Olympics Bahamas First Corporate Services
- The Bahamas Children's Emergency Hostel

In Cayman, support was provided to:

- Ark Foundation
- Cayman Breast Cancer Foundation
- Cayman Hospice Care
- Cayman Islands Diabetes Association
- Cayman Islands Marathon
- Cayman Islands Netball Association
- Cayman Islands Red Cross
- Cayman Islands Veterans Association
- Lighthouse School
- RCIPS Welfare Fund
- Suicide Prevention Workshop
- Youth Development Basketball Program
- 2013 Healthcare 20/20 Conference

The Board is proud of, and would like to thank, the many employees who, so unselfishly, give so much to the communities in which we work and live.

THE MITASA TEAM – From L – R: Gina Sands, Personal Lines Manager, Jamaal Davis, Network Engineer and MITASA Team Leader, Andalino Sands, Project Coordinator and Rovan Humes, First Response Supervisor.

MITASA (Making Information Technology A Strategic Advantage), the team that was formed to create lasting strategic advantages for the Group using IT as a platform, has been involved in two major projects over the past year - the Temporary Motor Certificate (TMC) solution and the discovery phase of a Business Process Management (BPM) initiative for both NUA and First Response.

Stemming from a direct need to gain more control over the issuance of cover notes by authorized agents, the TMC solution was launched in October of 2013 and has received accolades by all of BFG's agents as a part of an ongoing exercise for improvement.

Using intranet capabilities through the use of an online portal, the MITASA team developed an electronic temporary solution, facilitating the underwriting of motor certificates as a contingency to loss of privileges through the primary underwriting solution, connecting agencies and their subagents to the underwriters at Bahamas First.

A digital 'smart' registration form for the TMC solution facilitates automated approvals and rejections including referrals for special case scenarios for the release of a certificate.

BPM is designed to effectively align business processes with client needs.

Phase one which is still underway has involved the MITASA team reviewing the business processes in NUA and First Response to determine those that are measurable, essential and identifiable. Its discoveries will lead to opportunities for improvement, increased efficiency and innovation of business processes, ranging from workflow design, to information systems, to human resources.

MITASA is leading the charge of innovation and efficiency, building the platform for effectual change with customer satisfaction as the epicenter for success.

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 also Chairman of the Bahamas International Securities Exchange and Chairman of Butterfield Trust (Bahamas) Limited.

JOHN A.G. DUNKLEY DIRECTOR

Mr. Dunkley has been a Director since 1996. He was President and Managing Director of N.U.A. Insurance Brokers & Agents Ltd. 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.

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.

LINDA GOSS DIRECTOR

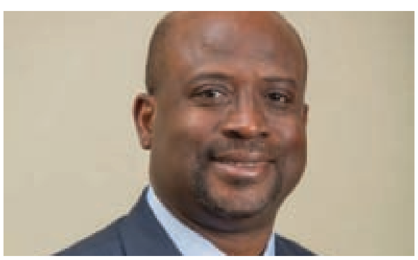
Ms. Goss who was appointed a Director in March 2014 is Senior Vice President and Chief Actuary for Economical Mutual Insurance Company (Economical). She joined Economical in July 2000 as the assistant vice-president, actuarial services and became vice-president, actuarial services in July 2001.

KAREN GAVAN DIRECTOR

A Director since June 2011, Ms. Gavan is President and Chief Executive Officer of Economical Mutual Insurance Company. She has 30 years of experience in the Canadian financial services industry. Ms. Gavan was formerly the Chief Operating Officer of Transamerica Life Canada and AEGON Fund Management Inc.

ALISON TRECO DIRECTOR

Ms. Treco was appointed as a Director of the Bahamas First Holdings Limited and several of its subsidiary companies boards in 2012. Ms. Treco previously served on the Audit Committee of Bahamas First Holdings Limited. She is a Director of FT Consultants Ltd., a firm specializing in accounting advisory services.



PATRICK G.W. WARD DIRECTOR

Group President & 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 and Bahamas First Corporate Services Ltd.

GLEN O. A. RITCHIE DIRECTOR

Vice President & CFO

Mr. Ritchie was appointed as a Director of BFH in May 2012. He is Vice President and CFO of BFH, overseeing all financial, information technology and risk management related functions within the Group. Prior to joining BFH, he held a number of senior management and leadership roles in both banking and insurance institutions in The Bahamas.

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.

BFG BOARD OF DIRECTORS – From L – R (Seated): Karen Gavan, Pauline Ward, Alison Treco; (Standing) Glen Ritchie, Ian Fair, Patrick Ward, Bryan Murphy.

NUA Insurance Agents & Brokers Ltd.

Given the saturation of our current operating environment and competitive threats imposed by new entrants into our market, one of NUA's strategic goals is to seek acquisition opportunities. To this end, NUA successfully concluded the acquisition of the Bethel Thompson Agency in 2013, having surpassed the retention threshold of 85% of the portfolio of business. NUA also acquired the portfolio of our long time sub-agent, Joshua Culmer, to preserve this revenue stream.

In light of diversifying NUA's sources of income and the competitive environment, NUA entered into a Co-Broking Agreement with Lampkin & Co. (L &C), after receiving approval from the Insurance Commission of the Bahamas to transact Long-term business. L&C specializes in Group Health and Life insurance products. The relationship with L & C is a symbiotic one, in that they refer general insurance business to NUA and we in turn, through cross-selling to our existing customer base, provide referrals to L & C.

WARREN ROLLE
Managing Director

STANFORD CHARLTON
Assistant Managing Director

The above developments, along with the launch of NUA's customer service initiative, P.R.I.D.E. (Personal Responsibility In Delivering Excellence), among others, augurs well for the continued growth and development of the Agency.

FINANCIAL STATEMENTS

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

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, 2013, the consolidated statement of profit or loss and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated 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 about 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 Bahamas First Holdings Limited as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

April 1, 2014

A member firm of
Deloitte Touche Tohmatsu

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

ASSETS	Notes	2013	2012
Cash		$ 15,230,928	$ $10,641,297
Term deposits	6	5,435,219	6,841,478
Trade accounts receivable, net	4,9,24	24,842,250	26,103,831
Sundry receivables and prepayments	24	2,325,198	2,882,059
Deferred commission costs	10	5,123,837	4,671,507
Deferred reinsurance premiums	10	39,547,385	37,717,928
Unpaid claims recoverable from reinsurers	4,11	20,689,232	23,543,113
Provision for litigation recoverable	12	1,180,925	-
Investments	7	40,911,171	39,977,743
Investment in associate	8	526,796	463,790
Property and equipment	4,13	11,129,171	10,930,308
Intangible assets and goodwill	4,15	11,777,892	11,964,539
TOTAL		**$ 178,720,004**	**$ 175,737,593**
LIABILITIES & EQUITY			
Liabilities:			
Accrued liabilities		$ 2,495,391	$ 1,905,100
Trade accounts payable		6,015,373	2,356,136
Unearned commission income	10	8,405,409	8,605,973
Unearned premiums	10	55,546,157	53,729,518
Unpaid claims	4,11	38,459,480	40,448,568
Provision for litigation	4,12	1,260,000	1,460,125
Loan payable	14	1,108,517	4,749,839
Bonds payable	16	15,248,438	15,248,438
Total liabilities		**128,538,765**	**128,503,697**
Equity:			
Common shares	17	365,055	365,055
Preference shares	17	5,000,000	5,000,000
Contributed surplus	14	14,884,862	14,882,944
Treasury shares	17	(497,886)	(497,886)
General reserve	18	4,000,000	4,000,000
Revaluation reserve	19	3,305,663	2,630,725
Retained earnings		20,669,311	18,119,809
Total equity attributable to owners of the parent		47,727,005	44,500,647
Non-controlling interest		2,454,234	2,733,249
Total equity		**50,181,239**	**47,233,896**
TOTAL		**$ 178,720,004**	**$ 175,737,593**

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on March 27, 2014 and are signed on its behalf by:

Chairman
Ian D. Fair

Director
Patrick G. W. Ward

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

	Notes	2013	2012
UNDERWRITING INCOME:			
Gross premiums written	20,24	$ 161,319,128	$ 157,796,008
Movement in unearned premiums	10	(1,816,639)	(2,113,324)
		159,502,489	**155,682,684**
Premiums ceded to reinsurers		(99,828,438)	(96,089,318)
Movement in deferred reinsurance premiums	10	1,829,457	1,047,890
Net premiums earned		61,503,508	60,641,256
Commission income		23,368,864	22,478,671
Total underwriting income		**84,872,372**	**83,119,927**
UNDERWRITING EXPENSES:			
Net claims incurred	11	27,607,757	25,818,303
Commission expense	24	14,487,191	15,460,716
Cost of excess of loss reinsurance		14,771,074	14,877,280
Premium tax		3,183,242	3,128,551
Total underwriting expenses		**60,049,264**	**59,284,850**
Net underwriting income		**24,823,108**	**23,835,077**
OTHER EXPENSES:			
Salaries, benefits and bonuses	22,23,24	11,026,625	10,839,238
General and administrative expenses		10,100,797	8,969,507
Total other expenses		21,127,422	19,808,745
NET TECHNICAL RESULTS		**3,695,686**	**4,026,332**
MOVEMENT IN PROVISION FOR LITIGATION	12	(3,246,151)	(685,545)
LITIGATION RECOVERY	12	2,442,404	515,728
UNREALIZED GAIN (LOSS) ON INVESTMENT	7	598,041	(769,860)
OTHER INCOME, NET	21	2,277,214	2,054,786
PROFIT FOR THE YEAR		**5,767,194**	**5,141,441**
ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		5,734,183	4,565,013
NON-CONTROLLING INTEREST		33,011	576,428
		$ 5,767,194	$ 5,141,441
BASIC AND DILUTED EARNINGS PER COMMON SHARE	**17**	$ **0.16**	$ **0.13**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

	Notes		2013		2012
PROFIT FOR THE YEAR		**$**	**5,767,194**	**$**	**5,141,441**
OTHER COMPREHENSIVE INCOME					
Item that will not be reclassified subsequently to profit or loss:					
Revaluation of land and buildings	13,19		1,091,426		-
			1,091,426		-
Items that may be reclassified subsequently to profit or loss:					
Reclassification adjustment of available-for-sale investment	19,21		(145,418)		-
Unrealized (loss) gain on available-for-sale investments	7,19		(271,070)		547,876
			(416,488)		547,876
OTHER COMPREHENSIVE INCOME FOR THE YEAR			674,938		547,876
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		$	**6,442,132**	$	**5,689,317**
ATTRIBUTABLE TO:					
OWNERS OF THE PARENT			6,467,329		5,035,039
NON-CONTROLLING INTEREST			(25,197)		654,278
		$	$6,442,132	$	5,689,317

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2013, 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 January 1, 2012	**$ 365,055**	**$5,000,000**	**$ 14,882,944**	**$ (256,316)**	**$ 4,000,000**	**$ 2,082,849**	**$ 15,790,701**	**$ 2,078,971**	**$ 43,944,204**
Profit for the year	-	-	-	-	-	-	4,487,163	654,278	5,141,441
Other comprehensive income (Notes 7,19)	-	-	-	-	-	547,876	-	-	547,876
Total comprehensive income	-	-	-	-	-	547,876	4,487,163	654,278	5,689,317
Repurchase of common shares (Note 17)	-	-	-	(241,570)	-	-	-	-	(241,570)
Preference shares dividend paid (Note 17)	-	-	-	-	-	-	(350,000)	-	(350,000)
Dividends paid ($0.05 per common share) (Note 17)	-	-	-	-	-	-	(1,808,055)	-	(1,808,055)
Balance at December 31, 2012	**365,055**	**5,000,000**	**14,882,944**	**(497,886)**	**4,000,000**	**2,630,725**	**18,119,809**	**2,733,249**	**47,233,896**
Profit (loss) for the year	-	-	-	-	-	-	5,792,391	(25,197)	5,767,194
Other comprehensive income (Notes 7,13,19)	-	-	-	-	-	674,938	-	-	674,938
Total comprehensive income (loss)	-	-	-	-	-	674,938	5,792,391	(25,197)	6,442,132
Dividends paid by CFI	-	-	-	-	-	-	-	(247,250)	(247,250)
Sale of shares in CFI	-	-	-	-	-	-	-	(4,650)	(4,650)
Change in shareholders' interest in CFI (Note 14)	-	-	1,918	-	-	-	-	(1,918)	-
Preference shares dividend paid (Note 17)	-	-	-	-	-	-	(350,000)	-	(350,000)
Dividends paid ($0.08 per common share) (Note 17)	-	-	-	-	-	-	(2,892,889)	-	(2,892,889)
Balance at December 31, 2013	**$ 365,055**	**$ 5,000,000**	**$ 14,884,862**	**$ (497,886)**	**$ 4,000,000**	**$ 3,305,663**	**$ 20,669,311**	**$ 2,454,234**	**$ 50,181,239**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

CASH FLOWS FROM OPERATING ACTIVITIES:	Notes	2013	2012
Profit for the year		$ 5,767,194	$ 5,141,441
Adjustments for:			
Depreciation	13	1,163,484	1,275,791
Amortization of intangible assets	15	186,647	138,573
Amortization of premiums and discounts on bonds	7,21	180,877	124,956
Share of net earnings of associate	8,21	(63,006)	(90,910)
Reclassification adjustment of AFS Investment	21	(145,418)	-
Realized gains on sales of investments	7,21	(2,615)	-
Unrealized (gain) loss on investment	7	(598,041)	769,860
Loss (income) attributed to non-controlling interest		25,197	(654,278)
Gain on disposal of property and equipment	21	(9,000)	(21,497)
Profit from operations		**6,505,319**	**6,683,936**
Decrease in trade accounts receivable, net		1,261,581	876,266
Decrease (increase) in sundry receivables and prepayments		556,861	(160,543)
(Increase) decrease in deferred commission costs	10	(452,330)	545,574
Increase in deferred reinsurance premiums	10	(1,829,457)	(1,511,768)
Increase in provision for litigation recoverable		(1,180,925)	-
Increase (decrease) in accrued liabilities		590,291	(343,282)
Increase (decrease) in trade accounts payable		3,659,237	(2,460,184)
(Decrease) increase in unearned commission income	10	(200,564)	409,757
Increase in unearned premiums	10	1,816,639	2,113,324
Increase in net unpaid claims	11	864,793	661,640
(Decrease) increase in provision for litigation	12	(200,125)	564,836
Net cash from operating activities		**11,391,320**	**7,379,556**

See notes to consolidated financial statements.

(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

CASH FLOWS FROM INVESTING ACTIVITIES:	**Notes**		**2013**		**2012**
Purchase of property and equipment	13	$	(270,921)	$	(310,492)
Proceeds from sale and maturity of investments	7		3,939,367		2,000,000
Purchase of investments	7		(4,724,086)		(4,533,000)
Proceeds from disposal of property and equipment			9,000		53,201
Acquisition of customer relationships	15		-		(725,000)
(Increase) decrease in term deposits maturing after ninety days	6		(2,099,024)		846,596
Net cash used in investing activities			**(3,145,664)**		**(2,668,695)**
CASH FLOWS FROM FINANCING ACTIVITIES:					
Preference shares dividend paid	17		(350,000)		(350,000)
Change in non-controlling interest			(279,015)		654,278
Common shares dividend paid	17		(2,892,889)		(1,808,055)
Repurchase of common shares	17		-		(241,570)
Repayments of loan payable			(3,641,322)		(472,973)
Equity transactions between non-controlling interest	14		1,918		-
Net cash used in financing activities			**(7,161,308)**		**(2,218,320)**
NET INCREASE IN CASH AND CASH EQUIVALENTS			1,084,348		2,492,541
CASH AND CASH EQUIVALENTS:					
BEGINNING OF YEAR			14,146,580		11,654,039
END OF YEAR		$	**15,230,928**	$	**14,146,580**
CASH AND CASH EQUIVALENTS ARE COMPRISED OF:					
Cash		$	15,230,928	$	10,641,297
Term deposits maturing within ninety days	6		-		3,505,283
		$	**15,230,928**	$	**14,146,580**
SUPPLEMENTAL CASH FLOW DISCLOSURES:					
Interest received		$	1,674,157	$	1,522,634
Dividends received		$	543,866	$	531,570
Interest expense paid		$	1,131,622	$	1,235,208

See notes to consolidated financial statements.

(Concluded)

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

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")
- Cayman First Insurance Company Limited ("CFI")

Registered insurance agencies:
- Nassau Underwriters Agency Insurance Agents & Brokers Ltd. ("NUA")
- Carib Insurance Brokers & Agents Limited ("CIA")

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 1, 2010. Sagicor General Insurance (Cayman) Ltd. was renamed Cayman First Insurance Company Limited on August 4, 2010.

In May 2011, BFHIL participated in a rights issue and increased its equity holding in CFI to 83.48%. In May 2013, BFHIL acquired 500 shares from minority shareholders, further increasing its holding to 83.52%.

Effective January 1, 2012, the assets and liabilities of General Brokers & Agents Insurance Limited ("GBA") were combined with NUA. NUA is now the operating company.

During 2012, both GBA and Moseley Burnside Insurance Agency Limited ("MBI") commenced preparatory steps for the process of voluntary liquidation. As at December 31, 2013, the key legal steps for voluntary liquidation have been executed and GBA and MBI are no longer under the control of the Group.

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)

In the current year, there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB effective for annual reporting periods beginning on or after January 1, 2013.

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

IFRS 7 (Amended) Offsetting Financial Assets and Financial Liabilities
IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurements
IAS 1 (Amended) Presentation of Items of Other Comprehensive Income
IAS 16 (Amended) Property, Plant and Equipment
IAS 19 (Revised 2011) Employee Benefits
IAS 27 (Revised 2011) Separate Financial Statements
IAS 28 (Revised 2011) Investments in Associates and Joint Ventures
IAS 32 (Amended) Classification of Rights Issue
IAS 34 (Amended) Interim Financial Reporting

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

IFRS 9 (Amended) Financial Instruments
IFRS 10, IFRS 12 and IAS 27 (Amendments) Investment Entities
IAS 32 (Amended) Offsetting Financial Assets and Financial Liabilities
IAS 36 (Amended) Recoverable Amount Disclosures for Non-Financial Assets

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

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 certain investments measured 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. Control exists when the Company has the power, directly or indirectly, to govern financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the potential voting rights that presently are exercisable or convertible are taken into account. 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. Company shares held by a subsidiary are classified as Treasury shares and are included in the consolidated statement of changes in equity at the price paid to acquire them. 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 combinations** – 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 is 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 recognize 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 and redeemable fixed rate note 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 profit or loss and other comprehensive income until the investments are disposed of or are determined to be permanently impaired, at which time the cumulative gain or loss previously 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 profit or loss and other 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 profit or loss and other comprehensive income when it is derecognized or impaired, as well as through the amortization process.

f. **Trade accounts receivable** – Trade accounts receivable is 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 profit or loss and other comprehensive income as an expense as incurred.

Depreciation is charged to the consolidated statement of profit or loss and other 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.

Any depreciation accumulated on an asset at the date of revaluation is eliminated against the gross carrying amount of the asset and the resulting net amount restated to the revalued amount of the asset. The accumulated depreciation is reduced or eliminated, and any remaining surplus is used to increase cost.

h. **Intangible assets and goodwill** – On acquisition of an investment in an associate/subsidiary any goodwill arising (i.e., the excess of the cost of the investment over the investor's share of the net fair value of the identifiable assets, liabilities and contingent liabilities) is accounted for as follows:

(i) goodwill is included in the carrying amount of the investment for associate and is neither amortized nor individually tested for impairment. For subsidiaries, it is included as goodwill in the consolidated statement of financial position, and is tested for impairment at least annually.

(ii) other intangible assets identified on acquisition of a subsidiary 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 profit or loss and other 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 of 15-20 years, and is included in general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income. An intangible asset with an indefinite useful life is not amortized, but tested for impairment at least annually.

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.

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 profit or loss and other 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 profit or loss and other 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 ("P&C") 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 ("H&L") 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.

The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term recoverables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense over the period of the contract.

The Company assesses its reinsurance assets for impairment on an ongoing basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the consolidated statement of profit or loss and other comprehensive income.

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 an 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 profit or loss and other comprehensive income.

l. **Policy acquisition 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 accrual 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. **Investment premiums and discounts** – Premiums and discounts arising on acquisition of fixed income securities are amortized over the period remaining to maturity and are recognized in Other Income, net in the consolidated statement of profit or loss and other comprehensive income.

o. **Cash and cash equivalents** – Cash and cash equivalents consist of cash on hand and deposits with banks maturing within ninety days from the date of acquisition.

p. **Borrowings** – Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statement of profit or loss and other comprehensive income over the period of borrowing using the effective rate method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan and are capitalized, and included in sundry receivables and prepayments in the consolidated statement of financial position. Capitalized fees are amortized over the period of the facility to which it relates, and are included in general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

q. **Share capital** – Shares are classified as equity when there is no obligation to transfer cash or other assets. Share capital is comprised of common and preference shares. The preference shares are non-voting and redeemable at the option of the Company. When common shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction in equity.

r. **Foreign currency translation** – The Group's functional and presentation currency is the Bahamian dollar. 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. Adjustments resulting from the translation of the statement of financial position of the foreign operation are included in other comprehensive income (loss) in the consolidated statement of profit or loss and other comprehensive income.

s. **Related parties** – Related parties include:

- Key Management Personnel, close family members of Key Management Personnel, and entities which are controlled individually and/or jointly, or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members; or

- Non-Key Management Personnel who have significant influence over the Group and their close family members. Non-Key Management Personnel who control in excess of 10% of the outstanding common shares are considered to have significant influence over the Group.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the Officers and Directors.

Close family members include the spouse of Key and Non-Key Management Personnel and the children and dependents of Key and Non-Key Management personnel or their spouse.

t. **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 profit or loss and other comprehensive income.

u. **Share-based payments** – The Company has a share option plan for executives and on occasion a share subscription offer for non management employees. When the options are exercised the Company issues new shares and the proceeds received are credited to common shares and contributed surplus in the consolidated statement of changes in equity.

v. **Earnings per share** – Earnings per share is computed by dividing the profit attributable to the common shareholders by the weighted average number of common shares outstanding during the year. The weighted average number of common shares outstanding during the year is the number of common shares outstanding at the beginning of the period, adjusted by the number of common shares repurchased or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the year. There is no material difference between basic earnings per share and fully diluted earnings per share.

w. **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.

x. **Taxation** – Subsidiaries of the Group operating in The Bahamas are subject to tax on taxable gross premium income at the flat rate of 3% (2012: 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.

y. **Segment reporting** – In identifying its operating segments, management generally follows the Group's business operating activities by geographic location (Bahamas & Cayman). The Bahamas' segment includes general insurance only and Cayman's segment includes both general insurance and health and group life. General insurance comprises fire, motor, marine, engineering and general accident. The health and life insurance segment includes group life and medical insurance.

z. **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.

The provision for unpaid claims is necessarily based on estimates due to the fact that ultimate disposition of claims incurred prior to the date of the consolidated statement of financial position, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include, inter alia, jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, changes in medical costs and the cost of automobile and property repair materials and labour rates.

Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. Management estimates and judgments are based on the Company's claims experience, relevant circumstances and/or advice from legal counsel.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within one to three months after the claims event. Health claims are normally reported within three months of the event and are usually settled within days of being reported.

Information for long-tail claims such as casualty claims for bodily injury, general third party liability, employers' liability, workmen's compensation and long term disability may not be readily available. The provision for the long-tail claims is continually evaluated by management and is based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Group does not establish provisions for catastrophes (such as natural disasters) in advance of the occurrence of such events. These events can cause significant volatility in the Group's level of incurred losses and the provision for unpaid claims.

The impact of critical accounting estimates and judgments on the ultimate liability arising from claims made under insurance contracts is partially mitigated through relief arising from reinsurance contracts held.

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 $38,459,480 (2012: $40,448,568). The amount of reinsurance recoveries estimated at the consolidated statement of financial position date is $20,689,232 (2012: $23,543,113).

Refer to Note 11 for further information on the provision for unpaid claims.

ii. Impairment of goodwill and intangible assets

Determining whether goodwill or intangible assets are impaired requires an estimation of (a) the value in use or (b) the fair value less costs to sell of the cash-generating unit or group of units to which the value has been allocated:

a) 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.

b) The 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 $11,777,892 (2012: $11,964,539).

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

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 is 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"); (2) clients of the Group's agency subsidiaries ("policyholders' receivables"); and (3) amounts receivable from reinsurers based on the benefits the Group is entitled to under its reinsurance contracts held ("reinsurers' receivables").

Provisions are recorded for policyholders' receivables as follows:

Over 6 months	10% provision
Over 9 months	20% provision
Over 1 year	100% provision

The carrying value at the consolidated statement of financial position date for trade accounts receivable, net was $24,842,250 (2012: $26,103,831).

iv. **Provision for litigation**

CFI has, for a number of years, been involved in protracted litigation issues relating to a Hurricane Ivan claim (the "Windsor Village litigation"), certain aspects of which have progressed through the Grand Court of the Cayman Islands, the Cayman Islands Court of Appeal, the Judicial Committee of the Privy Council in the UK, and negotiated settlements with the third parties.

As at December 31, 2013, the provision for litigation in the consolidated statement of financial position is based upon a negotiated settlement agreed on February 26, 2014, which effectively concludes the Windsor Village litigation.

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

v. **Depreciation**

Depreciation is based on management estimates of the future useful life of property and equipment. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the depreciation charges. The Company reviews the future useful life of property and equipment periodically, taking into consideration the factors mentioned above and all other important factors. In case of significant changes in the estimated useful lives, depreciation charges are adjusted prospectively.

vi. **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.

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 Group's Internal Audit Department reviews the risk management policies and processes and reports their findings directly to the Audit Committee. The Audit Committee oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks that face the Group. The committees report regularly to the Board of Directors on their activities.

The Group has exposures to risks that may develop in each class of business within each operating segment and 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 reinsurers. 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 obligated 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 or widespread changes in lifestyle, 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.

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

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

		2013		2012
Financial assets:				
Cash and term deposits	$	20,666,147	$	17,482,775
Investments:				
Held-to-maturity		4,459,000		4,459,000
At fair value through profit or loss		12,528,163		12,066,697
Available-for-sale		23,924,008		23,452,046
Loans and receivables:				
Trade accounts receivable, net		24,842,250		26,103,831
Other receivables*		1,311,299		1,927,660
Total financial assets		**87,730,867**		**85,492,009**
Non-financial assets		**90,989,137**		**90,245,584**
Total assets	$	**178,720,004**	$	**175,737,593**
Financial liabilities:				
Payables at amortized cost:				
Trade accounts payable, accrued expenses and other liabilities	$	8,510,764	$	4,261,236
Bonds and loan payable		16,356,955		19,998,277
Total financial liabilities		**24,867,719**		**24,259,513**
Non-financial liabilities		**103,671,046**		**104,244,184**
Total liabilities	$	**128,538,765**	$	**128,503,697**

* excludes prepaid expenses of $1,013,899 (2012: $954,399)

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, equity 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.

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

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

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:

		2013		2012
Held-to-maturity securities:				
Bahamas Government Registered Stocks	$	4,459,000	$	4,459,000
Available-for-sale securities:				
Fixed income debt securities		18,817,286		18,799,248
Mutual funds		2,081,722		1,652,798
Preference shares		3,025,000		3,000,000
Loans and receivables:				
Trade accounts receivable		26,989,232		27,535,539
Other receivables		1,311,299		1,927,660
Reinsurers' share of provision for unpaid claims		20,689,232		23,543,113
Cash and term deposits		20,666,147		17,482,775
Total	$	**98,038,918**	$	**98,400,133**

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).

		2013		2012
AAA	$	514,699	$	532,815
AA		2,094,656		4,178,429
A		9,237,149		9,527,305
BBB		7,690,586		7,159,699
Not rated		3,739,196		1,860,000
Total debt securities	$	**23,276,286**	$	**23,258,248**

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:

		Neither past due nor impaired		Past due but not impaired		Impaired		Total
At December 31, 2013								
Held-to-maturity debt securities	$	4,459,000	$	-	$	-	$	4,459,000
Available-for-sale debt securities		23,924,008		-		-		23,924,008
Loans and receivables:								
Trade accounts receivable		18,033,517		6,808,733		2,146,982		26,989,232
Other receivables		1,311,299		-		-		1,311,299
Reinsurers' share of provision for unpaid claims		20,689,232		-		-		20,689,232
Cash and term deposits	$	20,666,147	$	-	$	-	$	20,666,147
Total assets exposed to credit risk	$	**89,083,203**	$	**6,808,733**	$	**2,146,982**	$	**98,038,918**

At December 31, 2012	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Held-to-maturity debt securities	$ 4,459,000	$ -	$ -	$ 4,459,000
Available-for-sale debt securities	23,452,046	-	-	23,452,046
Loans and receivables:				
Trade accounts receivable	17,293,834	8,809,997	1,431,708	27,535,539
Other receivables	1,877,660	50,000	-	1,927,660
Reinsurers' share of provision for unpaid claims	23,543,113	-	-	23,543,113
Cash and term deposits	17,482,775	-	-	17,482,775
Total assets exposed to credit risk	**$ 88,108,428**	**$ 8,859,997**	**$ 1,431,708**	**$ 98,400,133**

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 and fluctuating financial instruments, which the Group intends to hold for the long-term.

The Group's investment in fixed income debt securities, money market fund, cash and cash equivalents, and its loan and bonds payables are all subject to interest rate risk. Fluctuations in interest rates impact the level of gains and losses on the Group's interest bearing financial instruments. The coupon rates associated with the fixed income debt securities held by the Group range from 2.60% to 8.50% (2012: 2.60% to 8.50%). The underlying debt securities of the money market fund may be affected by changes in interest rates. The Group's loan payable is at a rate of 1.50% above U.S. prime rate (effective rate: 4.75%). Interest on the Series I and II bonds payable are at B$ prime rate plus 1.75% and 2.00%, respectively (effective rate 6.50% and 6.75%, respectively).

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	5.0% (2012: 6.2%)
Cash, term deposits and money market funds	1.6% (2012: 1.2%)

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.

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

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, 2013 and 2012:

		Cash flows		
2013 Financial liabilities	**Total**	**< 1 year**	**1 - 5 years**	**> 5 years**
Accrued expenses and other liabilities	$ 2,495,391	$ 2,454,490	$ 40,901	$ -
Trade accounts payable	6,015,373	6,015,373	-	-
Provision for litigation	1,260,000	1,260,000	-	-
Loan payable	1,108,517	639,881	468,636	-
Bonds payable	15,248,438	248,438	-	15,000,000
Total undiscounted cash flows	**$ 26,127,719**	**$ 10,618,182**	**$ 509,537**	**$ 15,000,000**

		Cash flows		
2012 Financial liabilities	**Total**	**< 1 year**	**1 - 5 years**	**> 5 years**
Accrued expenses and other liabilities	$ 1,905,100	$ 1,864,947	$ 40,153	$ -
Trade accounts payable	2,356,136	2,356,136	-	-
Provision for litigation	1,460,125	1,460,125	-	-
Loan payable	4,749,839	460,593	2,080,138	2,209,108
Bonds payable	15,248,438	248,438	-	15,000,000
Total undiscounted cash flows	**$ 25,719,638**	**$ 6,390,239**	**$ 2,120,291**	**$ 17,209,108**

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 investments.

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

Sensitivity factor	**Description of sensitivity factor applied**
Interest rates – cash and cash equivalents	The impact of a change in market interest rates by 1%
Underwriting expenses	The impact of a change in underwriting expenses by 5%
Loss ratio	The impact of a change in loss ratio by 5%

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

December 31, 2013	Interest rates		Underwriting expenses		Loss ratio	
In $	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	190,745	(190,745)	(1,622,075)	1,622,075	(3,075,175)	3,075,175
Impact on equity	460,940	(460,940)	(1,622,075)	1,622,075	(3,075,175)	3,075,175

December 31, 2012	Interest rates		Underwriting expenses		Loss ratio	
In $	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	166,598	(166,598)	(1,673,327)	1,673,327	(3,032,063)	3,032,063
Impact on equity	576,455	(576,455)	(1,673,327)	1,673,327	(3,032,063)	3,032,063

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 equity 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 (2012:10%) and a 10% decrease (2012:10%) in equity prices at the date of the statement of financial position are set out below:

At December 31, 2013		Carrying Value		Effect on profit and equity +10%		Effect on profit and equity -10%
Listed on stock exchanges/markets	$	12,528,163	$	1,252,816	$	(1,252,816)
Listed/unlisted mutual funds		2,081,722		208,173		(208,173)
Total	$	**14,609,885**	$	**1,460,989**	$	**(1,460,989)**
At December 31, 2012						
Listed on stock exchanges/markets	$	12,066,697	$	1,206,670	$	(1,206,670)
Listed/unlisted mutual funds		1,652,798		165,280		(165,280)
Total	$	**13,719,495**	$	**1,371,950**	$	**(1,371,950)**

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 maximize returns for shareholders;
- 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 regulatory capital requirements 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.

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

6. TERM DEPOSITS

Term deposits are denominated in Bahamian and United States dollars with an average interest rate of 2.85% (2012: 1.42%) per annum at the consolidated statement of financial position date.

		2013		2012
Term deposits maturing within ninety days	$	-	$	3,505,283
Term deposits maturing after ninety days		5,435,219		3,336,195
Total	$	**5,435,219**	$	**6,841,478**

7. INVESTMENTS

		2013		2012
Held-to-maturity:				
Bahamas Government Registered Stocks – at amortized cost				
Unrestricted	$	$3,459,000	$	$3,459,000
Restricted		1,000,000		1,000,000
Total held-to-maturity		**4,459,000**		**4,459,000**
At fair value through profit or loss:				
Bahamas International Securities Exchange Limited (BISX)				
12 (2012: 12) common shares – at cost $130,556				
(2012: $130,556) less impairment		5,557		5,557
Commonwealth Bank Limited				
1,812,244 (2012: 1,833,000) common shares				
Cost $2,242,876 (2012: $2,268,564)		12,522,606		12,061,140
Total at fair value through profit or loss		**12,528,163**		**12,066,697**
Available-for-sale:				
Fixed income debt securities, at fair value;				
amortised cost $18,408,267 (2012: $18,042,314)		18,817,286		18,799,248
Mutual funds, at fair value;				
cost less impairment $2,014,267 (2012: $1,516,772)		2,081,722		1,652,798
Preference shares, at fair value		3,025,000		3,000,000
Total available-for-sale		**23,924,008**		**23,452,046**
Total investments	$	**$40,911,171**	$	**$39,977,743**

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 Prime, with interest rates ranging from 4.77% to 4.94% per annum (2012: 4.77% to 4.94%) and scheduled maturities between 2015 and 2030 (2012: 2015 and 2030) at the date of the consolidated statement of financial position. The investments are carried at amortized cost as the Group has the intent and ability to hold them to maturity. In 2011, in accordance with the Insurance Act 2005 (Amended 2009), and regulations 61 and 62 of the Insurance (General) Regulations 2010, the Group established a Trust Account (the "BFG Trust") in which $1,000,000 of the Bahamas Government Registered Stocks have been placed in Trust. This amount is restricted for regulatory purposes but the interest income accrues to the Group.

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

The investment in Commonwealth Bank Limited (the "Bank") was valued at $6.91 (2012: $6.58) per share, which is the listed price at the date of the consolidated statement of financial position on the Bahamas International Securities Exchange ("BISX"). As a result, the Group recorded an unrealized gain of $598,041 (2012: unrealized loss of $769,860). The amortized cost and fair value of available-for-sale fixed income debt securities held at December 31, 2013 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 2.60% to 8.50% (2012: 2.60% to 8.50%) per annum at the date of the consolidated statement of financial position.

	2013		2012	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Available For Sale Cost/Fair Value				
Due in less than 1 year	$ 2,626,854	$ 2,683,071	$ 1,989,898	$ 2,012,862
Due from 1 through 5 years	9,799,616	10,014,364	9,359,560	9,774,834
Due after 5 years	5,981,797	6,119,851	6,692,856	7,011,552
Total	$ **18,408,267**	$ **18,817,286**	$ **18,042,314**	$ **18,799,248**

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

Available For Sale by Type	**2013**	**2012**
Corporate debt securities	$ 15,539,210	$ 14,309,207
Government debt securities	3,258,076	4,470,041
Other debt securities	20,000	20,000
Total	$ **18,817,286**	$ **18,799,248**

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

	2013	**%**	**2012**	**%**
Bahamas	$ 25,862,819	63%	$ 22,910,485	56%
USA	11,310,396	27%	11,628,350	29%
Europe	1,601,942	4%	2,791,982	7%
Australia	1,073,401	3%	1,071,204	3%
Asia	1,042,613	3%	1,055,222	3%
Cayman	20,000	0%	20,000	0%
Latin America	-	0%	500,500	2%
Total	$ **40,911,171**	**100%**	$ **39,977,743**	**100%**

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

Reconciliation of movements in the balance of investments is provided below:

	Held-to-maturity	Fair value through profit or loss	Available-for-sale	Total
At December 31, 2011	**$ 4,459,000**	**$ $12,836,557**	**$ $20,496,126**	**$ 37,791,683**
Cost of investments purchased	-	-	4,533,000	4,533,000
Proceeds from sales and maturities	-	-	(2,000,000)	(2,000,000)
Amortization of premiums/discounts on bonds (Note 21)	-	-	(124,956)	(124,956)
Net change in fair value of investments	-	(769,860)	547,876	(221,984)
At December 31, 2012	**$ 4,459,000**	**$ 12,066,697**	**$ 23,452,046**	**$ 39,977,743**
Cost of investments purchased	-	-	4,724,086	4,724,086
Proceeds from sales and maturities	-	(139,233)	(3,800,134)	(3,939,367)
Amortization of premiums/discounts on bonds (Note 21)	-	-	(180,877)	(180,877)
Realized gains (losses) on sales of investments (Note 21)	-	2,658	(43)	2,615
Net change in fair value of investments	-	598,041	(271,070)	326,971
At December 31, 2013	**$ 4,459,000**	**$ 12,528,163**	**$ 23,924,008**	**$ 40,911,171**

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
- 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, 2013, by the level in the fair value hierarchy into which the fair value measurement is categorized:

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets designated at fair value through profit or loss:				
Equity securities	$ 12,528,163	$ -	$ -	$ 12,528,163
Total	**12,528,163**	-	-	**12,528,163**
Available-for-sale financial assets:				
Fixed income debt securities	-	18,797,286	20,000	18,817,286
Mutual funds	-	2,017,857	63,865	2,081,722
Preference shares	-	3,025,000	-	3,025,000
Total	**-**	**23,840,143**	**83,865**	**23,924,008**
Total assets measured at fair value	**$ 12,528,163**	**$ 23,840,143**	**$ 83,865**	**$ 36,452,171**

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

There were no transfers between the various levels during the year.

The following table presents the Group's financial assets measured at fair value at December 31, 2012, by the level in the fair value hierarchy into which the fair value measurement is categorized:

2012		**Level 1**		**Level 2**		**Level 3**		**Total**
Financial assets designated at fair value through profit or loss:								
Equity securities	$	12,066,697	$	-	$	-	$	12,066,697
Total		**12,066,697**		-		-		**12,066,697**
Available-for-sale financial assets:								
Fixed income debt securities		-		18,779,248		20,000		18,799,248
Mutual funds		-		1,544,788		108,010		1,652,798
Preference shares		-		3,000,000		-		3,000,000
Total		-		23,324,036		128,010		23,452,046
Total assets measured at fair value	$	**12,066,697**	$	**23,324,036**	$	**128,010**	$	**35,518,743**

There were no transfers between the various levels during 2012.

The following table presents the changes in Level 3 instruments during the year:

		2013		**2012**
Balance at January 1	$	128,010	$	138,214
Proceeds from sale of investments		(31,189)		-
Realized loss on sale of investment		(7,671)		-
Decrease in fair value		(5,285)		(10,204)
Balance at December 31	$	**83,865**	$	**128,010**

8. INVESTMENT IN ASSOCIATE

The Company holds a 20% (2012: 20%) equity interest in Star General Agency (Grand Bahama) Limited ("Star General").

		2013		**2012**
Balance at January 1	$	463,790	$	372,880
Share of net earnings for the year (Note 21)		63,006		90,910
Balance at December 31	$	**526,796**	$	**463,790**
Share of associates' unaudited statement of financial position:				
Total assets	$	911,853	$	919,404
Total liabilities		(493,057)		(563,614)
Net assets		418,796		355,790
Goodwill		108,000		108,000
Carrying value of investment in associate	$	**526,796**	$	**463,790**
Share of associate's unaudited statement of comprehensive income:				
Revenues	$	**425,134**	$	**447,050**
Net income	$	**63,006**	$	**90,910**

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

Investment in associate includes $108,000 (2012: $108,000) in goodwill. At December 31, 2013 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"),
- clients of the Group's agency subsidiaries ("policyholders' receivables"), and
- amounts receivable from reinsurers based on the benefits the Group is entitled to under its reinsurance contracts held ("reinsurers' receivables").

		2013		2012
Insurer trade receivables	$	14,422,542	$	15,348,620
Policyholders' receivables		11,868,828		11,458,318
Reinsurers' receivables		697,862		728,601
		26,989,232		27,535,539
Provision for bad debts:				
Balance at January 1		1,431,708		1,962,774
Increase (decrease) in provision for the year		715,274		(269,329)
Bad debts written off during the year		-		(261,737)
Balance at December 31		2,146,982		1,431,708
Trade accounts receivable, net	$	**24,842,250**	$	**26,103,831**

Ageing of trade accounts receivable, net is as follows:		2013		2012
Less than 3 months	$	18,033,517	$	17,293,834
3-6 months		4,671,440		5,561,688
6 months – 1 Year		2,126,860		2,640,798
Over 1 Year		10,433		607,511
	$	**24,842,250**	$	**26,103,831**

10. DEFERRED/UNEARNED PREMIUMS AND COMMISSION COSTS

		Insurance Assets				Insurance Liabilities				
		Deferred Reinsurance Premiums		Deferred Commission Costs		Unearned Premiums		Unearned Commission Income		Net
Balance at January 1, 2012	$	**36,206,160**	$	**5,217,081**	$	**(51,616,194)**	$	**(8,196,216)**	$	**(18,389,169)**
Portfolio transfer		463,878		-		-		-		463,878
Movement during the year		1,047,890		(545,574)		(2,113,324)		(409,757)		(2,020,765)
Balance at December 31, 2012		**37,717,928**		**4,671,507**		**(53,729,518)**		**(8,605,973)**		**(19,946,056)**
Movement during the year		1,829,457		452,330		(1,816,639)		200,564		665,712
Balance at December 31, 2013	$	**39,547,385**	$	**5,123,837**	$	**(55,546,157)**	$	**(8,405,409)**	$	**(19,280,344)**

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

11. UNPAID CLAIMS AND CLAIMS INCURRED

	Gross	Reinsurance	Net
Unpaid claims at December 31, 2011	**$ 43,618,032**	**$ (27,374,217)**	**$ 16,243,815**
Portfolio transfer	-	(84,467)	(84,467)
Claims incurred	45,774,268	(19,955,965)	25,818,303
Claims paid	(48,943,732)	23,871,536	(25,072,196)
Unpaid claims at December 31, 2012	**$ 40,448,568**	**$ (23,543,113)**	**$ 16,905,455**
Claims incurred	44,858,916	(17,251,159)	27,607,757
Claims paid	(46,848,004)	20,105,040	(26,742,964)
Unpaid claims at December 31, 2013	**$ 38,459,480**	**$ (20,689,232)**	**$ 17,770,248**

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	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Gross claims incurred at end of reporting year	$ 15,057,157	$ 19,565,254	$ 56,295,718	$ 28,308,564	$ 22,711,266	
One year later	18,481,176	22,956,965	60,976,920	33,412,375		
Two years later	20,971,212	21,469,136	60,771,109			
Three years later	18,427,189	23,048,223				
Four years later	18,867,415					
Total incurred to date	18,867,415	23,048,223	60,771,109	33,412,375	22,711,266	
Cumulative payments to date	(16,532,835)	(18,310,213)	(57,703,951)	(27,453,420)	(14,703,730)	
Liability included in the consolidated statement of financial position	2,334,580	4,738,010	3,067,158	5,958,955	8,007,536	$ 24,106,239
Reserves for prior years						12,635,641
Total unpaid claims for P&C business including amount recoverable from reinsurer						**$ 36,741,880**

H&L	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Gross claims incurred at end of reporting year	$ 16,987	$ 18,006,813	$ 18,860,377	$ 16,193,273	$ 17,060,494	$ 70,137,944
One year later	16,987	18,363,287	18,390,587	15,634,408		
Total incurred to date	16,987	18,363,287	18,390,587	15,634,408	17,060,494	69,465,763
Cumulative payments to date	(16,987)	(18,363,287)	(18,390,587)	(15,634,408)	(15,522,894)	(67,928,163)
Liability included in the consolidated statement of financial position	-	-	-	-	1,537,600	1,537,600
Reserves for prior years						180,000
Total unpaid claims for H&L business including amount recoverable from reinsurer						**$ 1,717,600**
Total unpaid claims including amount recoverable from reinsurer in the consolidated statement of financial position						**$ 38,459,480**

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

12. PROVISION FOR LITIGATION & PROVISION FOR LITIGATION RECOVERABLE

Hurricane Ivan claims

CFI has, for a number of years, been involved in protracted litigation issues relating to a Hurricane Ivan claim (the "Windsor Village litigation"), certain aspects of which have progressed through the Grand Court of the Cayman Islands ("the Court"), the Cayman Islands Court of Appeal ("The Court of Appeal"), the Judicial Committee of the Privy Council in the UK ('the JCPC"), and negotiated settlements with the third parties. At the date of acquisition in June 2010, BFHIL and Sagicor Life of the Cayman Islands Limited ("SLCI") executed a Share Purchase Agreement ("SPA") for the sale of SLCI's 75.24% holding in CFI to BFHIL. 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.

On December 9, 2011, the Court issued its ruling against CFI on the issue of costs relating to both the counterclaims related to abuse of process and the Mareva Injunction undertaking. CFI subsequently filed notice of appeal against the ruling. Prior to the appeal being heard by the Court of Appeal, CFI and the various third parties entered into a Deed of Settlement and Release Agreement dated January 30, 2013, whereby the final and full settlement for all claims in the proceedings between CFI and the third parties were agreed upon. CFI withdrew its appeal and settled the agreed amount in full. In accordance with the terms of the SPA, BFHIL recovered 75.24% of the agreed amount from SLCI.

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. Subsequent to the ruling, one of the third parties filed notice of appeal on March 28, 2011. The Court of Appeal heard the matter in November 2011 and issued its ruling on April 5, 2012 dismissing the appeal against the Court's ruling, and awarding costs in favour of CFI.

Following the Court of Appeal ruling, the third party appealed further to the JCPC. The JCPC heard the matter in January 2013 and issued its ruling on June 13, 2013 against CFI and awarded damages of $1.6 million in favour of the third party. The amounts were settled in June 2013, and BFHIL recovered its 75.24% share from SLCI. Following the JCPC's ruling, CFI and the third party made their submissions on both interest and costs, and the JCPC issued its ruling on both matters on November 25, 2013. CFI was ordered to pay interest of $309,544. The amount was paid in December 2013, and BFHIL subsequently recovered its 75.24% from SLCI.

On the issue of costs, CFI and the third party entered into and concluded a negotiated settlement agreement dated February 26, 2014, whereby the final and full settlement for all costs in the proceedings between both parties was agreed upon. CFI settled the agreed amount in full on February 28, 2014. The provision for litigation of $1,260,000 (2012: $1,460,125) in the consolidated statement of financial position is based upon the negotiated settlement agreed on February 26, 2014, plus estimated legal fees, which effectively concludes the Windsor Village litigation. The movement in the provision for litigation for the amounts provided for, is an increase of $3,246,151 (2012: $685,545) and is recorded in the consolidated statement of profit or loss and other comprehensive income.

Provision for Litigation:		**2013**		**2012**
Balance at January 1	$	1,460,125	$	895,289
Increase in provision for litigation		3,246,151		685,545
CFI payments during the year		(3,446,276)		(120,709)
Balance at December 31	$	**1,260,000**	$	**1,460,125**

Based on the terms of the SPA, a litigation recovery, equivalent to 75.24% of the increase in the provision for litigation, totaling $2,442,404 (2012: $515,728) is recorded in the consolidated statement of profit or loss and other comprehensive income. As at December 31, 2013, the balance due from SLCI totals $1,180,925, and is recorded as a provision for litigation recoverable in the consolidated statement of financial position.

Litigation Recovery:		**2013**		**2012**
Increase in provision for litigation noted above	$	3,246,151	$	685,545
BFHIL's 75.24% litigation recovery from SLCI		2,442,404		515,728
Less: amounts recovered from SLCI during the year		(1,261,479)		(515,728)
Provision for litigation recoverable	$	**1,180,925**	$	**-**

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

13. PROPERTY AND EQUIPMENT

2013	Land	Buildings	Furniture and Equipment	Leasehold Improvements and Others	Computer Software	Total
COST/VALUATION:						
At January 1, 2013	$ 2,493,750	$ 7,321,202	$ 2,561,143	$ 1,702,828	$ 3,689,104	$ 17,768,027
Additions	-	40,743	183,639	18,149	28,390	270,921
Disposals	-	-	(33,055)	-	-	(33,055)
At December 31, 2013	$ 2,493,750	$ 7,361,945	$ 2,711,727	$ 1,720,977	$ 3,717,494	$ 18,005,893
ACCUMULATED DEPRECIATION:						
At January 1, 2013	$ -	$ 1,418,518	$ 1,372,242	$ 1,345,599	$ 2,701,360	$ 6,837,719
Charge for the year	-	176,254	340,542	168,931	477,757	1,163,484
Revaluation of land and buildings (Note 19)	-	(1,091,426)	-	-	-	(1,091,426)
Disposals	-	-	(33,055)	-	-	(33,055)
At December 31, 2013	$ -	$ 503,346	$ 1,679,729	$ 1,514,530	$ 3,179,117	$ 6,876,722
Carrying amount 2013	**$ 2,493,750**	**$ 6,858,599**	**$ 1,031,998**	**$ 206,447**	**$ 538,377**	**$ 11,129,171**

2012	Land	Buildings	Furniture and Equipment	Leasehold Improvements and Others	Computer Software	Total
COST/VALUATION:						
At January 1, 2012	$ 2,493,750	$ 7,321,202	$ 2,435,842	$ 1,691,197	$ 3,674,247	$ 17,616,238
Additions	-	-	284,004	11,631	14,857	310,492
Disposals	-	-	(158,703)	-	-	(158,703)
At December 31, 2012	$ 2,493,750	$ 7,321,202	$ 2,561,143	$ 1,702,828	$ 3,689,104	$ 17,768,027
ACCUMULATED DEPRECIATION:						
At January 1, 2012	$ -	$ 1,209,358	$ 1,129,256	$ 1,156,200	$ 2,194,113	$ 5,688,927
Charge for the year	-	209,160	369,985	189,399	507,247	1,275,791
Disposals	-	-	(126,999)	-	-	(126,999)
At December 31, 2012	$ -	$ 1,418,518	$ 1,372,242	$ 1,345,599	$ 2,701,360	$ 6,837,719
Carrying amount 2012	**$ 2,493,750**	**$ 5,902,684**	**$ 1,188,901**	**$ 357,229**	**$ 987,744**	**$ 10,930,308**

In September 2013, 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 $2,493,750 and $6,906,250, respectively, based on the combined effect of the cost, income and sales comparison approach.

There has been no change in the valuation technique during the year. The fair value measurement of the Company's land and building is categorized in Level 3 in the fair value hierarchy. There were no transfers between the various levels during the year. The net book value of the land and buildings of the Group, ignoring the effects of previous revaluations, would have been $2,118,844 and $4,057,368 (2012: $2,118,844 and $4,201,690) respectively.

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

14. LOAN PAYABLE

BFHIL, a wholly-owned subsidiary, acquired a 75.24% interest in CFI on June 17, 2010 with an effective date of January 1, 2010. 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 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 Cayman National 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. The balance of the demand loan as at December 31, 2013 was $1,108,517 (2012: $4,749,839).

As per Note 1, in May 2013, BFHIL acquired 500 shares from minority shareholders, thereby increasing its holding to 83.52%. The effect of this increase in BFHIL's ownership resulted in an increase of $1,918 in contributed surplus and a corresponding decrease in non-controlling interest, and is reflected in the consolidated statement of changes in equity.

15. INTANGIBLE ASSETS AND GOODWILL

			Intangible Assets					
		Goodwill		**Finite Life**		**Indefinite Life**		**Total**
Balance at January 1, 2012	$	**7,125,088**	$	**1,560,465**	$	**2,692,559**	$	**11,378,112**
Acquisition of Customer Relationships				725,000				725,000
Amortization		-		(138,573)		-		(138,573)
Balance at December 31, 2012	$	**7,125,088**	$	**2,146,892**	$	**2,692,559**	$	**$11,964,539**
Reclassification from Indefinite to Finite				100,000		(100,000)		-
Amortization		-		(186,647)	$	-		(186,647)
Balance at December 31, 2013	$	**7,125,088**	$	**2,060,245**	$	**2,592,559**	$	**11,777,892**

In July 2012, NUA acquired the general insurance portfolio of one of BFG's exclusive agents for a consideration of $475,000. In August 2012, NUA acquired the general insurance portfolio of one of its exclusive sub-agents for a consideration of $250,000. Both acquisitions of customer relationships are expected to generate benefits to NUA over a finite period of time, and are therefore amortized using the straight-line method over their estimated useful lives.

In January 2006, NUA acquired ownership of the portfolio of one of its sub-agents for a consideration of $100,000. At acquisition, this intangible asset which represented the acquisition of a customer list was considered to have an indefinite useful life. Therefore, it was not being amortized, but tested for impairment annually. During the current year, this intangible asset was deemed to generate benefits to NUA over a finite period of time. Therefore, it was reclassified as "finite" and amortized over its remaining useful life. As at December 31, 2013, its unamortized cost totaled $46,667.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives, and amortization expense is included in general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

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

Bahamas' cash-generating unit	$	7,685,717
Cayman's cash-generating unit		2,031,930
	$	**9,717,647**

The Group performed its annual impairment test as at December 31, 2013. The recoverable amounts of both the Bahamas and Cayman's cash-generating units have been determined using the fair value less costs to sell calculation. As the recoverable amounts exceeded the carrying amounts, management did not identify any impairment for either cash-generating unit.

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

16. BONDS PAYABLE

On October 15, 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 15, 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 15, 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.

		2013		2012
Series I Corporate Bonds				
$7,500,000 at B$ prime rate + 1.75%, presently 6.50% (2012: 6.50%) per annum – Due 2020	$	7,500,000	$	7,500,000
Series II Corporate Bonds				
$7,500,000 at B$ prime rate + 2.00%, presently 6.75% (2012: 6.75%) per annum – Due 2025		7,500,000		7,500,000
Accrued interest		248,438		248,438
Total	$	**15,248,438**	$	**15,248,438**

17. SHARE CAPITAL

The Group's share capital is comprised as follows:

		2013		2012
Common shares				
Authorized: 45,000,000 (2012: 45,000,000) at $0.01 each				
Issued and fully paid: 36,505,471 (2012: 36,305,471) par value $0.01 per share	$	365,055	$	365,055
Preference shares				
Authorized: 5,000,000 (2012: 5,000,000) at $1.00 each				
Issued and fully paid: 5,000,000 (2012: 5,000,000) par value $1.00 per share	$	5,000,000	$	5,000,000

The calculation of basic earnings per share as at December 31, 2013 was based on profit for the year attributable to common shareholders of $5,734,183 (2012: $4,565,013) and the weighted average number of common shares outstanding, adjusted by the number of common shares repurchased or issued during the year, of 36,161,108 (2012: 36,240,528). There were no transactions that would dilute earnings per share. Dividends are accounted for in the period in which they are declared by the Group's Board of Directors. During the year, dividends of $0.08 (2012: $0.05) per common share (total dividends $2,892,889; 2012: $1,808,055) 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. During 2012, 161,047 of the Company's shares were repurchased for a total consideration of $241,570, and were recognized as a change in equity. As at December 31, 2013, treasury shares comprise 344,363 (2012: 344,363) of the Company's shares. This represents 0.9% (2012: 0.9%) of the outstanding shares of the Company.

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

18. GENERAL RESERVE

The Group has established a general reserve from retained earnings in the amount of $4,000,000 (2012: $4,000,000), which the Board of Directors have determined is not available for distribution.

19. REVALUATION RESERVE

		Land & Buildings		AFS Investments		Total
Balance at January 1, 2012	$	**1,779,082**	$	**303,767**	$	**2,082,849**
Net increase in fair value of AFS investments (Note 7)		-		547,876		547,876
Balance at December 31, 2012	**$**	**1,779,082**	**$**	**851,643**	**$**	**2,630,725**
Reclassification adjustment of AFS Investment disposed of during the year (Note 21)		**-**		(145,418)		(145,418)
Net decrease in fair value of AFS investments (Note 7)		-		(271,070)		(271,070)
Revaluation of land and buildings (Note 13)		1,091,426		-		1,091,426
Other comprehensive income (loss)		1,091,426		(416,488)		674,938
Balance at December 31, 2013	$	**2,870,508**	$	**435,155**	$	**3,305,663**

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 September 30, 2013. The next appraisal is due in 2016.

20. GROSS PREMIUMS WRITTEN

		2013		2012
Group agents and insurers	$	98,425,504	$	99,468,848
Non-Group agents		60,758,017		57,099,532
Associate		2,135,607		1,227,628
Total	$	**161,319,128**	$	**157,796,008**

21. OTHER INCOME, NET

		2013		2012
Interest income	$	1,632,176	$	1,479,797
Dividend income		543,866		531,570
Reclassification adjustment of AFS Investment disposed of during the year (Note 19)		145,418		-
Share of net earnings from associate (Note 8)		63,006		90,910
Other income		62,010		55,968
Gain on disposal of property and equipment		9,000		21,497
Realized gains on sales of investments (Note 7)		2,615		-
Amortization of premiums and discounts on bonds (Note 7)		(180,877)		(124,956)
Total	$	**2,277,214**	$	**2,054,786**

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

Claims handling fees totaling $129,210 (2012: $129,390), previously recorded as other income, have been netted off against salaries, benefits and bonuses on the statement of profit or loss and other comprehensive income as a significant portion of claims handling costs are comprised of salaries and benefits of the staff employed within First Response Limited.

22. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a bonus payable to management and staff amounting to $723,047 (2012: $846,814). 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 totalled $369,066 (2012: $351,962) and are included in "Salaries, benefits and bonuses" in the consolidated statement of profit or loss and other comprehensive income.

24. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances are as follows:

		2013		2012
Gross premiums written	$	2,135,607	$	1,227,628
Commission expense – associate	$	450,738	$	318,221
Trade accounts receivable – associate	$	274,320	$	340,007
Directors fees paid	$	334,295	$	258,248

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 profit or loss and other 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:

		2013		2012
Salaries and other benefits	$	1,347,301	$	1,459,124
Post employment benefits		53,049		57,275
Total	$	**1,400,350**	$	**1,516,399**
Receivables from key management personnel	$	54,287	$	70,280

As part of its reinsurance program, the Group purchases reinsurance from Economical Mutual Insurance Company ("Economical") for motor and liability quota share. Economical holds a 20% ownership in the Group. The ceded motor and liability quota share is 50.5% and Economical'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. Lease terms vary with the last lease term expiring in 2018. The Group also has a sublease on one of the locations which expires in 2017. Rent expense for the year ended December 31, 2013 totaled $762,431 (2012: $730,351). The related sublease payments were $39,854 (2012: $22,782).

FOR THE YEAR ENDED DECEMBER 31, 2013, EXPRESSED IN BAHAMIAN DOLLARS.

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

2013	< 1 year	1 -5 years	> 5 years	Total
Operating lease agreements and rental payments	$ 392,334	$ 360,660	$ -	$ 752,994
Sublease payments receivable	(46,960)	(125,226)	-	(172,186)
Total	$ **345,374**	$ **235,434**	$ -	$ **580,808**

2012	<1 year	1 - 5 years	>5 years	Total
Operating lease agreements and rental payments	$ 752,718	$ 744,426	$ -	$ 1,497,144
Sublease payments receivable	-	-	-	-
Total	$ **752,718**	$ **744,426**	$ -	$ **1,497,144**

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 (except as disclosed in Note 12) 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.

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 years ended December 31, 2013 and 2012 are as follows:

	Bahamas	**Cayman**		
	P&C	**P&C**	**H&L**	**Total**
2013				
Net underwriting income	$ 14,976,742	$ 6,052,361	$ 3,794,005	$ 24,823,108
Depreciation of property & equipment	1,027,328	68,498	67,658	1,163,484
Amortization of intangible assets	186,647	-	-	186,647
Segment Profit (Loss) for the Year	6,067,196	(444,235)	144,233	5,767,194
Total segment assets	138,284,330	28,026,290	12,409,384	178,720,004
Total segment liabilities	102,494,980	23,214,775	2,829,010	128,538,765
Capital expenditure	166,863	70,168	33,890	270,921
2012				
Net underwriting income	$ 13,616,597	$ 5,760,769	$ 4,457,711	$ 23,835,077
Depreciation of property & equipment	1,134,513	67,519	73,759	1,275,791
Amortization of intangible assets	138,573	-	-	138,573
Segment Profit for the Year	1,652,166	1,923,702	1,565,573	5,141,441
Total segment assets	133,281,973	29,320,585	13,135,035	175,737,593
Total segment liabilities	102,593,169	23,005,484	2,905,044	128,503,697
Capital expenditure	245,718	32,387	32,387	310,492

CORPORATE INFORMATION

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, while maximizing shareholder value. It is a framework based on the belief that good governance requires adherence to all legal requirements, regulations and our stated Company policies, as well as a developed culture of responsibility. Five corporate governance committees of the Board are in place, each chaired by a non executive director.

AUDIT COMMITTEE

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.

MEMBERS:
Alison Treco – Chairman
Ian D. Fair
John A. G. Dunkley
Linda Goss

CORPORATE GOVERNANCE CONDUCT REVIEW & NOMINATIONS COMMITTEE

The committee measures the Group's governance against best practices and makes recommendations for Board appointments and composition.

MEMBERS:
Ian D. Fair – Chairman
Judith Whitehead
Karen Gavan

HUMAN RESOURCES & COMPENSATION COMMITTEE

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

MEMBERS:
Ian D. Fair – Chairman
Alison Treco

FINANCE & INVESTMENT COMMITTEE

The committee focuses on two objectives: financial risk management and investment policy oversight.

MEMBERS:
Ian D. Fair – Chairman
Alison Treco
John A. G. Dunkley
Glen O. A. Ritchie
Patrick G.W. Ward
Karen Gavan

TECHNICAL REVIEW & RISK COMPLIANCE COMMITTEE

The committee is responsible for ensuring adherence to risk management guidelines as it relates to reviewing and assessing technical and reinsurance matters.

MEMBERS:
Brian Murphy (CFI) – Chairman
Tracy Bonczek
Valarie Darville
John A. G. Dunkley
Glen O. A. Ritchie
Pauline P. Ward
Keith Rolle
Patrick G.W. Ward
Linda Goss

THE BFH GROUP RETIREMENT FUND COMMITTEE

Plan Administrator:
Colonial Pension Services (Bahamas) Limited

Trustee/Custodian:
Butterfield Bank (Bahamas) Limited

INVESTMENT COMMITTEE:

Company Representatives:
Glen O. A. Ritchie, Chairman
John A. G. Dunkley

Staff Representatives:
Kevin Hudson
Warren Rolle

AUTHORIZED AGENTS & BROKERS

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) 324-0865

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 Ltd. | (242) 302-9100

Professional Insurance Consultants | (242) 327-2143

Response Insurance Agency Ltd. | (242) 328-7316

RMS Insurance Agents & Brokers Limited | (242) 698-7233

Shield Insurance Agents & Brokers Ltd. | (242) 356-7707

Star General Insurance Agency | (242) 393-5529

Sunshine Insurance Agency | (242) 394-0011

Tavares Higgs Insurance Brokers & Agents | (242) 327-8606

ABACO

Abaco Insurance Agency | (242) 367-2549

GRAND BAHAMA

N.U.A. Insurance Agents & Brokers Ltd. | (242) 352-7891

Star General Insurance (G.B.) Ltd. | (242) 352-5705

ELEUTHERA

J.H. (Andy) Higgs Insurance Agents Ltd. | (242)333-4105

N.U.A. Insurance Agents & Brokers Ltd. | (242) 332-0451/2

EXUMA

N.U.A. Insurance Agents & Brokers Ltd. | (242) 336-2841

CAYMAN ISLANDS:

CAYMAN BRAC

Brac Insurance Associates | (345) 948-2266

GRAND CAYMAN

AON Risk Solutions (Cayman) Ltd. | (345) 945-1266

Balderamos Insurance Services Ltd. | (345) 945-3450

Bogle Insurance Brokers Limited | (345) 949-0579

Caribbean Insurance Practice | (345) 943-2475

Cayman Insurance Centre | (345) 949-4657

Fidelity Insurance (Cayman) Ltd. | (345) 949-7221

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) 946-2276

Rossborough (Cayman Islands) | (345) 945-0030

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 & TRANSFER AGENTS

Bahamas Central Securities Depository Limited (BCSD)
Suite 202, Fort Nassau Building
British Colonial Hilton
Nassau, Bahamas

BAHAMAS FIRST

BAHAMAS FIRST HOLDINGS LIMITED
Bahamas First Centre
32 Collins Avenue | Nassau, Bahamas
T (242) 302-3900 | F (242) 302-3901
info@bahamasfirst.com | www.bahamasfirst.com