BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

Financial Statements For The Year Ended December 31, 2006 and Independent Auditors' Report

Deloitte.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

TABLE OF CONTENTS

Deloitte.

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

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

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Bahamas First General Insurance Company Limited:

We have audited the financial statements of Bahamas First General Insurance Company Limited (the "Company") which comprise the balance sheet as of December 31, 2006, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

June 7, 2007

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

BALANCE SHEET
AS OF DECEMBER 31, 2006
(Expressed in Bahamian dollars)

	Notes	2006	2005
ASSETS			
Cash	5	$ 5,206,247	$ 1,565,637
Term deposits	6	3,304,799	3,196,297
Investments	7	12,306,410	8,422,975
Receivables from agents and brokers	8	17,762,546	18,306,462
Sundry receivables and prepayments		668,901	531,788
Receivable from reinsurers		241,436	647,144
Interest receivable		83,955	55,898
Deferred commission costs	9	6,429,735	6,036,413
Unpaid claims recoverable from reinsurers	10	13,583,172	15,653,824
Deferred reinsurance cost	9	4,614,739	4,033,621
Deferred reinsurance premiums	9	26,290,026	24,936,611
Receivables from related company		14,262,134	8,540,571
Intangible asset	12	2,692,559	2,055,843
Property and equipment	11	1,889,006	1,939,047
		$ 109,335,665	$ 95,922,131

(Continued)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

BALANCE SHEET
AS OF DECEMBER 31, 2006
(Expressed in Bahamian dollars)

	Notes	2006	2005
LIABILITIES AND EQUITY			
Payable to reinsurers		$ 12,338,296	$ 7,943,836
Unearned commission income	9	5,695,861	5,207,545
Unearned premiums	9	39,733,058	37,409,270
Payable to agents and brokers	8	336,492	130,480
Accrued liabilities		1,272,587	693,207
Bank overdraft	6	-	3,493,635
Unpaid claims	10	21,441,913	24,017,732
		80,818,207	78,895,705
EQUITY:			
Share capital	13	2,500,000	2,000,000
Contributed surplus		14,100,000	4,600,000
General reserve	14	3,500,000	3,500,000
Revaluation surplus	15	1,079,779	1,079,779
Retained earnings		7,337,679	5,846,647
Total equity		28,517,458	17,026,426
TOTAL		$ 109,335,665	$ 95,922,131

(Concluded)

See notes to financial statements.

These financial statements were approved by the Board of Directors on June 7, 2007 and are signed on its behalf by:

Director

Director

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2006
(Expressed in Bahamian dollars)

	Notes	2006	2005
UNDERWRITING INCOME:			
Gross premiums written	8	$ 98,530,049	$ 82,227,525
Unearned premiums	9	(2,323,788)	(7,649,502)
		96,206,261	74,578,023
Premiums ceded to reinsurers		(64,101,210)	(51,745,939)
Deferred reinsurance premiums	9	791,632	5,590,999
Net premiums earned		32,896,683	28,423,083
Commission income from reinsurers		13,935,692	11,179,902
Total underwriting income		46,832,375	39,602,985
UNDERWRITING EXPENSES:			
Net claims incurred	10	7,464,569	8,792,763
Commission expense	8	16,997,355	13,790,354
Cost of excess of loss reinsurance		16,533,733	13,512,071
Premium tax		2,871,483	2,378,616
Total underwriting expenses		43,867,140	38,473,804
Net underwriting income		2,965,235	1,129,181
OTHER INCOME	8 and 16	1,056,444	990,970
REALISED GAIN ON INVESTMENT		177,790	-
UNREALISED GAIN ON INVESTMENTS		1,427,865	853,630
Total income		5,627,334	2,973,781
OTHER EXPENSES:			
Salaries, benefits and bonuses	8 and 17	1,553,792	1,461,821
General and administrative expenses		1,472,562	1,442,417
Management fees	8	1,047,394	748,005
Depreciation and amortisation	11	62,554	78,654
Total other expenses		4,136,302	3,730,897
NET INCOME (LOSS)		$ 1,491,032	$ (757,116)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2006
(Expressed in Bahamian dollars)

	Share Capital	Contributed Surplus	General Reserve	Revaluation Surplus	Retained Earnings	Total
Balance at December 31, 2004	$1,600,000	$ -	$3,500,000	$1,079,779	$ 6,603,763	$12,783,542
Shares issued (Note 13)	400,000	4,600,000	-	-	-	5,000,000
Net loss	-	-	-	-	(757,116)	(757,116)
Balance at December 31, 2005	2,000,000	4,600,000	3,500,000	1,079,779	5,846,647	17,026,426
Shares issued (Note 13)	500,000	9,500,000	-	-	-	10,000,000
Net income	-	-	-	-	1,491,032	1,491,032
Balance at December 31, 2006	$2,500,000	$14,100,000	$3,500,000	$1,079,779	$ 7,337,679	$28,517,458

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006
(Expressed in Bahamian dollars)

	Notes	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)		$ 1,491,032	$ (757,116)
Adjustments for:			
Depreciation and amortization	11	62,554	78,654
Unrealised gains on investments		(1,427,865)	(853,630)
Gain on sale of investments		(177,790)	-
Gain on disposal of property and equipment		1,886	-
Net loss from operations		(50,183)	(1,532,092)
Decrease (increase) in receivable from agents and brokers		543,916	(6,928,474)
Decrease (increase) in receivable from reinsurers		405,708	(548,169)
(Increase) decrease in interest receivable		(28,057)	4,153
Increase in receivable from related company		(5,721,563)	(156,223)
Increase in sundry receivables and prepayments		(137,113)	(205,920)
Increase in deferred commission costs		(393,322)	(1,518,893)
(Decrease) increase in net unpaid claims		(505,167)	1,259,478
Increase in deferred reinsurance premiums		(1,353,415)	(6,981,594)
Increase in deferred expense		(581,118)	(2,065,137)
Increase in unearned commission income		488,316	1,421,495
Increase in unearned premiums		2,323,788	9,257,324
Increase in payable to reinsurers		4,394,460	2,203,855
Increase in payables to agents and brokers		206,012	128,875
Increase (decrease) in accrued liabilities		579,380	(48,601)
Net cash from (used in) operating activities		171,642	(5,709,923)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	11	(14,399)	(12,258)
Intangible asset on acquisition of insurance portfolio		(636,716)	(2,055,843)
Purchase of investments		(3,705,570)	(500,000)
Proceeds from disposals of investments		1,427,790	-
Increase in term deposits maturing after ninety days		(68,113)	(1,047,717)
Net cash used in investing activities		(2,997,008)	(3,615,818)

(Continued)

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006
(Expressed in Bahamian dollars)

	Notes	2006	2005
CASH FLOWS FROM FINANCING ACTIVITY:			
Proceeds from issue of shares		$ 10,000,000	$ 5,000,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		7,174,634	(4,325,741)
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR		(779,418)	3,546,323
END OF YEAR		$ 6,395,216	$ (779,418)
CASH AND CASH EQUIVALENTS IS COMPRISED OF:			
Cash		$ 5,206,247	$ 1,565,637
Bank overdraft		-	(3,493,635)
Term deposits maturing within ninety days	6	1,188,969	1,148,580
		$ 6,395,216	$ (779,418)
SUPPLEMENTAL DISCLOSURE OF OPERATING ACTIVITIES:			
Interest received		$ 90,963	$ 76,910
Interest paid		$ 190,586	$ 147,467

(Concluded)

See notes to financial statements.

1. GENERAL

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

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

The registered office of the Company is located at 32 Collins Avenue, P.O. Box SS-6238, Nassau, Bahamas.

The number of persons employed by the Company as of December 31, 2006 was 31 (2005:31).

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2006.

At the date of authorisation of these financials statements, the IASB has issued IFRS 7 and an amendment to IAS 1, which are not yet effective.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The following is a summary of the significant accounting policies:

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

   The accounting policies are consistent with those used in previous years except for changes arising from the amendments to IFRS and where a change in policy was considered more appropriate.

b. ***Translation of foreign currencies*** - Assets and liabilities denominated in currencies other than the Bahamian dollar are translated into Bahamian dollars at the exchange rate prevailing at the balance sheet date. Transactions during the year are recorded at the exchange rate prevailing at the date of the transaction. Gains or losses arising from transactions in foreign currencies are included in the statement of income.

c. ***Financial instruments:***

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

   a. loans and receivables and held-to-maturity financial instruments are measured at amortized cost using the effective interest rate method;

   b. investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

   After initial recognition financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value.

   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. Trade accounts payable and accrued liabilities are financial liabilities, which are carried at cost.

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

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

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

d. ***Trade accounts receivable*** - Trade accounts receivable are stated at cost net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on Management's evaluation of the accounts receivable portfolio.

e. ***Property and equipment*** - Property and equipment other than freehold land and buildings, are stated at cost less accumulated depreciation and amortization and impairment losses.

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

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

The estimated useful lives as follows:

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

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

f. ***Intangible assets and goodwill*** - In 2005 the Company changed its accounting policy in accounting for insurance contracts acquired in a business combination or portfolio transfer to comply with IFRS 4 *Insurance Contracts*.

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

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

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

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

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.

h. ***Unpaid claims*** - The provision for unpaid claims represents an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred on or before each balance sheet date. The provision is periodically reviewed and evaluated in the light of emerging claims experience and changing circumstances. Changes in estimate of the ultimate liability are included in net claims incurred in the statement of income.

i. ***Premiums*** - Premiums written are recognized as income over the periods covered by the related policies taking into consideration the exposure period to which they relate. The adjustment to apportion the gross premiums written and ceded over the life of the policy is made through the movement in the unearned premiums.

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

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

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

k. ***Deferred acquisition cost***

   Reinsurance cost - All costs related to excess of loss reinsurance contracts were previously expensed in the contract year; however, certain of these costs are now deferred and matched with the income related to these costs in subsequent periods. Deferred reinsurance cost in the balance sheet at year end represents the deferred portion of these costs.

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

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

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

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

n. ***Cash*** - Cash consist of cash on hand and deposits with Banks.

o. ***Related parties*** - Related parties include key management personnel, officers, directors, and companies that are controlled by these parties.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

Significant areas requiring estimation and judgments include:

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims provisions ("IBNR") included within provisions for insurance and reinsurance contracts.

- The corresponding estimate of the amount of reinsurance recoveries which will become due as a result of these estimated claims.

- The recoverability of amounts due from reinsurers.

- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

The carrying value at the balance sheet date of gross claims reported and loss adjustment expenses and claims incurred but not reported was \$21,441,913 (2005: \$24,017,732). The amount of reinsurance recoveries estimated at the balance sheet date is \$13,583,172 (2005: \$15,653,824).

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

Determining whether an intangible asset is impaired requires an estimation of the value in use of the cash-generating unit to which the value has been allocated. The value in use calculation requires the Company to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value both of which are material sources of uncertainty.

The carrying amount for intangible asset at the balance sheet date was $2,692,559 (2005: $2,055,843).

5. CASH

Cash consist of the following:

	2006	2005
Cash on hand	$ 11,409	$ 6,875
Deposits at bank	5,194,838	1,558,762
	$ 5,206,247	$ 1,565,637

6. TERM DEPOSITS

Term deposits are denominated in Bahamas dollars with effective interest rates at 4.75%, 5.00%, 5.50% (2005: 2.25%) per annum.

	2006	2005
Term deposits maturing within 90 days	$ 1,188,969	$ 1,148,580
Term deposits maturing after 90 days	2,115,830	2,047,717
	$ 3,304,799	$ 3,196,297

The bank overdraft amounting to $3,493,635 at December 31, 2005, bore interest at prime plus 1.50% and was secured by hypothecation of the term deposits amounting to $3,196,297. This overdraft arose as a result of funding claims cost arising from the losses emanating from Hurricane Wilma. A significant amount of the losses paid included amounts due from reinsurers, which had not yet been recovered as of the Balance Sheet date.

7. INVESTMENTS

Investments are as follows:

	2006	2005
Held-to-maturity:		
Bahamas Government Registered Stock - at amortized cost		
$1,000,000 10.50% per annum 2006	$ -	$ 1,000,000
$231,000 5.53% per annum 2015 (2005: 5.78%)	231,000	231,000
$180,800 5.69% per annum 2020 (2005: 5.94%)	180,800	180,800
	411,800	1,411,800
At fair value through profit or loss:		
Commonwealth Bank Limited		
711,000 (2005: 399,869) common shares		
Cost $4,076,754 (2005: $371,334)	8,894,610	3,642,807
Kerzner International Limited		
53,079 common shares		
Cost $250,000 (2005: $250,000)	-	368,368
	8,894,610	4,011,175
Available-for-sale:		
Commonwealth Bank Limited		
4,000 'A' Class preferred shares of $500 each - at cost	2,000,000	2,000,000
FamGuard Corporation Limited		
500 variable rate cumulative redeemable preference shares - at cost	500,000	500,000
FOCOL Holdings Limited		
500,000 preference shares of $1 each - at cost	500,000	500,000
	3,000,000	3,000,000
	$12,306,410	$ 8,422,975

The Commonwealth Bank Limited "A" Class preferred shares are redeemable at the option of the bank and bear interest at the rate of prime plus 1.50% (presently 7.00%) (2005: 7.00%) per annum.

The Company owns 500 variable rate cumulative redeemable preference shares in FamGuard Corporation Limited (the "Corporation"). The shares, bear interest at the rate of prime plus 1.50% (presently 7.00%) (2005: 7.00%) per annum.

The Company owns 500,000 cumulative redeemable preference shares in Freeport Oil Company Limited ("FOCOL"). The shares are redeemable at the option of the FOCOL and bear interest at the rate of prime plus 1.5% (presently 7.25%) (2005: 7.25%) per annum.

During the year, the Company redeemed its shares in Kerzner International Limited Bahamian Depository Receipts.

During the year 711,000 of Ordinary Shares in Commonwealth Bank Limited were pledged to secure borrowings of the Group.

At December 31, 2006 there is no indication of impairment in value of investments in stock and shares.

8. RELATED PARTY BALANCES AND TRANSACTIONS

	2006	**2005**
Gross premiums written for the year	$37,645,911	$34,630,955
Commissions paid for the year	$ 7,049,996	$ 6,300,192
Management fees paid to BFCS	$ 1,047,394	$ 748,005
Rental income received from NUA	$ 120,000	$ 120,000
Balances receivable from agents and brokers at December 31	$ 1,020,717	$ 4,765,475
Balances payable to agents and brokers at December 31	$ 336,492	$ 112,326

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

	2006	**2005**
Salaries and benefits	$ 437,342	$ 412,517
Post retirement benefits	18,283	17,700
	$ 455,625	$ 430,217

9. INSURANCE ASSETS AND LIABILITIES

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

	Insurance Assets			Insurance Liabilities		
	Reinsurance Premiums	Commission Costs	Reinsurance Cost	Unearned Premiums	Commission Income	Net
Balance at January 1, 2005	$17,955,018	$ 4,517,520	$ 1,968,484	$(28,151,946)	$(3,786,050)	$ (7,496,974)
Portfolio transfer as a change in net retention	493,490	-	-	-	(587,484)	(93,994)
Portfolio transfer as a result of						-
acquisition of new portfolio	897,104	316,580	-	(1,607,822)	(128,873)	(523,011)
Movement during the year	5,590,999	1,202,313	2,065,137	(7,649,502)	(705,138)	(1,561,328)
Balance at December 31, 2005	24,936,611	6,036,413	4,033,621	(37,409,270)	(5,207,545)	(9,675,307)
Portfolio transfer as a change in net retention	561,783	-	-	-	(235,387)	326,396
Movement during the year	791,632	393,322	581,118	(2,323,788)	(252,929)	(1,391,763)
Balance at December 31, 2006	$26,290,026	$ 6,429,735	$ 4,614,739	$(39,733,058)	$(5,695,861)	$(10,740,674)

10. UNPAID CLAIMS AND CLAIMS INCURRED

	Gross	Reinsurance	Net
Unpaid claims at December 31, 2004	$46,615,493	$(39,511,063)	$7,104,430
Claims incurred	18,211,349	(9,418,586)	8,792,763
Portfolio transfer as a change in net retention	-	72,729	72,729
Claims paid	(40,809,110)	33,203,096	(7,606,014)
Unpaid claims at December 31, 2005	24,017,732	(15,653,824)	8,363,908
Claims incurred	21,705,922	(14,241,353)	7,464,569
Claims paid	(24,281,741)	16,312,005	(7,969,736)
Unpaid claims at December 31, 2006	$21,441,913	$(13,583,172)	$7,858,741

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

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

The Company has taken advantage of the exception in IFRS 4, "*Insurance Contracts*" which permits an entity to not disclose information about claims development that occurred earlier that five years before the end of the first financial year in which it applies this standard.

	Accident years					
	2002	**2003**	**2004**	**2005**	**2006**	**Total**
Gross claims incurred at end of reporting year	$10,682,857	$ 8,835,050	$101,635,745	$ 21,233,541	$15,131,676	
One year later	13,088,747	10,799,090	99,051,431	21,952,158		
Two years later	13,194,276	10,731,840	97,449,270			
Three years later	13,089,785	11,897,238				
Four years later	13,125,771					
Total incurred to date	13,125,771	11,897,238	97,449,270	21,952,158	15,131,676	
Cumulative payments to date	(11,788,381)	(9,812,256)	(94,628,879)	(18,506,397)	(9,184,531)	
Liability included in Balance Sheet	$ 1,337,390	$ 2,084,982	$ 2,820,391	$ 3,445,761	$ 5,947,145	$15,635,669
Reserves for prior years						5,806,244
Total unpaid claims included in the Balance Sheet						$21,441,913

11. PROPERTY AND EQUIPMENT

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

	Land	Buildings	Leasehold improvements, furniture and equipment	Total
COST/VALUATION:				
At January 1, 2006	$ 427,500	$ 1,472,500	$ 267,656	$ 2,167,656
Appreciation	-	-	-	-
Additions	-	-	14,399	14,399
Disposals	-	-	(13,086)	(13,086)
At December 31, 2006	427,500	1,472,500	268,969	2,168,969
ACCUMULATED DEPRECIATION/ AMORTIZATION:				
At January 1, 2006	$ -	$ 38,708	$ 189,901	$ 228,609
Charge for the year	-	38,708	23,846	62,554
Disposals	-	-	(11,200)	(11,200)
At December 31, 2006	-	77,416	202,547	279,963
NET BOOK VALUE:				
At December 31, 2006	$ 427,500	$ 1,395,084	$ 66,422	$ 1,889,006
At December 31, 2005	$ 427,500	$ 1,433,792	$ 77,755	$ 1,939,047

At December 31, 2004, the land and buildings were revalued to fair market value based on a valuation performed by an independent appraiser. The fair value of the land and building was estimated to be $427,500 and $1,472,500, respectively, based on the cost approach and the surplus arising on the revaluation of $1,079,779 (2005: $1,079,779) is included in revaluation surplus in equity (See note 15). The net book value of the land and building, ignoring the effects of the revaluation, would have been $217,022 and $525,794 (2005: $217,022 and $564,491) respectively.

12. INTANGIBLE ASSET

The Company acquired a portfolio of general insurance business effective March 1, 2005 for a consideration of $1,750,000 subject to a final adjustment in 2006. During the year the final adjustment was agreed at $636,716. The Company received $523,011 net of reinsurance cessions, from the vendor of the portfolio in respect of the net liabilities assumed under the terms of the agreement. Additionally, the Company incurred reinsurance cost of $828,854 in respect of this new portfolio. An intangible asset arising from this acquisition totals $2,692,559 (2005: $2,055,843). The intangible asset is considered to have an indefinite useful life and is not being amortized, however it is tested for impairment annually.

	2006	2005
Consideration paid	$ 2,386,716	$ 1,750,000
Net amount received in respect of liabilities assumed	(523,011)	(523,011)
Reinsurance cost associated with portfolio	828,854	828,854
	$ 2,692,559	$ 2,055,843

At December 31, 2006 there is no indication of impairment in value of this asset.

13. SHARE CAPITAL

The authorized share capital is 2,500,000 at $1.00 each, while issued and fully paid was $2,500,000 (2005: $2,000,000). During the year, 500,000 (2005: 400,000) shares were issued for cash.

14. GENERAL RESERVE

The Company has established a general reserve from retained earnings in the amount of $3,500,000 (2005: $3,500,000), which the directors have determined is not available for distribution.

15. REVALUATION SURPLUS

The movement in the revaluation surplus is as follows:

	Freehold Land	Freehold Buildings	Total
Balance at January 1, 2005	$210,478	$ 869,301	$1,079,779
Net change	-	-	-
Balance at December 31, 2005	210,478	869,301	1,079,779
Net change	-	-	-
Balance at December 31, 2006	$210,478	$ 869,301	$1,079,779

16. OTHER INCOME

Other income is as follows:

	2006	2005
Investment income	$ 571,267	$ 505,356
Claims handling fees	188,100	227,030
Interest	174,918	132,808
Rental income (Note 8)	120,000	120,000
Other income	2,159	5,667
	$ 1,056,444	$ 990,861

17. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a profit sharing bonus payable to certain directors, management and staff amounting to nil (2005: $97,616). This bonus is calculated on a Group basis and charged to Group subsidiaries in proportion to their contribution to Group earnings over the three years ended with the current year.

The majority of the Company's employees participate in a defined contribution pension plan into which the Company contributes 3% to 5% per annum of base salary. The Company paid contributions for the year amounting to $42,903 (2005: $45,910), which is included in salaries, benefits and bonuses in the statement of income.

18. CONTINGENCIES

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

19. INSURANCE RISK

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

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

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

20. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

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

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

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

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

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

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

21. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

* * * * * *