BAHAMAS FIRST HOLDINGS LIMITED

ANNUAL REPORT

2006

BAHAMAS FIRST
HOLDINGS LIMITED

Annual Report & Consolidated Financial Statements
For Year Ended December 31, 2006

2006

CHAIRMAN'S MESSAGE

2006 was a good year for the worldwide insurance industry. It was the first for a number of years when there were no major catastrophes anywhere. Of more importance for The Bahamas was that we were blessed by having no tropical storm or hurricane activity impacting our archipelago.

As a result your Company had a very satisfactory overall performance, which has given us a chance to re-build our Balance Sheet, after a number of years of challenging financial conditions.

During the current year we shall be reviewing the dividend policy, with the aim being to ensure that you receive an appropriate return on your investment, whilst at the same time ensuring the integrity of the financial strength of your Company. During the year the acquisition of the Commonwealth Insurance portfolio is already showing beneficial results and 2007 will be the year when we see the full impact. We continue to look for acquisition opportunities, whilst at the same time giving full attention to organic growth.

We continue to be well regarded by our panel of reinsurers, who once again renewed their commitment to us. This is the cornerstone of our insurance programme and your Board's Technical Review and Risk Compliance Committee ably support our Executive. We continue to monitor very closely our capital adequacy ratios, which were recognized by your Board, as an issue for our future well being, as far back as the early 1990s. If we want to grow our business, and thereby profitability and overall shareholder values, we may be faced with having to consider an increase in our capital base. This is a key focus of attention for your Board in the ensuing year.

The world is still a very challenging place, but opportunities abound. The Bahamas continues to do well in the areas of financial services, tourism and second home ownership throughout our islands. We continue to put much emphasis in growing our business and developing new connections in a number of our islands, not just the key centres of New Providence and Grand Bahama. Abaco, Eleuthera and Exuma continue to show particular promise. Your Board continues to put much emphasis on long term planning because, as I mentioned in my comments last year, this is an industry, which is not short term by nature or characteristic.

I conclude, once again, by recognizing the dedication and hard work demonstrated by the management team and staff of the Bahamas First Group. Without them we would not be the Company that we are. Our group of loyal agents deserve special mention for their continued support of our programmes.

We hope for a successful 2007, spared of any major negative events.

IAN D. FAIR
Chairman

PRESIDENT'S MESSAGE

The 5th September 2006 marked the 10th anniversary of the incorporation of Bahamas First Holdings Limited. The driving force behind the formation of the company was the desire to align the interest of the shareholders of the two entities that formed the nucleus of the organization, the Nassau Underwriters Agency and Bahamas First General Insurance (BFG).

This strategic development also established an ideal structure for creating and sustaining shareholder value by establishing a two-pillar approach to revenue and income generation. The timing could not have been better. Prior to that time, the only major catastrophe related claims event to affect The Bahamas, since the mid sixties, was hurricane Andrew that occurred in 1992. Between 1999 and 2005, we have experienced five hurricanes, resulting in insured losses in the hundreds of millions for the local market.

With the benefit of hindsight, we now know that the interval of time prior to hurricane Andrew was a benign period and clearly not indicative of what was to come. The next ten years are impossible to predict but it is not likely to be as calm, notwithstanding the lack of activity in 2006. The absence of any major natural catastrophe losses on a worldwide basis has enabled the primary and reinsurance market sectors to replenish and strengthen their balance sheets. This has resulted in an improved future outlook for the industry.

Earlier in the year we provided an update on events pertaining to the A M Best actions involving the Group. As a result of the capital strengthening initiatives targeted at our main risk taking subsidiary, BFG, we were able to retain our A-(Excellent) rating with a stable future outlook. I am pleased to report that our net income for 2006 increased to 14 cents a share from the 5 cents a share in the prior year. This translates into a net income available to common shareholders of $4,136,306, compared to $1,386,583 in 2005. On the strength of these results your directors declared dividends of 4 cents per share during 2006, equating to $1,151,421.

Shareholders' equity increased to $23,250,941 in 2006 from $20,266,056 in the prior year, thereby increasing the company's solvency ratio to 68% compared to 66% in 2005, despite the significant growth in net written premiums. The combined ratio of the group reduced to 98%, resulting in an underwriting profit of $8.6M, some $2M more than the year before. The decline in underwriting expenses was a welcomed respite from the two successive years of results influenced by hurricane losses, producing combined ratios above 100%.

While the gain in underwriting profitability was remarkable, there were two factors that adversely affected the full year result. The first relates to the unusually high frequency and severity of fire losses that impacted our property account during 2006. The second involves the absence of incoming profit commissions that we have come to rely on as an important component of our revenue inflow on the property account. The combination of these two factors was a net reduction of approximately $3.3M in the net underwriting profit for the year. Despite this we achieved a return on equity of 18% in 2006, an increase of more than 2.5 times the return on equity in 2005.

I join with the Chairman in thanking all of our staff and agents for their exceptional performance during the year.

PATRICK G. W. WARD
President & CEO

SUMMARY OF RESULTS

FINANCIAL SUMMARY Year Ended December 31, 2006	**2006**	**2005**	**% Increase**
	In thousands, except for per share data and ratios.		
BALANCE SHEET			
Total assets	$ 110,304	$ 95,631	15%
Shareholders' equity	23,251	20,266	15%
Book value per common share	**0.64**	**0.53**	
STATEMENT OF OPERATIONS			
Gross premiums written	98,910	82,454	20%
Net written premiums	34,408	30,482	13%
Net premiums earned	32,876	28,423	16%
Commission received	13,421	11,215	20%
Net claims incurred	7,508	8,803	-15%
Net underwriting income	8,562	6,486	32%
Investment revenues	3,830	2,664	43%
Net income, before preference share dividend	4,486	1,622	175%
Net income	4,136	1,386	197%
per common share	**0.14**	**0.05**	
RATIOS			
Solvency ratio	68%	66%	
Combined operating ratio	98%	104%	

2006 YEAR IN REVIEW

In contrast to 2005, the underwriting performance in 2006 was record setting in a positive sense for most of the property and casualty industry. The North American and Western European markets registered combined ratios at levels not seen since 1948. As expected, the bottom line results were also at record high levels.

Given the number of storms in 2005, and predictions for 2006, we were all bracing for another year of constant interruptions from natural perils related claims. Thankfully, this did not occur.

That does not mean that there was a complete absence of either manmade or natural catastrophes in 2006. During the year the economic losses arising from manmade or natural perils were estimated to be in the region of $48 billion. Of this figure, some $16 billion was insured and, while this number is by any measure a meaningful figure, it is nonetheless well below the level of losses incurred in 2005.

Unfortunately, it would appear that the conditions that will foster a more active hurricane season are expected to be present in 2007.

Growth Engine Continues

Despite a small decline in total number of visitors to The Bahamas in 2006, compared to the prior year, the economy expanded on the strength of foreign direct investment inflows, strong consumer demand and construction activities. According to official statistics released by the Government, the economy grew, in overall terms, by a rate of 4%, while unemployment declined from 9.2% to 7.6%.

These favorable statistics were evident in the expansion of our major lines of business during 2006 as we experienced robust growth in gross and net premium writings for the year.

	2006	2005
Gross Written Premium:	98,910,054	82,454,177
Net Written Premium:	34,408,162	30,481,586

The increases of 20% and 13%, respectively, for our gross and net premiums were easily absorbed by the existing infrastructure that we have in place. In fact our staff count by the end of 2006 was 81, compared to 90 for 2005, which hints at the level of productivity gains we were able to achieve in 2006. While the staff count is expected to increase again in 2007, the full introduction of our new insurance software will further enhance our ability to obtain productivity gains in the future, an important component in the quest to stay ahead of our competitors.

Property: The year on year increase in written premiums for this line of business was approximately 18% resulting from a combination of higher rates and new business. Property rates for catastrophe exposed business in The Bahamas were generally higher than the year before, although, the differential in pricing from the various carriers was an indication of the extent to which competitive forces were at play in the market.

Apart from general price increases, we continued with our risk mitigation plan adopted in the prior year, involving the implementation of higher catastrophe deductibles for certain geographical locations within The Bahamas. This has resulted in more than 10% of our catastrophe aggregates having an underlying deductible in excess of the standard 2%. This has improved our risk profile from a weather related or natural perils point of view.

The cost of catastrophe protections continues to be a significant factor in underwriting property business, from a primary company perspective, and competitive pricing pressures continue to contain margins.

We experienced a record number of fire losses that generated gross losses in excess of $100,000 in 2006 which, when aggregated, resulted in incurred losses well in excess of $1 million over and above the historical annually net losses from this class of business.

Unfortunately, this factor together with the lack of profit commission from reinsurers erased the profit margin from this line of business for 2006.

Motor and Liability: During 2006, our motor portfolio increased by 17% in gross written premiums, while the policy count went up by 6% over the prior year. The net effect is that we experienced growth in both premiums and policy count without having to reduce rates. The average premium for this class of business went up in 2006, while the average cost per claim was contained in line with the prior year experience.

Gross premiums for the liability account increased by 15%, and despite a fairly large employer's liability claim, the earned loss ratio for this class was very respectable.

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2006 YEAR IN REVIEW

The combined motor and liability net earned loss ratios for 2006 were excellent and were the main contributors to our underwriting profit for the year.

Marine: Both our hull and cargo premiums increased in 2006 but this line of business was plagued by an alarming number of reported theft claims. Despite the losses from these events, we were able to earn a modest underwriting profit, a significant improvement over 2005, which was impacted by hurricane Wilma.

Other Lines: Once again we were fortunate to have all of the other lines of business producing both premium growth and positive underwriting results during the year.

Investments and Capital

During the year, the group originated a loan for $6 million, as part of the funding required to meet the capital requirements of BFG, in keeping with A M Best's guidelines. It is anticipated that this short-term arrangement will be replaced with a permanent capital structure in the future.

Our principal equity investment performed exceptionally well in 2006, resulting in a sizeable unrealized gain. The investment in our associate company in Grand Bahama, Star General Agency, produced very respectable returns during 2006 and contributed to the overall investment revenues that totaled 43% more than the prior year.

In a market where investment choices with an appropriate risk profile are limited, we continue to see value in acquiring insurance entities that have the ability to generate future cash flows on a sustainable basis. The return on investment is generally far superior to the alternative options.

The active management of our capital base will continue to be a priority focus, as we navigate through the evolving landscape of regulatory and rating agency demands.

Corporate Governance

We have observed that rating agencies such as A M Best have strongly indicated that the subject of enterprise risk management will increasingly impact their overall assessment of a company's rating profile.

In The Bahamas, our group has led the way in developing a risk management framework to enable us to identify, measure and manage risk. We have worked hard at establishing a risk aware culture, through a variety of internal and external initiatives. The appointment of a high level executive as Risk Manager highlights our commitment to this objective.

A number of our strategic acquisitions involving the intermediary sector have enhanced our ability to control important business processes. We are examining ways and means of further extending our reach to our local industry partners to enable us to identify and remedy situations at the source.

We continue to be confident that the new regulatory requirements or mandates that will come on stream will not create a compliance burden as many of the provisions are either currently met or exceeded.

Future Outlook

We made significant progress during the course of the year towards the implementation of the new insurance software that will create both a stimulating and more productive operating platform for the future.

In addition to keeping pace with technological changes, we have also focused our attention on the product innovations that will keep us ahead of the competition. During 2007, we expect to launch an exciting new twist to our motor product one that is sure to revolutionize the way in which this core product, and its related services, is perceived in the marketplace.

There are a number of private and public sector development projects currently underway in many parts of The Bahamas, including the less populated locations. These projects, together with those that are in the pipeline, will create additional business challenges and opportunities at the same time. We are confident that our group is ideally positioned to navigate the hurdles and take full advantage of the opportunities.

PATRICK G. W. WARD
President & CEO

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2006. EXPRESSED IN BAHAMIAN DOLLARS.

ASSETS	Notes	2006	2005
Cash		$ 5,946,983	$ 2,546,520
Term deposits	5	3,304,799	3,196,297
Investments	6	12,311,967	11,257,379
Investment in associate	7	175,062	117,625
Trade accounts receivable	8, 22	24,940,086	20,660,786
Sundry receivables and prepayments		1,146,752	1,673,195
Receivable from reinsurers		241,436	647,144
Deferred commission costs	9	3,935,094	3,489,108
Unpaid claims recoverable from reinsurers	10	13,651,205	15,723,108
Deferred reinsurance premiums	9	26,290,026	20,891,405
Deferred reinsurance cost	9	4,614,739	4,033,621
Property and equipment	11	10,952,881	9,339,455
Intangible asset	12	2,792,559	2,055,843
TOTAL:		**$ 110,303,589**	**$95,631,486**

LIABILITIES & SHAREHOLDERS' EQUITY	Notes	2006	2005
Bank overdraft	5	$ -	$ 3,493,635
Trade accounts payable		12,394,799	8,002,079
Loan payable	13	6,000,000	-
Unearned commission income	9	5,701,519	5,224,876
Unearned premiums	9	39,733,058	33,364,221
Accrued liabilities		1,606,826	1,112,978
Unpaid claims	10	21,616,446	24,167,641
		87,052,648	**75,365,430**
SHAREHOLDERS' EQUITY:			
Common shares	14	287,855	287,855
Preference shares	14	5,000,000	5,000,000
Contributed surplus		6,162,493	6,162,493
General reserve	15	4,000,000	4,000,000
Revaluation surplus	16	1,079,779	1,079,779
Retained earnings		6,720,814	3,735,929
Total shareholders' equity		**$ 23,250,941**	**20,266,056**
TOTAL:		**$110,303,589**	**$95,631,486**

See notes to consolidated financial statements.

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

_______________________________Director _______________________________Director

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2006. EXPRESSED IN BAHAMIAN DOLLARS.

UNDERWRITING INCOME:	Notes	2006	2005
Gross premiums written	17	$ 98,910,054	$ 82,454,177
Unearned premiums	9	(6,368,837)	(6,409,471)
		92,541,217	**76,044,706**
Premiums ceded to reinsurers		(64,501,892)	(51,972,591)
Deferred reinsurance premiums	9	4,836,837	4,351,275
Net premiums earned		32,876,162	28,423,390
Commission income from reinsurers and non-group insurers		13,420,824	11,214,924
Total underwriting income		**46,296,986**	**39,638,314**

UNDERWRITING EXPENSES:	Notes	2006	2005
Net claims incurred	10	7,508,058	$ 8,802,854
Commission expense		10,821,120	8,459,098
Cost of excess of loss reinsurance		16,533,733	13,512,071
Premium tax		2,871,583	2,378,616
Total underwriting expenses		**37,734,494**	**33,152,639**
Net underwriting income		8,562,492	6,485,675
OTHER INCOME	18	1,353,244	1,185,225
REALIZED GAINS ON INVESTMENTS	6	177,790	-
UNREALIZED GAINS ON INVESTMENTS	6,25	2,299,032	1,479,003
Total income		12,392,558	9,149,903
OTHER EXPENSES:			
Salaries, benefits and bonuses	19	4,737,105	4,438,109
General and administrative expenses	20	3,169,147	3,089,800
Total other expenses		**7,906,252**	**7,527,909**
NET INCOME		**$ 4,486,306**	**$ 1,621,994**
NET INCOME		**$ 4,486,306**	$ 1,621,994
PREFERENCE SHARE DIVIDENDS	14	**(350,000)**	**(235,411)**
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS		**$ 4,136,306**	**$ 1,386,583**
BASIC AND DILUTED EARNINGS PER COMMON SHARE		**$ 0.14**	**$ 0.05**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2006. EXPRESSED IN BAHAMIAN DOLLARS.

	Common Shares	Preference Shares	Contributed Surplus	General Reserve	Revaluation Surplus	Retained Earnings	Total
Balance at December 31, 2004	$ 287,855	$ -	$ 6,162,493	$4,000,000	$1,079,779	$2,925,056	$14,455,183
Shares issued	-	5,000,000	-	-	-	-	5,000,000
Preference share Dividends paid (Note 14)	-	-	-	-	-	(235,411)	(235,411)
Net income	-	-	-	-	-	1,621,994	1,621,994
Dividends paid ($0.02 per common share)	-	-	-	-	-	(575,710)	(575,710)
Balance at December 31, 2005	$287,855	$5,000,000	$6,162,493	$4,000,000	$1,079,779	$3,735,929	$20,266,056
Shares issued (Note 14)	-	-	-	-	-	-	-
Preference share Dividends paid (Note 14)	-	-	-	-	-	(350,000)	(350,000)
Net Income	-	-	-	-	-	4,486,306	4,486,306
Dividends paid ($0.04 per common share)	-	-	-	-	-	(1,151,421)	(1,151,421)
Balance at December 31, 2006	**$287,855**	**$5,000,000**	**$6,162,493**	**$4,000,000**	**$1,079,779**	**$6,720,814**	**$23,250,941**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2006. EXPRESSED IN BAHAMIAN DOLLARS.

CASH FLOWS FROM OPERATING ACTIVITIES:	Notes	2006	2005
Net Income (Loss)		$ 4,486,306	$ 1,621,994
Adjustments for:			
Net gains on investments		(2,476,822)	(1,479,003)
Increase in deferred/unearned premiums and commissions		-	1,839,264
Depreciation and amortization	11	389,157	377,306
Interest income	18	(242,267)	(204,648)
Dividend income	18	(740,572)	(645,365)
Share of net earnings of associate	7	(177,437)	(100,000)
Gain on disposals of property and equipment		(170)	(110)
Net income (loss) from operations		**1,238,195**	**(429,826)**
Increase in trade accounts receivable		(4,279,300)	(7,270,938)
Decrease (Increase) in sundry receivables and prepayments		554,500	(856,543)
Decrease (Increase) decrease in receivable from reinsurers		405,708	(536,693)
Increase in deferred reinsurance costs		(581,118)	(2,065,137)
Increase in deferred commission costs		(445,986)	(1,229,868)
Increase in deferred reinsurance premiums		(5,398,621)	(5,741,869)
Increase in trade accounts payable		4,392,720	2,096,578
Increase in unearned commission income		476,643	1,410,713
Increase in net unpaid claims		(479,292)	1,256,716
(Decrease) increase in accrued liabilities		493,848	(73,871)
Increase in unearned premiums		6,368,837	8,017,293
Net cash (used in) from operating activities		**2,746,134**	**(5,423,445)**

CASH FLOWS FROM INVESTING ACTIVITIES:		2006	2005
Purchase of property and equipment	11	(2,004,469)	(392,898)
Interest received		232,335	304,800
Dividends received		842,449	745,364
Proceeds from disposals of property and equipment		2,054	110
Purchase of investments		(5,556)	(500,000)
Sale of investments		1,427,790	-
Intangible asset on acquisition of business portfolio		(736,716)	(2,055,843)
Term deposits maturing after 90 days		(68,113)	(1,047,716)
Net cash used in investing activities		**(310,226)**	**(2,946,183)**

(Continued)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

AS OF DECEMBER 31, 2006. EXPRESSED IN BAHAMIAN DOLLARS.

CASH FLOWS FROM FINANCING ACTIVITIES:	Notes	2006	2005
Preference share dividends paid		(350,000)	(235,411)
Common share dividends paid		(1,151,421)	(575,710)
Proceeds from issue of shares		-	5,000,000
Proceeds from bank loan		6,000,000	-
Net cash from (used in) financing activities		**4,498,579**	**4,188,879**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		6,934,487	(4,180,749)
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR		**201,465**	**4,382,214**
END OF YEAR		**$ 7,135,952**	**$ 201,465**
CASH AND CASH EQUIVALENTS IS COMPRISED OF:			
Cash		$ 5,946,983	$ 2,546,520
Bank overdraft		-	(3,493,635)
Term deposits maturing within 90 days		1,188,969	1,148,580
		$ 7,135,952	**$ 201,465**

(Concluded)

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006. 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. These consolidated financial statements include the accounts of the 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. The subsidiaries are all wholly-owned and are as follows:

Registered general insurers:
- Bahamas First General Insurance Company Limited ("BFG")
- Allied Bahamas Insurance Company Limited ("ABI")

Registered insurance agencies:
- Nassau Underwriters Agency Insurance Agents And Brokers Limited ("NUA"), (formerly Nassau Underwriters Cole Albury Agency Limited)
- Moseley Burnside Insurance Agency Limited ("MBI")

During the fiscal year, Nassau Underwriters Agency Insurance Agents And Brokers Limited changed its name to Nassau Underwriters Agency Insurance Agents and Brokers Ltd.

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.

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

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group 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 consolidated financials statements the IASB has issued IFRIC 7-12, IAS 1 and IFRS 7-8, 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 consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The following is a summary of the significant accounting policies:

a. Basis of preparation - These consolidated financial statements have been prepared on the accrual basis and under historical cost convention, except for investments carried at fair value through profit and loss, and land and buildings, which are revalued every three years. The accounting policies are consistent with those used in the previous years.

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

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

c. Investment in associate - 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. Investments in associates are carried in the consolidated balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the 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.

d. 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 consolidated 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 consolidated statement of income.

e. Financial instruments:

Classification and measurement - Revisions have been made to IAS 39 Financial instruments: Recognition and Measurement and the changes required to be implemented for years beginning on or after January 1, 2005.

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

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

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

After initial recognition financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value. Term deposits are classified as held-to-maturity financial instruments. They have fixed or determinable payments and fixed maturity dates, and the 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. Trade accounts payable and accrued liabilities are financial liabilities, which are carried at cost.

Investments in Bahamas Registered Stock are designated as held-to-maturity and are carried at amortized cost. Preference share investments are classified as available-for-sale and are carried at cost, as this is considered to be the fair value at the consolidated balance sheet date. Gains and losses arising from changes in fair value of available-for-sale investments are recognised through the consolidated 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 consolidated 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 Group or subsequent selling prices.

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 income.

Investments held-to-maturity are recognized/derecognized on the day they are transferred to/by the Group. 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 consolidated statement of income when it is derecognized or impaired, as well as through the amortization process.

f. Trade accounts receivable - Trade accounts receivable are stated at cost net of an allowance for doubtful accounts. The allowance for doubtful accounts 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 income as an expense as incurred.

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

The estimated useful lives as follows:

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

Freehold land and buildings are stated at fair market value, based on independent professional appraisals, which are performed every three years. Revaluation increments are recorded in the revaluation surplus in the consolidated statement of changes 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.

h. Intangible assets - Effective January 1, 2005, the Group changed its accounting policy in accounting for business combinations to comply with the new accounting standard IFRS 3 Business Combinations and IFRS 4 Insurance contracts with respect to business combination or portfolio transfer.

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

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

(ii) 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 income in the period in which the investment is acquired.

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

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

i. Impairment - The carrying amounts of the Group's assets are reviewed at each consolidated 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 consolidated 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 consolidated 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.

j. 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 balance sheet date. This amount is calculated on a quarterly pro-rated basis.

k. Premiums ceded - Premiums ceded to reinsurers are recognized as expense over the periods covered by the related policies taking into consideration the exposure period to which they relate. Deferred reinsurance premiums in the consolidated balance sheet at year end represent the proportion of the premiums ceded which relate to periods of insurance subsequent to the consolidated balance sheet date. This amount is calculated on a quarterly pro-rated basis.

l. 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 consolidated 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 consolidated statement of income.

m. Deferred acquisition costs

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

Deferred and unearned commissions - At year end 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 balance sheet date. This amount is calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

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

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

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

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

q. Earnings per share - Earnings per share is computed by dividing the net income, after deducting dividends declared on preference shares, by the weighted average number of common shares outstanding during the year. There is no material difference between basic earnings per share and fully diluted earnings per share.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Significant areas requiring 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 consolidated balance sheet date of gross claims reported and loss adjustment expenses and claims incurred but not reported was $21,616,446 (2005: $24,167,641). The amount of reinsurance recoveries estimated at the consolidated balance sheet date is $13,651,205 (2005: $15,723,108).

ii. Impairment of goodwill

Determining whether goodwill 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 Group 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 of goodwill at the balance sheet date was $72,000 (2005: $72,000).

iii. Provision for doubtful accounts

As described in Note 3 provision for doubtful accounts is based on management's evaluation of the respective portfolios. This evaluation is based on the aged analysis of the accounts receivable.

iv. Impairment of intangible assets

Determining whether an intangible asset is impaired requires an estimation of the value in use of the cash generating units. The value in use calculation requires the entity 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.

5. TERM DEPOSITS AND BANK OVERDRAFT

Term deposits are denominated in Bahamian dollars with effective interest rate at 4.92% (2005: 2.81%) 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 Company has a bank overdraft facility with Commonwealth Bank Limited up to $3,000,000, which bears interest at prime plus 1.5% per annum.

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6. INVESTMENTS

Investments are as follows:

	2006	2005
Held-to-maturity:		
Bahamas Registered Stock - at amortized cost		
$1,000,000 10.5% per annum 2006	$ -	$ 1,000,000
$231,000 5.53% (2005; 5.78%) per annum 2015	231,000	231,000
$180,000 5.69% (2005; 5.94%) per annum 2020	180,000	180,800
	411,800	**1,411,800**
At fair value through profit or loss:		
Bahamas International Securities Exchange Limited		
556 (2005: 1) common share - at cost $130,556 (2005: $125,000) less impairment	5,557	1
Commonwealth Bank Limited		
711,000 (2005: 711,000) common shares		
Cost $2,639,852 (2005: $2,639,852)	8,894,610	6,477,210
Kerzner International Limited		
53,079 Bahamian depository receipts		
Cost $0 (2005: $250,000)	-	368,368
	8,900,167	**6,845,579**
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		
of $1,000 each - at cost	500,000	500,000
FOCOL Holdings Limited		
500,000 preference shares of $1 each - at cost	500,000	500,000
	3,000,000	**3,000,000**
Total Investments	**$ 12,311,967**	**$ 11,257,379**

The Commonwealth Bank Limited “A” Class preferred shares are redeemable at the option of the Bank and bears interest at the rate of 7% per annum (2005: 7%). During the year 711,000 ordinary shares and 4,000 preference share of Commonwealth Bank Limited have been pledged to secure the borrowings of the Group (see note 13).

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The Group owns 500 variable rate cumulative redeemable preference shares in FamGuard Corporation Limited (the "Corporation"). The shares bear interest at the rate of prime plus 1.5% per annum, presently 7% (2005: 7%).

The Group also owns 500,000 cumulative redeemable preference shares in FOCOL Holdings Limited. The shares are redeemable at the option of FOCOL and bear interest at the rate of prime plus 1.75%, presently 7¼% (2005: 7¼%).

During the year the Bahamian depository receipts in Kerzner International Limited were redeemed at a price of $8.059 per share to produce a realised gain of $177,790. At December 31, 2006, there is no indication of impairment in value of investments.

7. INVESTMENT IN ASSOCIATE

The Group currently holds a 20% interest in Star General Agency (Grand Bahama) Limited ("Star General") and this investment is comprised as follows:

	2006	2005
Balance at January 1	$ 117,625	$ 117,625
Dividends received during the year	(120,000)	(100,000)
Share of net earnings for the year	177,437	100,000
Balance at December 31	**$ 175,062**	**$ 117,625**

Unaudited	2006	2005
Total assets	**$ 6,747,244**	**$ 5,832,134**
Total liabilities	**6,295,873**	**5,512,922**
Revenues	**3,105,792**	**2,779,400**
Net income	**$ 731,159**	**$ 473,094**

The 2005 share of net earnings was based on unaudited figures. During the year, audited financial statements were received showing an additional $31,206 of income. The 2006 share of net earnings includes an amount based on unaudited accounts for the year plus the prior year's adjustment.

Investment in associate includes $72,000 in goodwill. In 2004 and prior years goodwill was being amortized to income over a period of 5 years. Following the introduction of IFRS 3 Business Combinations, goodwill is no longer amortized but tested for impairment annually together with the total carrying value of the investment in associate. At December 31, 2006 no provision for impairment of this investment in associate was considered necessary.

8. TRADE ACCOUNTS RECEIVABLE, NET

At December 31, 2006 trade accounts receivable are shown net of the allowance for doubtful accounts. The movement in the allowance for doubtful accounts is as follows:

	2006	2005
Trade accounts receivable, gross	$25,772,370	$21,463,201
Provision:		
Balance at January 1	802,415	792,341
Increase in provision for the year	140,755	60,825
Bad debts written off for the year	(110,886)	(50,751)
Balance at December 31	**$832,284**	**$802,415**
Trade accounts receivable, net	**$24,940,086**	**$20,660,786**

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9. DEFERRED/UNEARNED PREMIUMS AND COMMISSIONS

The movements in the deferred/unearned premiums and commissions are as follows:

	Insurance Assets			Insurance Liabilities		
	Deferred Reinsurance Premiums	Deferred Commission Costs	Deferred Reinsurance Costs	Unearned Premiums	Unearned Commission Income	Net
Balance at December 31, 2005	$15,149,536	$2,259,240	$1,968,484	$(25,346,928)	$(3,814,163)	$(9,783,831)
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	4,351,275	913,288	2,065,137	(6,409,471)	(694,356)	225,873
Balance at December 31, 2005	20,891,405	3,489,108	4,033,621	(33,364,221)	(5,224,876)	(10,174,963)
Portfolio transfer as a change in net retention	561,783	-	-	-	(235,387)	326,396
Movement during the year	4,836,838	445,986	581,118	(6,368,837)	(241,256)	(746,151)
Balance at December 31, 2006	**$26,290,026**	**$3,935,094**	**$4,614,739**	**$(39,733,058)**	**$(5,701,519)**	**$(10,594,718)**

10. UNPAID CLAIMS AND CLAIMS INCURRED

	Gross	Reinsurance	Net
Unpaid claims at December 31, 2004	**$ 46,790,651**	**$ (39,602,834)**	**$ 7,187,817**
Claims incurred	18,221,710	(9,418,856)	8,802,854
Claims paid	(40,844,720)	33,298,582	(7,546,138)
Unpaid claims at December 31, 2005	**24,167,641**	**(15,723,108)**	**8,444,533**
Claims incurred	21,748,161	(14,240,103)	7,508,058
Claims paid	(24,299,356)	16,312,006	(7,987,350)
Unpaid claims at December 31, 2006	**$ 21,616,446**	**$ (13,651,205)**	**$ 7,965,241**

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

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						5,980,777
Total unpaid claims including amount recoverable from reinsurer in the Consolidated Balance Sheet						**$21,616,446**

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11. PROPERTY AND EQUIPMENT

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

	Land	Buildings	Furniture & Equipment	Leasehold Improvements And Others	Software Development In Progress	Total
COST/VALUATION:						
At January 1, 2006	$2,329,322	$6,203,869	$1,785,320	$448,300	$ -	$10,766,811
Additions	-	-	85,176	13,651	1,537,373	1,636,200
Transfer	-	-	-	-	368,269	368,269
Disposals	-	-	(13,086)	-	-	(13,086)
At December 31, 2006	**2,329,322**	**6,203,869**	**1,857,410**	**461,951**	**1,905,642**	**12,758,194**
ACCUMULATED DEPRECIATION:						
At January 1, 2006	**$ -**	**$ 155,932**	**$ 901,351**	**$370,073**	**$ -**	**$ 1,427,356**
Charge for the year	-	158,672	176,987	53,498	-	389,157
Disposals	-	-	(11,200)	-	-	(11,200)
At December 31, 2006	**-**	**314,604**	**1,067,138**	**423,571**	**-**	**1,805,313**
NET BOOK VALUE:						
At December 31, 2006	**$2,329,322**	**$5,889,265**	**$ 790,272**	**$ 38,380**	**$ 1,905,642**	**$10,952,881**
At December 31, 2005	**$2,329,322**	**$6,047,937**	**$ 883,969**	**$ 78,227**	**-**	**$ 9,339,455**

At December 31, 2004 land and the 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 $2,329,322 and $5,990,130, respectively, based on the cost approach and the surplus arising on the revaluation of $1,079,779 was included in revaluation surplus in shareholders' equity (See note 16). The net book value of the land and building of the Group, ignoring the effects of the revaluation, would have been $2,118,844 and $5,019,974 (2005: $2,118,844 and $5,178,636) respectively.

During the year, the Company transferred $368,269 of software development from the prior year prepayments to the current year property and equipment.

12. INTANGIBLE ASSET/GOODWILL

During the year NUA acquired ownership of the portfolio of one of its sub-agents for a consideration of $100,000.

BFG 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 resulting in a total acquisition cost of $2,386,716. The Group 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 BFG 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 assets are considered to have an indefinite useful life and are not being amortized; however, they are tested for impairment annually.

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The intangible asset is comprised as follows:

	2006	2005
Consideration paid	$ 2,486,716	$ 1,750,000
Net amount received in respect of liabilities assumed	(523,011)	(523,011)
Reinsurance cost associated with portfolio	828,854	828,854
	$ 2,792,559	**$ 2,055,843**

13. LOAN PAYABLE

During the year, upon obtaining the necessary regulatory approval, BFH negotiated a loan in the amount of US$6,000,000 with The Bank of N.T. Butterfield & Son Limited. Full and final repayment of the loan is due one year after initial draw down. The loan bears interest at 2% above U.S. LIBOR per annum. The loan is secured by shares in Commonwealth Bank Limited (see note 6).

14. SHARE CAPITAL

The Group's share capital is comprised as follows:

	2006	2005
Common shares		
Authorised: 35,000,000 at $0.01 each		
Issued and fully paid: 28,785,572 (2005: 28,785,572) par value $0.01 per share	**$ 287,855**	**$ 287,855**
Preference shares		
Authorised: 5,000,000 at $1.00 each		
Issued and fully paid: 5,000,000 (2005: 5,000,000) par value $1.00 per share	**$ 5,000,000**	**$ 5,000,000**

The weighted average number of common shares for the purposes of earnings per common share is 28,785,572 (2005: 28,785,572). The Preference Shares are non-convertible, non-voting, cumulative, redeemable "A" with a dividend rate of 7% per annum.

15. GENERAL RESERVE

The Group has established a general reserve from retained earnings in the amount of $4,000,000 (2005: $4,000,000), which the directors have determined is not available for distribution.

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16. REVALUATION SURPLUS

The movement in the revaluation surplus is as follows:

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

17. GROSS PREMIUMS WRITTEN

Gross premiums written are as follows:

	2006	2005
Group agents	$ 37,858,186	$ 34,609,270
Non group agents	57,372,396	44,608,321
Associate	3,679,472	3,236,586
	$ 98,910,054	**$ 82,454,177**

18. OTHER INCOME

Other income is as follows:

	2006	2005
Dividend income	$ 740,572	$ 645,365
Claims handling fees	188,100	227,030
Interest income	242,267	204,648
Share of net earnings from associate (Note 7)	177,437	100,000
Other income	4,868	8,182
	$ 1,353,244	**$1,185,225**

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19. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a profit sharing bonus payable to certain directors, management and staff amounting to $200,000 (2005: $188,322). This amount, which represents a minimum bonus payment was determined and approved by the Board of directors. In previous years, bonus was calculated at 15% of the average net earnings of the Group over the three years ended with the current year before profit sharing, amortization of goodwill and realized and unrealized gain or loss on investments at fair value through profit or loss.

The majority of the Group's employees participate in a defined contribution pension plan, which the Group contributes 3% to 5% per annum of base salary. The Group paid contributions for the year amounting to $101,007 (2005: $133,918).

20. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised as follows:

	2006	2005
Directors' and officers' fees	$ 133,000	$ 135,000
Depreciation and amortization	389,157	377,306
Other general and administrative expenses	2,646,990	2,577,494
	$ 3,169,147	**$3,089,800**

21. COMMITMENTS

Commitments under operating leases for premises are as follows:

	2006	2005
Within 1 Year	$ 3,047	$36,564
Within 2 to 5 Years	-	9,141
	$ 3,047	**$45,705**

In September 2005, the Group accepted a proposal from Computer Science Corporation (CSC) for the licence and customizations of a new insurance software. The estimated cost of the project including software, hardware and other implementation cost is $2.3 million and is to be paid over a two year period.

As of December 31, 2006 some $1,858,115 million (2005: $368,269) of this amount has been incurred.

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22. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances are as follows:

	2006	2005
Gross premiums written for related parties	$ 3,704,886	$ 3,644,868
Trade accounts receivable	$ 1,024,882	$ 1,054,437

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 are as follows:

	2006	2005
Salaries and other benefits	$ 841,328	$ 800,221
Post employment benefits	33,721	32,584
	$ 875,049	**$ 832,805**

23. CONTINGENCIES

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

24. INSURANCE RISK

BFG 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, the risk is random and therefore unpredictable.

BFG follows the policy of underwriting and reinsuring contracts of insurance, which generally limit the liability of BFG for any one risk to a maximum amount of not more than 1% of BFH's capital and reserves. 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 frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. BFG manages these risk through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. Underwriting limits are in place to enforce appropriate risk selection criteria. BFG actively manages and pursues early settlement of all claims to reduce it exposure to unpredictable developments.

25. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

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

Market price risk - Market price 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 Group intends to hold for the long-term.

The Group 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 Group may have difficulty liquidating its positions due to existing or unforeseen market constraints. The Group's investments 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 Group 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.

26. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

27. EVENTS AFTER THE BALANCE SHEET DATE

During March 2007, BFH acquired a 30% minority interest in a local insurance agency. The insurance agency is an agent for BFG. Consideration of $500,000 for this acquisition was applied to the trade accounts receivable of the Agent with BFG.

INDEPENDENT AUDITORS' REPORT

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Bahamas First Holdings Limited:

We have audited the accompanying consolidated financial statements of Bahamas First Holdings Limited (the "Group"), which comprise the balance sheet as of December 31, 2006, and the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as 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

A member firm of
Deloitte Touche Tohmatsu

CORPORATE INFORMATION

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Registrar and Transfer Agents:
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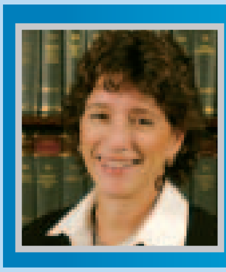
DIRECTORS & OFFICERS

IAN D. FAIR
Chairman

PATRICK G. W. WARD
President & CEO

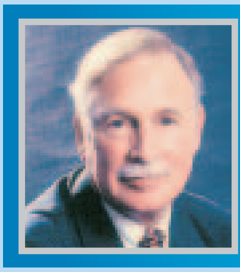
JOHN DUNKLEY
Vice President/
Director

QUENTIN CHISNALL
Director



JUDY WHITEHEAD
Director

GRAHAM GARNER
Director



ROBERT INKSATER
Director

VENENTIA CAMBRIDGE, Secretary
CAROLYN A. MILLER, Assistant Secretary

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