BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

Financial Statements For The Year Ended December 31, 2004 And Independent Auditors' Report

Deloitte.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

TABLE OF CONTENTS

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Bahamas First General Insurance Company Limited:

We have audited the accompanying balance sheet of Bahamas First General Insurance Company Limited (the "Company") as of December 31, 2004, and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of December 31, 2003 were audited by another auditor, whose report dated April 19, 2004 expressed an unqualified opinion.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

April 22, 2005

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

BALANCE SHEET
AS OF DECEMBER 31, 2004
(Expressed in Bahamian dollars)

	2004	2003
ASSETS		
Cash (Note 3)	$ 2,814,899	$ 4,661,982
Term deposits (Note 3)	2,099,685	4,213,679
Investments (Note 4)	7,069,344	5,899,214
Receivables from agents and brokers (Note 5)	11,377,988	9,334,688
Sundry receivables and prepayments	325,868	183,419
Receivable from reinsurers	98,975	1,027,440
Interest receivable	60,051	101,905
Deferred commission costs (Note 6)	6,236,939	5,647,656
Unpaid claims recoverable from reinsurers (Note 7)	39,511,063	6,272,235
Deferred reinsurance premiums (Note 6)	19,866,941	18,890,538
Receivables from related company (Note 5)	8,384,348	5,410,030
Property and equipment (Note 8)	2,005,443	1,593,132
	$ 99,851,544	$ 63,235,918

(Continued)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

BALANCE SHEET
AS OF DECEMBER 31, 2004
(Expressed in Bahamian dollars)

	2004	2003
LIABILITIES AND SHAREHOLDER'S EQUITY		
Payable to reinsurers	$ 4,800,378	$ 2,840,246
Unearned commission income (Note 6)	3,973,389	3,778,108
Unearned premiums (Note 6)	31,184,690	28,238,275
Payable to agents and brokers (Note 5)	1,605	208,418
Accrued liabilities	741,808	525,187
Dividends payable	-	1,025,000
Bank overdraft (Note 3)	368,261	-
Unpaid claims (Note 7)	46,615,493	12,104,046
	87,685,624	48,719,280
SHAREHOLDER'S EQUITY:		
Share capital (Note 9)	1,600,000	1,600,000
General reserve (Note 10)	3,500,000	3,500,000
Revaluation surplus (Note 11)	3,615,989	2,602,679
Retained earnings	3,449,931	6,813,959
Total shareholder's equity	12,165,920	14,516,638
TOTAL	$ 99,851,544	$ 63,235,918

(Concluded)

See notes to financial statements.

These financial statements were approved by the Board of Directors on April 22, 2005 and are signed on its behalf by:

Director

Director

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2004
(Expressed in Bahamian dollars)

	2004	2003
UNDERWRITING INCOME:		
Gross premiums written (Note 5)	$ 61,258,073	$ 57,608,256
Unearned premiums (Note 6)	272,649	2,885,800
	61,530,722	60,494,056
Premiums ceded to reinsurers	(37,469,401)	(38,133,118)
Deferred reinsurance premiums (Note 6)	262,419	(2,752,788)
Net premiums earned	24,323,740	19,608,150
Commission income from reinsurers	8,657,682	10,796,879
Total underwriting income	32,981,422	30,405,029
UNDERWRITING EXPENSES:		
Net claims incurred (Note 7)	10,396,224	4,841,933
Commission expense (Note 5)	11,173,284	11,312,360
Cost of excess of loss reinsurance	10,854,789	6,969,286
Premium tax	1,763,009	1,256,877
Total underwriting expenses	34,187,306	24,380,456
Net underwriting (loss) income	(1,205,884)	6,024,573
OTHER INCOME (Notes 5 and 12)	1,386,561	1,078,042
OTHER EXPENSES:		
Salaries, benefits and bonuses (Note 13)	1,470,443	1,665,599
General and administrative expenses	1,216,885	1,080,918
Management fees (Note 5)	737,529	816,613
Directors' and officers' fees	-	10,000
Depreciation and amortisation (Note 8)	119,848	99,762
Total other expenses	3,544,705	3,672,892
NET (LOSS) INCOME	$ (3,364,028)	$ 3,429,723

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2004
(Expressed in Bahamian dollars)

	Share Capital	General Reserve	Revaluation Surplus	Retained Earnings	Total
Balance at December 31, 2002	$1,600,000	$3,500,000	$2,794,616	$4,409,236	$12,303,852
Net income	-	-	-	3,429,723	3,429,723
Net decrease (Note 11)	-	-	(191,937)	-	(191,937)
Dividends	-	-	-	(1,025,000)	(1,025,000)
Balance at December 31, 2003	1,600,000	3,500,000	2,602,679	6,813,959	14,516,638
Net loss	-	-	-	(3,364,028)	(3,364,028)
Net increase (Note 11)	-	-	1,013,310	-	1,013,310
Balance at December 31, 2004	$1,600,000	$3,500,000	$3,615,989	$3,449,931	$12,165,920

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004
(Expressed in Bahamian dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (3,364,028)	$ 3,429,723
Adjustments for:		
Investment income	(489,554)	(458,455)
Interest income	(275,429)	(294,725)
Decrease in deferred/unearned premiums and commissions	(428,054)	(106,410)
Depreciation and amortization (Note 8)	119,848	99,762
Gain on disposal of property and equipment	(16,350)	(7,500)
Net (loss) income from operations	(4,453,567)	2,662,395
Increase in receivable from agents and brokers	(2,043,300)	(239,355)
Decrease in receivable from reinsurers	928,465	524,060
Increase in receivable from related company	(2,974,318)	(1,578,975)
(Decrease) increase in sundry receivables and prepayments	(142,449)	83,681
Increase in deferred commission costs	(643,813)	-
Increase (decrease) in net unpaid claims	1,272,619	(211,581)
Increase in deferred reinsurance premiums	(713,984)	-
Increase in unearned commission income	142,797	-
Increase in unearned premiums	3,219,064	-
Increase (decrease) in payable to reinsurers	1,960,132	(540,268)
(Decrease) increase in payables to agents and brokers	(206,813)	208,418
Increase in accrued liabilities	216,621	149,426
Net cash (used in) from operating activities	(3,438,546)	1,057,801
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment (Note 8)	(27,179)	(71,291)
Investment income received	489,554	458,455
Interest received	317,283	284,311
Proceeds from disposals of property and equipment	16,350	7,500
Purchase of investments	(661,800)	-
Increase in term deposits maturing after ninety days	(1,000,000)	-
Net cash (used in) from investing activities	(865,792)	678,975

(Continued)

See notes to financial statements.

BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004
(Expressed in Bahamian dollars)

	2004	2003
CASH FLOWS FROM FINANCING ACTIVITY:		
Dividends paid	(1,025,000)	(200,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,329,338)	1,536,776
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	8,875,661	7,338,885
END OF YEAR	$ 3,546,323	$ 8,875,661
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	$ 2,814,899	$ 4,661,982
Bank overdraft	(368,261)	-
Term deposits maturing within ninety days	1,099,685	4,213,679
	$ 3,546,323	$ 8,875,661

(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 Cole Albury Agency Limited ("NUCA") 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, 2004 was 30 (2003:29).

2. 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*** -The accounting policies have been applied consistently by the Company and are consistent with those used in the previous years except for unearned premium which is shown gross as detailed in note 6, investment available-for-sale which is valued at the fair market value as detailed in note 4, and premium tax which is disclosed separately without netting off against the gross premiums. Prior year figures have been reclassified to conform with current year presentation.

b. ***Financial instruments:***

i. ***Classification and measurement*** - Financial instruments are required to be classified as either held-to-maturity, available-for-sale, held for trading purposes or originated by the Company.

Term deposits and investment in Bahamas Government Registered stock are classified as held-to-maturity financial instruments. They have fixed or determinable payments and fixed maturity dates, and the Company has the intent and ability to hold them to maturity. They are measured at amortized cost less any write-down for impairment or uncollectibility. Amortized cost is calculated using the effective interest rate method.

ii. ***Recognition and derecognition*** - The Company recognizes/derecognizes investments available-for-sale on the trade date. The change in the fair value of investments available-for-sale is included in the revaluation surplus in shareholder's equity until the investment is sold or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognized in the revaluation surplus will be included in net earnings for the year.

Investments held-to-maturity are recognized/derecognized on the day they are transferred to/by the Company. A gain or loss is recognized in net earnings for the year when the held-to-maturity investment is derecognized or impaired, as well as through the amortization process.

According to the provisions of International Accounting Standard 39, 'Financial Instruments: Recognition and measurement' the Company values its quoted available-for-sale financial instruments at the quoted market price at the balance sheet date.

c. ***Trade accounts receivable*** - Trade accounts receivable are stated net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on management's evaluation of the accounts receivable portfolio.

d. ***Property and equipment*** - Property and equipment, except freehold land and building, 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.

The estimated useful lives as follows:

Building	40 years
Leasehold improvement and furniture and equipment	5 - 10 years
Motor vehicles	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 shareholders' 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.

e. ***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.

Where the available-for-sale asset is impaired the cumulative net loss previously recognized in the revaluation surplus in shareholder's equity is removed and recognized in the statement of income in the current period even though the asset has not been derecognized. All subsequent losses are recognized in the statement of income, unless the fair value or the recoverable amount of the asset increases, then all losses previously recognized are reversed in the statement of income.

An impairment loss in respect of held-to-maturity assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

f. ***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 evaluation in the light emerging claims experience and changing circumstances. Changes in estimate of the ultimate liability are included in net claims incurred in the statement of income.

g. ***Premiums*** - Premiums written and premiums ceded to reinsurers are recognized as income and expense over the periods covered by the related policies. 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 and deferred reinsurance premiums respectively.

Unearned premiums and deferred reinsurance premiums at year end represents the proportion of the net premiums written which relates to periods of insurance subsequent to the balance sheet date. This amount is calculated on a quarterly pro-rated basis.

h. ***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.

i. ***Premiums ceded to reinsurers*** - The Company follows the policy of underwriting and reinsuring contracts of insurance, which generally limits the liability of the Company to a maximum amount for any one risk of not more than 1% (2003: 1%) of the Company's 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.

Reinsurance is placed using a combination of proportional and excess of loss treaties. This reinsurance does not, however, relieve the Company of its primary obligation to the policyholders.

j. ***Commissions received and paid*** - Base commissions paid to agents and received from insurers and reinsurers are calculated based on gross premiums written and reinsured. Commissions received and paid are adjusted so that they are recognized over the period of the policy to which they relate.

Commissions received from reinsurers are calculated based on past underwriting results, and are received from the Company's reinsurers. The agency profit commissions are recorded in the year in which Company agents receive notification of the commission and reinsurance profit and override commissions are recorded on an accruals basis.

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

l. ***Expenses*** - All expenses are recognized in the statement of income on an accrual basis.

m. ***Related parties*** - Related parties include officers, directors, shareholder and companies that are controlled by these parties.

3. CASH AND TERM DEPOSITS

At December 31, 2004 $270,192 (2003: $1,057,205) of cash earned interest at the rate of 3% (2003: 3%) per annum on one of the Company's current accounts.

Term deposits are denominated in Bahamas dollars with effective interest rate at 4.25% (2003: 4.25% to 4.75%) per annum.

	2004	2003
Term deposits maturing within 90 days	$ 1,099,685	$ 4,213,679
Term deposits maturing after 90 days	1,000,000	-
	$ 2,099,685	$ 4,213,679

The Company's bank overdraft amounting to $368,261 (2003: Nil) bears interest at prime plus 1.5% or 7.5% per annum and is secured by hypothecation of the term deposits amounting to $2,099,685.

4. INVESTMENTS

Investments are as follows:

	2004	2003
Held-to-maturity:		
Bahamas Government Registered Stock - at amortized cost		
$1,000,000 10.5% per annum 2006	$ 1,000,000	$ 1,000,000
$231,000 6.28% per annum 2015	231,000	-
$180,800 6.44% per annum 2020	180,800	-
	1,411,800	1,000,000
Available-for-sale:		
Commonwealth Bank Limited		
399,869 (2003: 399,869) common shares cost $371,334 (2003: $371,334)	2,839,070	2,399,214
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
Kerzner International Limited		
53,079 common shares cost $250,000 (2003: Nil)	318,474	-
	5,657,544	4,899,214
	$ 7,069,344	$ 5,899,214

The Commonwealth Bank Limited "A" Class preferred shares are redeemable at the option of the Bank and bear interest at the rate of 9% (2003: 9%) per annum.

The Company owns 500 variable rate cumulative redeemable preference shares in FamGuard Corporation Limited (the "Corporation"). The shares, which are redeemable at the option of the Corporation but not prior to December 31, 2005, bear interest at the rate of prime plus 1.5% per annum. The interest rate on the preference shares at December 31, 2004 is 7.5% per annum.

The Company values its quoted available-for-sale investments at the quoted market price at the balance sheet date according to the provisions of International Accounting Standard 39, 'Financial Instruments: Recognition and Measurement'.

At December 31, 2004 there is no indication of impairment in value of investments in stock and shares.

5. RELATED PARTY BALANCES AND TRANSACTIONS

Premiums written for the year of $30,206,217 (2003: $29,979,316), on which commissions totaling $5,658,931 (2003: $5,945,320) were paid, have been generated by Group agents. As of December 31, 2004 balances receivable were $2,937,302 (2003: $2,509,154 receivable; $95,256 payable) from Group agents and are included in the balance sheet. No interest is received on these balances.

Bahamas First Corporate Services Ltd. ("BFCS"), a subsidiary of BFH, provides administrative and corporate services for the Company. For the year ended December 31, 2004 $737,529 (2003: $816,613) was charged by BFCS in respect of management fees. The amount due from BFCS of $8,384,348 (2003: $5,410,030) is unsecured, interest-free and has no specified terms of repayment.

Other income includes rental income of $120,000 (2003: $120,000) received from NUCA (See note 12).

6. DEFERRED/UNEARNED PREMIUMS AND COMMISSIONS

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

	Unearned Premiums	Unearned Commission Income	Deferred Reinsurance Premiums	Deferred Commission Costs	Net
Balance at January 1, 2003	$(31,124,075)	$ (4,328,665)	$ 21,643,326	$ 6,224,815	$ (7,584,599)
Movement during the year	2,885,800	550,557	(2,752,788)	(577,159)	106,410
Balance at December 31, 2003	(28,238,275)	(3,778,108)	18,890,538	5,647,656	(7,478,189)
Portfolio transfer as a change in net retention	-	255,350	(1,276,751)	-	(1,021,401)
Portfolio transfer as a result of					-
acquisition of new portfolio	(3,219,064)	(398,147)	1,990,735	643,813	(982,663)
Movement during the year	272,649	(52,484)	262,419	(54,530)	428,054
Balance at December 31, 2004	$(31,184,690)	$ (3,973,389)	$ 19,866,941	$ 6,236,939	$ (9,054,199)

7. UNPAID CLAIMS AND CLAIMS INCURRED

The establishment of the provision for unpaid claims (including adjustment expense) is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These include, but are not limited to, the Company's experience with similar cases and historical trends involving claims occurrence and frequency patterns.

Consequently, the process of determining the provision necessarily involves the risk that the actual results will deviate, perhaps substantially, from the best estimate made.

	Gross	Reinsurance	Net
Unpaid claims at December 31, 2002	$ 13,434,771	$ (7,391,379)	$ 6,043,392
Claims incurred	8,951,651	(4,109,718)	4,841,933
Claims paid	(10,282,376)	5,228,862	(5,053,514)
Unpaid claims at December 31, 2003	12,104,046	(6,272,235)	5,831,811
Claims incurred	103,330,497	(92,934,273)	10,396,224
Claims paid	(68,819,050)	59,695,445	(9,123,605)
Unpaid claims at December 31, 2004	$ 46,615,493	$(39,511,063)	$ 7,104,430

8. 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, 2004	$ 285,000	$ 1,226,144	$ 412,332	$ 1,923,476
Appreciation	142,500	246,356	-	388,856
Additions	-	-	27,179	27,179
Disposals	-	-	(184,113)	(184,113)
At December 31, 2004	427,500	1,472,500	255,398	2,155,398
ACCUMULATED DEPRECIATION/ AMORTIZATION:				
At January 1, 2004	$ -	$ 77,416	$ 252,928	$ 330,344
Charge for the year	-	38,708	81,140	119,848
Disposals	-	-	(184,113)	(184,113)
Transfer to revaluation surplus	-	(116,124)	-	(116,124)
At December 31, 2004	-	-	149,955	149,955
NET BOOK VALUE:				
At December 31, 2004	$ 427,500	$ 1,472,500	$ 105,443	$ 2,005,443
At December 31, 2003	$ 285,000	$ 1,148,728	$ 159,404	$ 1,593,132

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 revaluation surplus arising on the revaluation of $504,980 (2003: $574,799) was included in revaluation surplus in shareholders' equity at December 31, 2004 (See note 11). The net book value of the land and building, ignoring the effects of the revaluation, would have been $217,022 and $603,199 (2003: $217,022 and $667,349) respectively.

9. SHARE CAPITAL

The authorized share capital is 2,500,000 at $1.00 each, while issued and fully paid was $1,600,000 (2003: $1,600,000).

10. GENERAL RESERVE

The Company has established a general reserve from retained earnings in the amount of $3,500,000 (2003: $3,500,000), which is not available for distribution.

11. REVALUATION SURPLUS

The movement in the revaluation surplus is as follows:

	Investments available-for-sale	Freehold Land	Freehold Buildings	Total
Balance at January 1, 2003	$ 2,219,817	$ 67,978	$506,821	$2,794,616
Net decrease	(191,937)	-	-	(191,937)
Balance at December 31, 2003	2,027,880	67,978	506,821	2,602,679
Net increase	508,330	142,500	362,480	1,013,310
Balance at December 31, 2004	$ 2,536,210	$210,478	$869,301	$3,615,989

12. OTHER INCOME

Other income is as follows:

	2004	2003
Investment income	$ 489,554	$ 458,455
Claims handling fees	428,600	158,250
Interest	275,429	294,725
Rental income (Note 5)	120,000	120,000
Other income	72,978	46,612
	$ 1,386,561	$ 1,078,042

13. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a profit sharing bonus payable to certain directors, management and staff amounting to $87,092 (2003: $349,848). 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. Also included in salaries, benefits and bonuses is $347,229 (2003: $333,772), including profit sharing bonus, paid to executive Directors for the year.

The majority of the Company's employees participate in a defined contribution pension plan into which the Group contributes 3% to 5% per annum of base salary. The Company paid contributions for the year amounting to $35,059 (2003: $42,229), which is included in salaries, benefits and bonuses in the statement of income.

14. 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.

15. 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 is the risk that the value will fluctuate as a result of changes in market prices. There are two investments which are exposed to market risk, Commonwealth Bank Limited and Kerzner International Limited which are held for the long-term.

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 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 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.

16. 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, and
c. Carrying values approximate current market values

17. SUBSEQUENT EVENTS

a. ***Acquisition of a general insurance portfolio*** - Subsequent to the year end BFG entered into negotiations with a Bahamian registered general insurer and, subject to regulatory approval, it is the intention of BFG to assume their portfolio of general insurance business with effect from March 1, 2005, or some other date to be mutually agreed upon, for consideration. Subsequent to the transfer date, all new and renewal business will be transacted through the general agency operation associated with the insurer.

b. ***Share capital*** - Subsequent to year end, BFH is raising the necessary funds to increase its shareholding in the Company by some $5,000,000.

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