BAHAMAS FIRST
HOLDINGS LIMITED

2008 ANNUAL REPORT

BAHAMAS FIRST HOLDINGS LIMITED

Annual Report & Consolidated Financial Statements For Year Ended December 31, 2008

2008
ANNUAL REPORT

MESSAGE FROM THE CHAIRMAN

THE WELL-KNOWN Chinese proverb "May you live in interesting times" was never truer during the course of 2008 and into early 2009. The financial world finds itself in turmoil and virtually no one has been spared. For most of us, this is the most tumultuous time in our lives, certainly in economic terms.There has been a huge reduction in asset values and overall wealth, certainly more so than at any time since the 1930s.

John Templeton, one of the most respected investors and financial thinkers of the 20th Century and a long time resident of The Bahamas before he passed away last year, had a framed plaque in his office which said "Trouble is Opportunity". The pendulum theory is very clearly at work here, having gone from one extreme to the other in a very short period of time. Bear markets are well known for being generally shorter than bull markets and extremely brutal. The latter has never been more accurate in this downturn; the jury is still out on the former point.

A recent report in The Economist on the future of finance was entitled "Greed and Fear". Having been through a significant bull market in the world, we now have a massive "bull market" in fear. Whilst this is certainly understandable in light of the current financial meltdown, the pervasive fear and deep concern for the future is leading even healthy participants in the global economy to suspend or significantly reduce their activity. Preservation of cash is the order of the day. As we now know, excess leverage was probably the key contributor to the current problems facing the world as it grapples with the future. By way of example, four of the world's countries which have so far suffered more than most in this downturn -- the United States, United Kingdom, Spain and Ireland -- enjoyed substantial housing booms, driven primarily by a huge amount of debt and leverage beyond acceptable norms.

The world, including our Bahamas, is facing a much-changed future. Cool heads must prevail as we sail into these uncharted waters and steer a new course for future generations. As Franklin Roosevelt said in his first inaugural address as President of the USA "the only thing we have to fear is fear itself". We need to consider such factors as a changing world order, global interdependence and solutions, protectionism (which must not be allowed to develop), demographics (particularly changing birth rates, the baby boomer generation and the aging population in many developed countries), changes in oversight and regulation and other challenges.

2008 was another good year for the underwriting and insurance aspect of our business. The disappointment was clearly in our investment portfolio that suffered in line with the world's markets. However, we must not forget that this aspect of the business protected us during the early part of this decade, when we were faced with other challenges. Mark to market issues relating to how long term investments are accounted for under International Financial Reporting Standards has been the cause of much debate recently on a global basis and to this we are not immune.

Our partnership with The Economical Insurance Group continues to bear fruit. Their participation at Board level has been most beneficial as we plan for the future. Also, we have the significant benefit of cross fertilization with members of our staff going to Canada on training courses which enable them to interact with colleagues from elsewhere. In the other direction, a number of their staff visited us, to both learn and assist in our ongoing development. This is an invaluable resource for us and will significantly contribute to our future.

Your Board continues to be very focused on our future strategy, which is one of our key mandates. We continue to look for opportunities to grow our business, whilst at the same time focusing on our current activities to ensure that our Executive team is conducting them in the most effective manner.

Bahamas First would not be what it is without the dedication and commitment of our stakeholders. I extend my personal thanks and those of the Board to all who continue to be real "team players" as we move forward. You are a First Class group and your continued support will ensure our continued success.

We now move forward to the challenges of the future. Winston Churchill said during the 1940s "If you are going through Hell, keep going". As we pass through the eye of this current economic storm we must continue to commit our energies to developing Bahamas First as an industry leader and a responsible member of our society.

IAN D. FAIR
Chairman

2008
ANNUAL REPORT

MESSAGE FROM THE **PRESIDENT**

THE COMING YEARS will no doubt mark the emergence of volumes of commentary, both informed and speculative, on the market changing events of 2008. On a worldwide basis, we have witnessed significant turmoil in almost every asset category in every sector of the globe. A broader awareness of the fundamental problems emerged in the second half of 2008 but, because of the traditional lag effect here in The Bahamas, we did not really begin to see a major downturn in economic activity until the 4th quarter of 2008.

The deteriorating economic environment, fortunately, did not impact our business in a significant way in 2008. We are, however, as an insurance group, dependent on investment income as a core earnings generator and in this regard we did see the largest year over year reduction in the history of the Group.

It should be borne in mind, however, that over the 24 months to 31st December 2008 the value of our investment portfolio increased by over $6 million. Since our original purchase of the Commonwealth Bank ordinary shares, the value has increased from $2.6 million to $14.9 million and, additionally, we have received significant dividend income on this investment during the period.

While the investment results are disappointing, I am pleased to be able to report that the Group achieved its best ever technical result with an underwriting income of $16.9 million, representing an increase of 18% over 2007, which itself was a record high.

The improvement in the underwriting result was largely on account of beneficial pricing and containment of claims costs for the main lines of business within our portfolio. The absence of any noticeable catastrophe related claims was certainly a major factor.

The net technical result increased to $4.7 million in 2008, representing a 20% increase over 2007.

The earnings per common share for 2008 fell to $0.09 compared to $0.48 in 2007, reflecting the massive shift in investment earnings. During 2007, BFH experienced an unrealized gain of $8.9 million, compared to an unrealized loss of $2.9 million for 2008.

The combined operating ratio in 2008 was 87% compared to 89% in 2007, despite the higher claims ratio in 2008, and this indicates that our underwriting expense ratio improved for the year.

For the second consecutive year the Group's gross premium income levels exceeded $100 million, notwithstanding the difficult operating environment that characterized the second half of 2008.

Total dividend payments for the year amounted to $0.09 per share, although $0.02 of this amount related to an extraordinary payout on the basis of the 2007 record performance.

Shareholders' equity remained flat at $46.4 million, with a slightly improved solvency ratio, compared to 2007, and we were indeed happy to note that our current A M Best rating of A-(Excellent) was once again reaffirmed, with a stable outlook.

In the 2007 financial statements we highlighted the fact that 2008 represented BFG's 25th year of trading. During the year, we marked the occasion with several events culminating in a grand and memorable celebration in November of 2008. The level of enthusiastic shareholder, staff and customer participation exceeded our original expectations.

The Chairman has expressed his thanks and appreciation to our board colleagues and I am pleased to join him in this regard. On behalf of all of us, I would like to extend a heartfelt thanks and appreciation to our Agents, and the Management and Staff, who together drive this great company forward.

PATRICK G. W. WARD
President & CEO

SUMMARY OF **RESULTS**

FINANCIAL SUMMARY Year Ended December 31, 2008	**2008**	2007	% Increase
	In thousands, except for per share data and ratios.		
BALANCE SHEET			
Total assets	$ 128,041	$ 131,113	-2%
Shareholders' equity	46,366	46,489	0%
Book value per common share	**1.29**	**1.29**	
STATEMENT OF OPERATIONS			
Gross premiums written	105,401	108,498	-3%
Net written premiums	36,065	38,637	-7%
Net premiums earned	37,185	36,220	3%
Commission received	17,842	15,607	14%
Net claims incurred	7,771	6,961	12%
Net underwriting income	16,884	14,324	18%
Investment revenues	(1191)	10,471	-111%
Net income, before preference share dividend	3,465	14,360	-76%
per common share	0.10	0.49	
Net income	3,115	14,010	-78%
per common share	**0.09**	**0.48**	
RATIOS			
Solvency ratio	129%	120%	
Combined operating ratio	87%	89%	

2008 YEAR IN REVIEW

For the second year in succession we experienced a natural perils claims event that, thankfully, did not materialize into any major market loss within The Bahamas.

In 2007, we faced the threat of Tropical Storm Noel, and in 2008 we escaped the ferocious Hurricane Ike that ultimately caused significant devastation to the island of Grand Turk, the capital of the Turks & Caicos Islands. In the southern Bahamas, the island of Inagua felt the brunt of the damages from this storm, but the recovery efforts in the community quickly bore fruit resulting in a fairly speedy return to a sense of normalcy.

SUSTAINING BUSINESS IN A DIFFICULT ENVIRONMENT

The GDP in The Bahamas declined by 1.7% in 2008, a sharp contrast to the prevailing situation in 2007, and even original expectations for the year.

Despite the significant fall-off, most of which occurred in the last two quarters, the gross written premiums recorded for the year were only 2.8% down, compared to a 12% increase in 2007.

	2008	2007
Gross Written Premium	105,401,253	108,498,417
Net Written Premium	36,065,978	38,636,845

As we entered 2008, there was a high level of concern that both internal and external competitive forces would drive pricing to levels below the desired technical pricing but, apart from a few odd exceptions, this did not materialize.

This is partly attributable to the changing expectations in the reinsurance marketplace where price increases are being achieved in the main product lines. The Bahamas remains very dependent on the provision of reinsurance capacity and support and, consequently, it remains especially sensitive to changes in reinsurance pricing – particularly for catastrophe-exposed business.

For the main lines of business, we resisted the temptation to reduce prices on an indiscriminate basis, maintaining discipline and a long-term perspective.

Property: The gross written premium for this line of business once again exceeded $60 million in 2008, remaining our largest line of business. As a result of the fairly stable rating environment and the absence of any significant claims activity, we were able to achieve a sizeable increase in the underwriting profit contribution derived from this class of business.

During the year, BFG was able to recover a negotiated settlement arising from its subrogation rights that came about as a result of the Mackey Street Fire Claims that were incurred in 2006.

Motor and Liability: During the year we managed to increase our gross written premium for these lines of business despite the general market declines in new business, particularly in the motor segment. The total number of vehicles insured reduced in 2008 by some 7%, compared to 2007, but this was more than offset by the increase in average premiums on the motor lines, which saw a net increase in premiums for 2008.

While we experienced a higher claims spend on motor in 2008, the bottom line contribution to the underwriting profit was nevertheless at a very healthy level, and above our budgeted expectations.

More and more of our New Providence based motor claimants are utilizing the First Response Accident Assistance Unit and this is providing us with real opportunities to distinguish our claims service from our competitors, while at the same time enhancing the value of our brand.

Thankfully, motor theft claims proved to be less of a factor than in prior years and this is attributable to both a better enforcement effort by the Police and internally generated efforts.

The liability segment of our casualty book of business continues to provide a valuable contribution to our underwriting profit and we are striving to maintain the existing balance between the income and expense related to this line of business.

The combined motor and liability loss ratios for 2008 were higher, compared to 2007, but in the context of the overall Bahamian market experience, we are satisfied that our results compare very favorably.

Marine: Last year we highlighted the fact that the theft of private pleasure crafts was a major market problem. Regrettably, the situation worsened in 2008 and losses emanating from this cause, together with sunken vessel claims, resulted in an underwriting loss on this line of business. There is a growing level of market cooperation to combat this issue in conjunction with local law enforcement Officials.

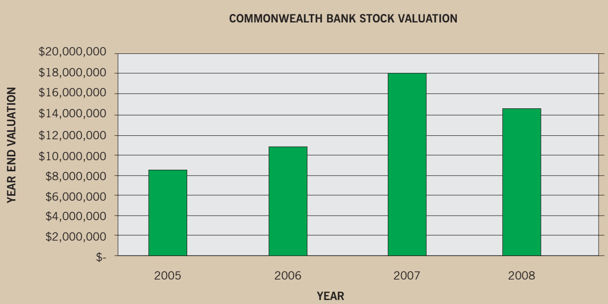
2008 YEAR IN **REVIEW** CONT'D

Other Lines: Apart from the marine account, all of the lines of business produced underwriting profits, including the business that we deem to be accommodation in nature. As a result, we were able to achieve, for the second straight year, a record underwriting profit.

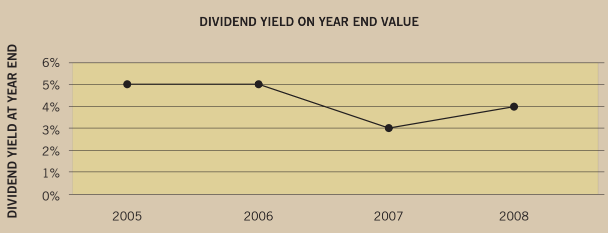
CAPITAL & INVESTMENT MANAGEMENT

The Group's capital base at the end of 2008, was flat compared to the prior year. The operating earnings generated by the Group were able to cover both the dividend payout booked in 2008, and the unrealized loss recorded in the equity holdings of the Group.

The unrealized loss relates entirely to the Commonwealth Bank equity investment that saw a movement of $11.9 million in terms of the swing in value from 2007 to 2008. While the significant movement between 2007 and 2008 exposes the volatility of this holding, its value, at the end of 2008, still represents a significant gain over the original acquisition cost of the shares. The value of these shares at December 2008 was $14.9 million, which is more than 5 times the original acquisition cost.



Additionally, the dividend yield, and comparative risk profile for this investment, are both at a level that supports the holding.



While the value of this investment has come down by 16%, it is interesting to note, that on a worldwide basis, equities declined on the major international exchanges by up to 40%, while Banks and Financial Services Institutions as a group declined even more sharply by 80%. In the Caribbean Region the Trinidadian and Jamaican stock exchanges declined by 14% and 25% respectively, while BISX declined by 24%.

The performance of the Group's other investment instruments were broadly in line with expectations for the year.

CORPORATE GOVERNANCE

Once again we feature the various board committees and their respective mandates, on page 29.

During the first half of 2009, The Government has been actively engaged in bringing additional insurance related legislation to Parliament, and we expect that these, together with the 2005 Domestic Insurance Act, will be brought into force prior to the end of 2009. As we have already taken significant and determined steps to become compliant with the proposed changes, we do not anticipate adjustment problems at any level within the Group.

FUTURE OUTLOOK

The economic outlook for the next twenty-four months is not very promising, and in fact ranks as the most challenging BFH will face in its short history. The increasing levels of unemployment and the sharp increase in projected Government deficits here in The Bahamas are bound to have both short term and medium term negative implications for the local economy. In this type of environment it is important for us to operate as efficiently as possible, and to manage the financial affairs of the company in a prudent manner.

For most of 2008, a significant amount of the Group's resources were deployed in the effort to fully implement the new IT platform, previously announced in prior year statements. The new IT platform will handle the vast majority of our policy and claims administrative functions at all operational levels within the Group. As with any new or major IT overhaul, we have had our fair share of hurdles, but the operating enhancements of the new system will enable us to ultimately improve both our efficiency and productivity, substantially.

Subsequent to the close of the year, the Board approved a proposal to merge the business portfolios of the Group's wholly owned subsidiary agents, into a single brand, with multiple service outlets. This effort would not have been possible with the old legacy system, and is evidence of the early gains we are achieving in this regard. The agency units will all trade under the NUA brand going forward and, subject to the requisite regulatory approvals, we will seek to complete the orderly winding down of MBI and CIA.

While the challenges ahead are indeed formidable, we are confident that we have the wherewithal to successfully chart a way forward.

PATRICK G. W. WARD
President & CEO

6

CONSOLIDATED **FINANCIAL STATEMENTS**

2008

ANNUAL REPORT

CONSOLIDATED BALANCE SHEET

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

ASSETS	Notes	2008	2007
Cash		$ 5,125,243	$ 9,626,221
Term deposits	5	3,708,154	3,705,560
Investments	6	18,348,357	21,270,567
Investments in associate	7	691,482	699,808
Trade accounts receivable	8, 20	30,140,100	27,371,094
Sundry receivables and prepayments	20	1,460,332	1,385,048
Receivable from reinsurers		-	235,213
Deferred commission costs	9	4,055,400	4,004,682
Deferred reinsurance premiums	9	28,665,499	26,827,559
Deferred reinsurance cost	9	3,787,991	4,035,334
Unpaid claims recoverable from reinsurers	10	11,167,182	10,738,428
Property and equipment	11	13,105,091	13,428,052
Intangible asset and goodwill	12, 13	7,785,717	7,785,717
TOTAL:		**$ 128,040,548**	**$ 131,113,283**

LIABILITIES & SHAREHOLDERS' EQUITY	Notes	2008	2007
Trade accounts payable		$ 4,202,869	$ 14,772,475
Bank Overdraft	5	4,089,092	-
Unearned commission income	9	6,768,693	5,852,605
Unearned premiums	9	42,674,996	42,686,985
Accrued liabilities		3,129,470	1,882,638
Unpaid claims	10	20,809,709	19,429,325
		81,674,829	**84,624,028**
SHAREHOLDERS' EQUITY:			
Common Shares	14	359,819	359,819
Preference Shares	14	5,000,000	5,000,000
Contributed surplus		16,840,529	16,840,529
General reserve	15	4,000,000	4,000,000
Revaluation surplus	16	1,932,558	1,932,558
Retained earnings		**18,232,813**	**18,356,349**
Total shareholders' equity		**$ 46,365,719**	**46,489,255**
TOTAL:		**$ 128,040,548**	**$ 131,113,283**

See Notes To Consolidated Financial Statements.

These consolidated financial statements were approved by the Board of Directors on July 9, 2009 and are signed on its behalf by:

Ian D. Fair, Chairman

Patrick G. Ward, Director

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

UNDERWRITING INCOME:	Notes	2008	2007
Gross premiums written	17, 20	$ 105,401,253	$ 108,498,417
Movement in unearned premiums	9	11,989	(2,953,927)
		105,413,242	**105,544,490**
Premiums ceded to reinsurers		(69,335,275)	(69,861,572)
Movement in deferred reinsurance premiums	9	1,107,524	537,533
Net premiums earned		37,185,491	36,220,451
Commission income		17,841,674	15,607,019
Total underwriting income		**55,027,165**	**51,827,470**

UNDERWRITING EXPENSES:	Notes	2008	2007
Net claims incurred	10	7,771,478	6,961,041
Commission expense		12,179,802	11,024,315
Cost of excess of loss reinsurance		15,121,511	16,500,715
Premium tax		3,069,964	3,016,555
Total underwriting expenses		**38,142,755**	**37,502,626**
Net underwriting income		16,884,410	14,324,844
OTHER EXPENSES:			
Salaries, benefits and bonuses	19, 20	6,327,623	5,780,194
General and administrative expenses		5,901,025	4,655,769
Total other expenses		**12,228,648**	**10,435,963**
NET TECHNICAL RESULTS		4,655,762	3,888,881
OTHER IINCOME	18	1,731,284	1,512,859
UNREALIZED (LOSS) GAINS ON INVESTMENTS	6	(2,922,210)	8,958,600
NET INCOME		**$ 3,464,836**	**$ 14,360,340**
PREFERENCE SHARE DIVIDENDS	14	**(350,000)**	**(350,000)**
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS		**$ 3,114,836**	**$ 14,010,340**
BASIC AND DILUTED EARNINGS PER COMMON SHARE	**14**	**$ 0.09**	**$ 0.48**

See Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

	Common Shares	Preference Shares	Contributed Surplus	General Reserve	Revaluation Surplus	Retained Earnings	Total
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
Shares issued (Note 14)	71,964	-	10,678,036	-	-	-	10,750,000
Preference share dividends paid (Note 14)	-	-	-	-	-	(350,000)	(350,000)
Net increase (Note 16)	-	-	-	-	852,779	-	852,779
Net income	-	-	-		-	14,360,340	14,360,340
Dividends paid ($0.07 per common share)	-	-	-	-	-	(2,374,805)	(2,374,805)
Balance at December 31, 2007	$ 359,819	5,000,000	$16,840,529	$4,000,000	$1,932,558	18,356,349	$ 46,489,255
Preference share dividends paid (Note 14)	-	-	-	-	-	(350,000)	(350,000)
Net income	-	-	-	-	-	3,464,836	3,464,836
Dividends paid ($0.09 per common share)	-	-	-	-	-	(3,238,372)	(3,238,372)
Balance at December 31, 2008	$ 359,819	$ 5,000,000	$ 16,840,529	$4,000,000	$1,932,558	$18,232,813	$ 46,365,719

See Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

CASH FLOWS FROM OPERATING ACTIVITIES:	Notes	2008	2007
Net Income		$ 3,464,836	$ 14,360,340
Adjustments for:			
Net loss (gain) on investments		2,922,210	(8,958,600)
Depreciation and amortization	11	1,083,745	518,091
Interest income	18	(324,984)	(448,706)
Dividend income	18	(872,480)	(765,830)
Share of net earnings of associates	7	(125,674)	(144,746)
Loss (gain) on disposals of property and equipment		51,266	(1,328)
Net income from operations		**6,198,919**	**4,559,221**
Increase in trade accounts receivable		(2,769,006)	(486,641)
(Increase) decrease in sundry receivables and prepayments		(75,284)	157,063
Decrease in receivable from reinsurers		235,213	6,223
Decrease in deferred reinsurance cost		247,343	579,405
Increase in deferred commission costs		(50,718)	(69,588)
Increase in deferred reinsurance premiums		(1,837,940)	(537,533)
Decrease in trade accounts payable		(10,569,606)	(62,756)
Increase (decrease) in unearned commission income		916,088	(442,691)
Increase in net unpaid claims		951,630	725,656
Increase in accrued liabilities		1,246,832	275,812
(Decrease) increase in unearned premiums		(11,989)	2,953,927
Net cash (used in) from operating activities		**(5,518,518)**	**7,658,098**

CASH FLOWS FROM INVESTING ACTIVITIES:		2008	2007
Purchase of property and equipment	11	(818,500)	(1,907,530)
Interest received		324,984	449,326
Dividends received		1,006,480	885,830
Proceeds from disposals of property and equipment		6,450	1,500
Purchase of investment in associate		-	(500,000)
Net purchase consideration for business acquisition		-	(4,532,420)
Decrease in term deposits maturing after ninety days		128,178	771,742
Net cash from (used in) investing activities		**647,592**	**(4,831,552)**

(Continued...)

See Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

CASH FLOWS FROM FINANCING ACTIVITIES:	Notes	2008	2007
Preference share dividends paid		(350,000)	(350,000)
Common share dividends paid		(3,238,372)	(2,374,805)
Proceeds from issue of common shares		-	10,750,000
Proceeds from bank loan		-	(6,000,000)
Net cash (used in) from financing activities		**(3,588,372)**	**2,025,195**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(8,459,298)	4,851,741
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR		**11,987,693**	**7,135,952**
END OF YEAR		**$ 3,528,395**	**$ 11,987,693**
CASH AND CASH EQUIVALENTS IS COMPRISED OF:			
Cash		$ 5,125,243	$ 9,626,221
Bank overdraft	5	(4,089,092)	-
Term deposits maturing within ninety days		2,492,244	2,361,472
		$ 3,528,395	**$ 11,987,693**
Interest expense paid		$ 104,072	$ 83,464

(Concluded)

See Notes To Consolidated Financial Statements.

NOTES TO
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008. 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 & Brokers Ltd. ("NUA")
- Moseley Burnside Insurance Agency Limited ("MBI")
- Carib Insurance Agents & Brokers Limited ("CIA")

Management company:
- Bahamas First Corporate Services Ltd. ("BFCS")

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

Claims servicing company:
- First Response Limited ("FRL")

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

The registered office of the Group is located at 32 Collins Avenue, Nassau, Bahamas.

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective in the current period

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, 2008. The adoption of these standards had no material impact on the financial statements of the Group. In October 2008 the IASB issued amendments to IAS 39 and IFRS 7 on reclassifying financial assets. The Group has not reclassified its investments.

At the date of authorization of these consolidated financial statements the following standards which have not been applied in these financial statements were in issue but not yet effective and have not yet been adopted by the Group:

- IFRS 1/IAS 27 (Amended) Cost of an investment in a Subsidiary, Jointly Controlled or Associate
- IFRS 2 (Amended) Share-based Payment - Vesting Conditions and Cancellations
- IFRS 3 (Revised) Business Combinations
- IAS 1 (Revised 2007) Presentation of Financial Statements
- IAS 23 (Revised 2007) Borrowing Costs
- IAS 27 (Revised 2008) Consolidated and Separate Financial Statements
- IAS 32/IAS 1 (Amended) Puttable Financial Instruments and Obligations Arising on Liquidation
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- Improvements to IFRS (May 2008)

Management anticipates that the adoption of the relevant Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Group, except that such statements will include a statement of comprehensive income.

NOTES TO

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. 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. Financial instruments:

Classification and measurement – On initial recognition a financial asset or liability is measured at its fair value plus transaction costs directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition financial assets are classified as either financial assets at fair value through profit or loss; held-to maturity investments; loans and receivables; or available-for-sale; 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, less provision for bad debts. Trade accounts payable and accrued liabilities are financial liabilities, which are carried at cost.

NOTES TO

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

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, or, for non-listed companies, financial information on the company.

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

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

f. 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 are as follows:

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

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

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

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

(i) any goodwill arising on the acquisition i.e., the excess of the cost of the investment over the investor’s share of the fair value of the net assets is included in the carrying amount of the investment for 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.

h. Impairment – The carrying amounts of the Group's assets, including goodwill and intangible 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. 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.

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

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

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

Deferred reinsurance premiums in the 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.

k. 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.

l. 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 represent the deferred portion of these costs.

CONSOLIDATED FINANCIAL STATEMENTS

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

m. Commission income and expense – Base commissions paid to agents and received from insurers and reinsurers are calculated based on gross premiums written and reinsured. Base commissions paid and received are adjusted so 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.

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

o. Cash and cash equivalents – Cash and cash equivalents consist of cash on hand and deposits with banks maturing within 90 days.

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 JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Significant areas requiring 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 $20,809,709 (2007: $19,429,325).

The amount of reinsurance recoveries estimated at the consolidated balance sheet date is $11,167,182 (2007: $10,738,428).

ii. Impairment of goodwill and intangible assets

Determining whether goodwill or intangible assets are impaired requires an estimation of the value in use or fair value less costs to sell of the cash-generating unit 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.

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash generating unit between knowledgeable willing parties, less the costs of disposal. The carrying value at the consolidated balance sheet date for intangible asset and goodwill was $7,785,717 (2007: $7,785,717).

iii. Provision for bad debts

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

The carrying value at the consolidated balance sheet date for trade accounts receivable was $30,140,100 (2007: $27,371,094).

5. TERM DEPOSITS AND BANK OVERDRAFT

Term deposits are denominated in Bahamian dollars with an average interest rate of 5.42% (2007: 5.25%) at the consolidated balance sheet date.

	2008	2007
Term deposits maturing within 90 days	$ 2,492,244	$ 2,361,472
Term deposits maturing after 90 days	1,215,910	1,344,088
	$ 3,708,154	**$ 3,705,560**

The Company also has a bank overdraft facility with Commonwealth Bank Limited up to $4,500,000, which bears interest at prime plus 1.5% per annum. The overdraft facility is secured by the Term deposits.

6. INVESTMENTS

	2008	2007
Held-to-maturity:		
Bahamas Registered Stock – at amortized cost		
$231,000 5.53% (2007: 5.78%) per annum 2015	$ 231,000	$ 231,000
$180,800 5.69% (2007: 5.94%) per annum 2020	180,800	180,800
	411,800	**411,800**
At fair value through profit or loss:		
Bahamas International Securities Exchange Limited		
12 (2007: 12) common shares – at cost $130,556 (2007: $130,556) less impairment	5,557	5,557
Commonwealth Bank Limited		
2,133,000 (2007: 2,133,000) common shares		

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

Cost $2,639,852 (2007: $2,639,852)	14,936,557	17,858,767
	14,936,557	17,858,767
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 $1 each – at cost	500,000	500,000
	3,000,000	**3,000,000**
Total Investments	**$ 18,348,357**	**$ 21,270,567**

The Commonwealth Bank Limited ("the Bank") "A" Class preferred shares are redeemable at the option of the Bank and bear interest at the rate of 7% per annum (2007: 7%).

In 2007, 711,000 of the Bank's ordinary shares were subject to a three-for-one split resulting in a total of 2,133,000 common shares. At December 31, 2008, the Commonwealth Bank common shares were valued at $7.00 (2007: $8.37), which was the price quoted by BISX at that date.

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% (2007: 7%).

The Group also owns 500,000 cumulative redeemable preference shares in FOCOL Holdings Limited. The shares are redeemable at the option of FOCOL Holdings Limited and bear interest at the rate of prime plus 1.75%, presently 7.25% (2007: 7.25%).

7. INVESTMENTS IN ASSOCIATES

In 2007 the Company acquired a 30% interest in General Brokers & Agents Limited ("GBA"), an agent of BFG. The consideration for this acquisition of $500,000 was applied to GBA's receivable account with BFG.

The Group also holds a 20% (2007: 20%) equity interest in Star General Agency (Grand Bahama) Limited ("Star General").

	2008	2007
Balance at January 1	$ 699,808	$ 175,062
Acquisition during the year	-	500,000
Dividends received during the year	(134,000)	(120,000)
Share of net earnings for the year	125,674	144,746
Balance at December 31	**$ 691,482**	**$ 699,808**

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

Share of associates unaudited balance sheets:		
Total Assets	**2,806,623**	**2,561,292**
Total Liabilities	**(2,310,260)**	**(2,055,998)**
Net assets	**496,363**	**505,294**
Goodwill	**195,119**	**194,514**
Carrying value of investment in associates	**691,482**	**699,808**
Share of associates' unaudited income statement:		
Revenues	**1,150,967**	**949,018**
Net Income	**125,674**	**144,746**

Investment in associates includes $195,119 (2007: $194,514) in goodwill. At December 31, 2008 the recoverable amount exceeded the carrying amount of the investment in associates, accordingly no provision for impairment was considered necessary.

8. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable which are shown net of bad debt provision, is comprised of amounts receivable from insurance agents that have signed agency agreements with BFG and clients of the Group's agency subsidiaries (NUA, MBI, CIA).

At December 31, 2008 trade accounts receivable are as follows:

	2008	2007
BFG	$ 20,120,522	$ 17,275,705
Agency subsidiaries	11,308,210	11,120,460
	31,428,732	28,396,165
Provision:		
Balance at January 1	1,025,071	832,284
Increase in provision for the year	299,500	264,438
Bad debts written off for the year	(35,939)	(71,651)
Balance at December 31	1,288,632	1,025,071
Trade accounts receivable, net	**$ 30,140,100**	**$ 27,371,094**

BFG receivables

Included in BFG's trade receivable are debtors with a carrying amount of $8,669,320 (2007: $10,251,137) which are past due at the reporting date. In this past due amount are trade receivables totaling $4,703,199 (2007: $4,204,459) which are secured by collateral over real estate or parent company guarantees. In view of the long-term relationship with the majority of the agency entities, their payment history and the fact that there has been no significant change in the credit quality, management does not consider any provision is required.

Aging of past due balances:

	2008	2007
91 – 120 days	$ 6,092,240	$ 7,121,578
121 – 180 days	1,497,204	1,623,394
180 days and over	1,079,876	1,506,165
	$ 8,669,320	**$10,251,137**

The average age of BFG receivables is 137 days (2007: 124 days).

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

Agency subsidiaries receivables

Included in the agency subsidiaries trade receivables are debtors with a carrying amount of $9,788,105 (2007: $6,942,782) for which there are provisions totaling $1,288,632 (2007: $1,025,071). All receivables twelve months or over have been fully provided against.

Aging of past due balances:

	2008	2007
91 – 120 days	$3,539,595	$1,863,520
121 – 180 days	3,198,728	2,579,818
180 days and over	3,049,782	2,499,444
	$9,788,105	**$6,942,782**

The average age of agencies' receivable is 84 days (2007: 57 days).

9. DEFERRED/UNEARNED PREMIUMS AND COMMISSIONS

	Insurance Assets			Insurance Liabilities		
	Deferred Reinsurance Premiums	Deferred Commission Costs	Deferred Reinsurance Costs	Unearned Premiums	Unearned Commission Income	Net
Balance at January 1, 2007	$ 26,290,026	$ 3,935,094	$4,614,739	$(39,733,058)	$(5,701,519)	$(10,594,718)
Movement during the year	537,533	69,588	(579,405)	(2,953,927)	(151,086)	(3,077,297)
Balance at December 31, 2007	26,827,559	4,004,682	4,035,334	(42,686,985)	(5,852,605)	(13,672,015)
Portfolio transfer as a result of change in net retention	730,416	-	-	-	(266,602)	463,814
Movement during the year	1,107,524	50,718	(247,343)	11,989	(649,486)	273,402
Balance at December 31, 2006	**$28,665,499**	**$4,055,400**	**$ 3,787,991**	**$(42,674,996)**	**$(6,768,693)**	**$(12,934,799)**

NOTES TO
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

10. UNPAID CLAIMS AND CLAIMS INCURRED

	Gross	Reinsurance	Net
Unpaid claims at January 1, 2007	**$21,616,446**	**$(13,651,205)**	**$7,965,241**
Claims incurred	20,319,467	(13,358,426)	6 ,961,041
Claims paid	(22,506,588)	16,271,203	(6,235,385)
Unpaid claims at December 31, 2007	**19,429,325**	**(10,738,428)**	**8 ,690,897**
Claims incurred	20,636,289	(12,864,811)	7 ,771,478
Claims paid	(19,255,905)	12,436,057	(6,819,848)
Unpaid claims at December 31, 2008	**$20,809,709**	**$(11,167,182)**	**$9,642,527**

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	2004	2005	2006	2007	2008	Total
Gross claims incurred at end of reporting year	$101,635,745	$21,233,541	$15,131,676	$18,731,278	$17,093,172	
One Year later	99,051,431	21,952,158	18,026,630	22,092,362		
Two Years later	97,449,270	23,309,773	17,409,169	-		
Three Years later	96,850,953	23,591,223	-	-		
Four Years later	96,379,213	-	-	-		
Total Incurred To Date	96,379,213	23,591,223	17,409,169	22,092,362	$17,093,172	
Cumulative payments to date	(95,560,083)	(21,367,773)	(16,080,073)	(18,772,815)	(11,214,485)	
Liability included in Balance Sheet	819,130	2,223,450	1,329,096	3,319,547	5,878,687	$13,569,910
Reserves for prior years						7,239,799
Total unpaid claims including amount recoverable from reinsurer in the Consolidated Balance Sheet						**$20,809,709**

NOTES TO
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

11. PROPERTY AND EQUIPMENT

2008	Land	Buildings	Furniture & Equipment	Leasehold Improvements And Others	Software Development In Progress	Total
COST/VALUATION:						
At January 1, 2008	$2,493,750	$6,892,220	$2,115,483	$523,998	$3,574,231	$15,599,682
Additions	-	-	534,125	193,844	90,531	818,500
Disposals	-	-	(415,603)	(9,936)	(1,975)	(427,514)
At December 31, 2008	**2,493,750**	**6,892,220**	**2,234,005**	**707,906**	**3,662,787**	**15,990,668**
ACCUMULATED DEPRECIATION:						
At January 1, 2008	**-**	**$473,026**	**$1,138,123**	**$379,945**	**$180,536**	**$2,171,630**
Charge for the year	-	167,691	247,864	58,153	610,037	1,083,745
Disposals	-	-	(359,044)	(9,936)	(818)	(369,798)
At December 31, 2008	**-**	**640,717**	**1,026,943**	**428,162**	**789,755**	**2,885,577**
Carrying amount 2008	2,493,750	6,251,503	1,207,062	279,744	2,873,032	13,105,091

2007	Land	Buildings	Furniture & Equipment	Leasehold Improvements And Others	Software Development In Progress	Total
COST/VALUATION:						
At January 1, 2007	$2,329,322	$6,203,869	$1,857,410	$461,951	$1,905,642	$12,758,194
Additions	-	-	163,476	151,548	1,592,506	1,907,530
Addition through acquisition	-	-	233,745	-	-	233,745
Appreciation	231,392	621,387	-	-	-	852,779
Transfer	(66,964)	66,964	(103,443)	-	103,443	-
Disposals	-	-	(35,705)	(89,501)	(27,360)	(152,566)
At December 31, 2007	**2,493,750**	**6,892,220**	**2,115,483**	**523,998**	**3,574,231**	**15,599,682**
ACCUMULATED DEPRECIATION:						
At January 1, 2007	**-**	**$314,604**	**$1,067,138**	**$423,571**	**$ -**	**$1,805,313**
Transfer	-	(349)	(103,546)	6,317	97,578	-
Charge for the year	-	158,771	209,444	39,558	110,318	518,091

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

2007	Land	Buildings	Furniture & Equipment	Leasehold Improvements And Others	Software Development In Progress	Total
Disposals	-	-	(34,913)	(89,501)	(27,360)	(151,774)
At December 31, 2007	**-**	**473,026**	**1,138,123**	**379,945**	**180,536**	**2,171,630**
Carrying amount 2007	2,493,750	6,419,194	977,360	144,053	3,393,695	13,428,052

In May 2007, 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 $2,493,750 and $6,506,250, respectively, based on the combined effect of the cost, income and sales comparison approach. The surplus arising on the revaluation of $852,779 is 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 $4,829,064 (2007: $2,118,844 and $4,861,203) respectively.

12. BUSINESS COMBINATION

Effective January 1, 2007 BFH acquired 100% of the voting shares of CIA, an insurance agency located in The Bahamas. The fair value of the identifiable assets and liabilities of CIA as at the date of acquisition were as follows:

	Fair value on acquisition
Property, plant and equipment	$233,745
Cash and cash equivalent	481,770
Accounts receivables	1,944,367
Sundry receivables and prepayments	395,359
Trade accounts payable	(2,440,432)
Unearned commissions	(593,777)
Net assets	21,032
Goodwill arising on consolidation	4,993,158
Total consideration	**$5,014,190**

The fair values equate to the previous carrying values of the assets and liabilities before acquisition. The total cost of the acquisition was $4,946,500, which was paid in cash.

	Fair value on acquisition
Net cash acquired with the subsidiary	481,770
Cash paid	(5,014,190)
Net cash outflow	$(4,532,420)

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

13. INTANGIBLE ASSET AND GOODWILL

	Goodwill	Intangible asset	Total
Balance at January 1, 2007	$ 100,000	$ 2,692,559	$ 2,792,559
Additions	4,993,158	-	4,993,158
Balance at December 31, 2007	5,093,158	2,692,559	7,785,717
Additions	-	-	-
Balance at December 31, 2008	**$ 5,093,158**	**$ 2,692,559**	**$ 7,785,717**

Goodwill

Goodwill is attributed to two separate cash-generating units and the impairment testing on the carrying value has been carried out on these units. The recoverable amount has been determined to be the fair value less costs to sell, which is higher than the carrying value and accordingly there is no requirement for an impairment loss to be recognized. The fair value is based on a multiple of the projected commission income.

Intangible asset

Intangible asset of $2,692,559 arises on the acquisition of an insurance portfolio and is a separate cash-generating unit. The recoverable amount has been determined to be the fair value less costs to sell, which is higher than the carrying value and accordingly, there is no requirement for an impairment loss to be recognized. The fair value is based on a multiple of the cash flow, which is projected to be generated from underwriting the portfolio.

14. SHARE CAPITAL

The Group's share capital is comprised as follows:

	2008	2007
Common shares		
Authorised: 45,000,000 (2007: 45,000,000) at $0.01 each		
Issued and fully paid: 35,981,965 (2007: 35,981,965) par value $0.01 per share	**$ 359,819**	**$ 359,819**
Preference shares		
Authorised: 5,000,000 (2007: 5,000,000) at $1.00 each		
Issued and fully paid: 5,000,000 (2007: 5,000,000) par value $1.00 per share	**$ 5,000,000**	**$ 5,000,000**

At an Extraordinary Meeting of shareholders held in December 2007, the share capital of the Company was increased from 35,000,000 share of $0.01 each to 45,000,000 shares of $0.01 each. Additionally, shareholders approved the issue of 7,196,393 common shares at a total cost of $10,750,000.00, resulting in an increase of $10,678,036 in contributed surplus.

The weighted average number of common shares for the purposes of earnings per common share is 35,981,965 (2007: 29,062,356). The Preference Shares are non-convertible, non-voting, cumulative, redeemable "A" with a dividend rate of 7% per annum. These shares are redeemable at the option of the Company.

15. GENERAL RESERVE

The Group has established a general reserve from retained earnings in the amount of $4,000,000 (2007: $4,000,000), which the directors have determined is not available for distribution.

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

16. REVALUATION SURPLUS

The movement in the revaluation surplus is as follows:

Freehold	Land	Buildings	Total
Balance at January 1, 2007	$ 210,478	$ 869,301	$ 1,079,779
Net increase	231,392	621,387	852,779
Balance at December 31, 2007	441,870	1,490,688	1,932,558
Net increase	-	-	-
Balance at December 31, 2008	**$ 441,870**	**$ 1,490,688**	**$1,932,558**

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

17. GROSS PREMIUMS WRITTEN

	2008	2007
Group Agents	$ 48,947,758	$ 44,818,100
Non Group Agents	49,224,074	56,092,738
Associate	7,229,421	7,587,579
	$ 105,401,253	**$ 108,498,417**

18. OTHER INCOME

	2008	2007
Dividend Income	$ 872,480	$ 765,830
Claims Handling Fees	57,375	146,190
Interest Income	324,984	448,706
Share of net earnings from associate (Note 7)	134,000	144,746
Other Income	342,445	7,387
	$ 1,731,284	**$ 1,512,859**

19. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a profit sharing and performance bonus payable to management and staff amounting to $507,112 (2007: $512,812). This amount was determined and approved by the Board of Directors. 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 $167,906 (2007: $158,734).

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

20. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances are as follows:

	2008	2007
Gross premiums written – associates	$ 7,121,991	$ 7,376,623
Gross premiums written – others	107,430	115,237
	$ 7,229,421	**$ 7,491,860**
Trade accounts receivable – associates	4,699,119	3,508,151
Trade accounts receivable – others	-	3,581
	$ 4,699,119	**$ 3,511,732**
Directors fees paid	196,352	133,000

The trade accounts receivable - associates is secured by collateral and a guarantee. The receivable balance will be settled in cash. No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties. Key management personnel include members of the Group's management team having authority and responsibility for planning, directing and controlling the activities of the Group's operation. Compensation to key management personnel is included in salaries, benefits and bonuses in the consolidated statement of income and is as follows:

	2008	2007
Salaries and other benefits	$ 875,415	$ 800,031
Post employment benefits	32,535	26,798
	$ 907,950	**$ 826,829**
Receivables from key management personnel	179,706	179,107

In April 2006, the directors extended a share option to a certain executive director to purchase 250,000 common shares of the Company at a purchase price of $0.75. The option expires April 2011. At year end, no portion of the option has been exercised.

21. CONTINGENCIES

In the normal course of its business, the Group is involved in various legal proceedings arising out of and incidental to its insurance operations. 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.

22. 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 this 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 its exposure to unpredictable developments.

23. 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.

YEAR ENDED DECEMBER 31, 2008. EXPRESSED IN BAHAMIAN DOLLARS

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 its 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.

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

25. EVENTS AFTER THE BALANCE SHEET DATE

On January 13, 2009 the Group acquired management control of General Brokers & Agents Ltd. No additional shares were acquired at the time of acquisition of management control.

(Unaudited)	Book Value	Fair Value and Accounting Policy Adjustments	Fair Value
Assets			
Cash and cash equivalents	$ 366,157	$ -	$ 366,157
Receivables and other financial assets	3,693,669	(1,470,800)	2,222,869
Property, Plant and equipment	793,518	1,250,000	2,043,518
Total Assets	**$ 4,853,344**	**$ (220,800)**	**$ 4,632,544**
Liabilities			
Accounts payable	$ 3,558,675	$ -	$ 3,558,675
Other liabilities	173,902	-	173,902
Total Liabilities	**$ 3,732,577**	**$ -**	**$ 3,732,577**
Total net assets	**$ 1,120,767**	**(220,800)**	**$ 899,967**
Net assets acquired	**$ 1,120,767**	**(220,800)**	**$ 899,967**

The assets and liabilities as at the acquisition date in the table above are stated at their provisional fair values and may be amended in 2009 in accordance with the IFRS 3, Business Combinations. The fair values above, are based on management's best estimate of the likely values, and as such, management is of the opinion that the fair value together with goodwill of the business portfolio, exceed the Group's investment in GBA.

Effective May 1, 2009, the business portfolio of MBI and CIA were merged with NUA.

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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 consolidated balance sheet as of December 31, 2008, 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

A member firm of
Deloitte Touche Tohmatsu

BAHAMAS FIRST CORPORATE GOVERNANCE

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

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

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

AUDIT COMMITTEE

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

- Alison Treco
- Ian Fair
- Sandeep Uppal

CORPORATE GOVERNANCE & NOMINATIONS COMMITTEE

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

- Judith Whitehead

EXECUTIVE REMUNERATION COMMITTEE

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

- Ian Fair
- Quentin Chisnall

FINANCE & INVESTMENT COMMITTEE

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

- Graham Garner
- John Dunkley*
- Patrick Ward*
- Quentin Chisnall
- Valarie Darville*
- Noel Walpole

TECHNICAL REVIEW & RISK COMPLIANCE COMMITTEE

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

- John Dunkley*
- Patrick Ward*
- Pauline Ward*
- Valarie Darville*
- Noel Walpole
- Tracy Bonczek*

* denotes Executives/Staff

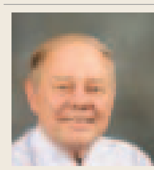
BAHAMAS FIRST DIRECTORS & OFFICERS

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

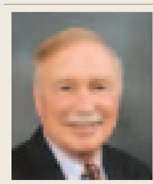
PATRICK G.W. WARD | President and CEO
Mr. Ward has been a Director since 1998 and prior to that President and Managing Director of Bahamas First General Insurance Company. He is President and CEO of Bahamas First Holdings Limited, Bahamas First General Insurance Company Limited, Allied Bahamas Insurance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

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

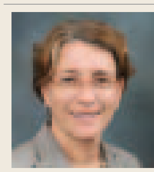
QUENTIN CHISNALL | Director
A Director since the inception of Bahamas First Holdings Limited (BFH) in 1996, Mr. Chisnall also served as the first President until December 2003. He has served and is still a Director on the Boards of several BFH subsidiary companies. Mr. Chisnall was also the Managing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



GRAHAM C. GARNER | Director
A Director since 2000, Mr. Garner holds directorships in a number of other Bahamian companies in the financial, retail, property and insurance sectors. He was a partner with Coopers & Lybrand (now known as PricewaterhouseCooopers) in The Bahamas for 20 years before retiring in 1990. Mr. Garner is a fellow of the Institute of Chartered Accountants of England and Wales and a member of the Bahamas Institute of Chartered Accountants.



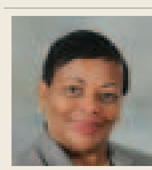
ROBERT INKSATER | Director
Mr. Inksater, who resides in Toronto, Canada, has been a BFH Director since 2003 and a Director of Bahamas First General Insurance Company Limited since 1999. He was Executive Vice President of Aon Re Canada Inc., before retiring in 1998. Mr. Inksater's insurance career also includes Sterling Offices of Canada Limited; IOC Reinsurance Brokers Ltd, where he was President and Director; and J.H. Minet Ltd. where he was Senior Vice President.



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

NOEL WALPOLE | Director
Mr. Walpole has been a director since 2008. He is President & CEO of The Economical Insurance Group of Canada, and is a Fellow, Chartered Insurance Professional.

SANDEEP UPPAL | Director
Mr. Uppal has been a director since 2008. He is the Sr. Vice President of The Economical Insurance Group of Canada, and is a certified Chartered Accountant.



CAROLYN A. MILLER | Secretary
Mrs. Miller is Secretary of BFH and prior to that served as Assistant Secretary of BFH and its subsidiary companies since 2002. She joined BFH in 1999 after spending many years with various financial institutions in the Bahamas including Roywest Banking Corporation, NatWest Trust Corporation (Bahamas) Limited and Coutts & Co., (Bahamas) Limited, now known as S.G. Hambros Bank & Trust (Bahamas) Limited.

BAHAMAS FIRST AUTHORIZED AGENTS

Our extensive network of agents stretches from Grand Bahama to Inagua and everywhere in between. They have been the backbone of our company since we first offered insurance services, and continue to deliver the highest quality of service to our customers.

NEW PROVIDENCE

A Scott Fitzgerald Insurance Brokers & Agents
(242) 356-5709

Andeaus Insurance Broker Co. Ltd.
(242) 323-4545

Bethel Thompson Agency
(242) 394-7251

Chandler Gilbert Insurance Associates Limited
(242) 676-2306

CMA Insurance Brokers & Agents
(242) 393-6735

Colina General Insurance Agency
(242) 325-3809

Confidence Insurance Brokers & Agents
(242) 323-6920

FINCO
(242) 328-0559

General Brokers & Agents
(242) 322-1871

LIV Insurance Agents and Brokers Ltd.
(242) 361-5123

N.U.A. Insurance Agents & Brokers Ltd.
(242) 382-5992

Professional Insurance Consultants
(242) 327-2143

Response Insurance Agency Ltd.
(242) 393-3277

Star General Insurance Agency
(242) 393-5529

Sunshine Insurance Agency
(242) 394-0011

ABACO

Abaco Insurance Agency
(242) 367-2549

GRAND BAHAMA

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

CORPORATE INFORMATION

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Attorneys:

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Shirley Street & Victoria Avenue
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Registrar and Transfer Agents:

Royal Fidelity Share Registrars
& Transfer Agents Limited
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