INDEPENDENT AUDITORS' REPORT

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To the Shareholders of
Insurance Company of The Bahamas Limited

We have audited the accompanying balance sheet of Insurance Company of The Bahamas Limited (the Company) as of 31 December 2005, 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.

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 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers.

Chartered Accountants
18 April 2006

Insurance Company of The Bahamas Limited

(Incorporated under the laws of the Commonwealth of The Bahamas)

Balance Sheet as of 31 December 2005

Amounts expressed in Bahamian dollars

		2005	2004
ASSETS			
Cash and bank balances	$	3,001,897	30,452
Term deposits		5,176,643	8,955,062
Due from reinsurers (Note 4)		1,331,297	3,459,312
Due from agent (Note 4)		2,579,079	6,300,031
Deferred commission reserve		5,115,580	4,665,477
Prepayments and other receivables (Note 5)		324,439	57,547
Investments in securities			
- fair value through profit and loss (Note 6)		2,180,297	1,580,378
- held-to-maturity (Note 6)		3,502,831	2,723,345
Investment property (Note 7)		536,917	-
Property, plant and equipment (Note 8)		1,193,534	839,568
Total assets		**24,942,514**	**28,611,172**
LIABILITIES			
General insurance funds:			
Unearned premium reserve		4,524,871	4,049,499
Outstanding claims (Note 9)		5,158,946	6,025,977
		9,683,817	10,075,476
Other liabilities:			
Bank Overdraft (Note 10)		-	992,582
Unearned commission reserve		4,342,933	3,908,485
Due to reinsurers		920,967	4,289,882
Accounts payable and accruals		747,468	330,050
Total liabilities		**15,695,185**	**19,596,475**
NET ASSETS		**9,247,329**	**9,014,697**
Represented by:			
Share capital			
Authorized, issued and fully paid:-			
3,000,000 ordinary shares of $1.00 each		3,000,000	3,000,000
General reserve (Note 12)		2,000,000	2,000,000
Retained earnings		4,247,329	4,014,697
	$	**9,247,329**	**9,014,697**

Approved on behalf of The Board

Director Director Date 18 April 2006

Statement of Income
For the Year Ended 31 December 2005

Amounts expressed in Bahamian dollars

		2005	2004
INCOME			
Gross written premiums (Note 4)	$	42,120,234	38,801,948
Premium tax		(1,143,367)	(1,164,032)
		40,976,867	37,637,916
Ceded to reinsurers		(31,752,057)	(29,168,404)
Net retained premiums		9,224,810	8,469,512
(Increase) decrease in unearned premium reserve		(475,372)	237,628
Portfolio transfer (Note 11)		-	346,460
Net premiums earned		**8,749,438**	**9,053,600**
EXPENSES			
Net claims incurred (Note 9)		4,555,618	5,231,232
Net commissions incurred (Note 4)		1,597,099	1,344,891
Excess of loss reinsurance		3,278,269	2,559,917
		9,430,986	**9,136,040**
Underwriting (loss) gain		**(681,548)**	**(82,440)**
OPERATING INCOME AND EXPENSES			
Interest income		544,126	838,853
Profit and loyalty commissions, (Note 4)		476,538	52,786
Dividend and other income		310,393	92,374
Change in net unrealized gains (losses) on investments in securities (Note 6)		341,199	120,270
Net realized loss on investments in securities		(15,925)	-
		974,783	1,021,843
Personnel expenses (Note 4)		(364,644)	(385,590)
Depreciation (Note 8)		(14,091)	(22,802)
General and administrative expenses (Note 4)		(363,416)	(364,646)
NET INCOME	$	**232,632**	**248,805**

Statement of Changes in Equity
For the Year Ended 31 December 2005

Amounts expressed in Bahamian dollars

	Share Capital	General Reserve	Retained Earnings	Total
As of 1 January 2004	**$ 3,000,000**	**2,000,000**	**4,215,892**	**9,215,892**
Net income	-	-	248,805	248,805
Dividends	-	-	(450,000)	(450,000)
As of 31 December 2004	**$ 3,000,000**	**2,000,000**	**4,014,697**	**9,014,697**
As at 1 January 2005	**3,000,000**	**2,000,000**	**4,014,697**	**9,014,697**
Net income	-	-	232,632	232,632
As at 31 December 2005	**$ 3,000,000**	**2,000,000**	**4,247,329**	**9,247,329**

Dividends per share: $Nil (2004: $0.15)

Statement of Cash Flows
For the Year Ended 31 December 2005

Amounts expressed in Bahamian dollars

		2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$	232,632	248,805
Adjustments for:			
Depreciation		14,091	22,802
Profit on disposal of property, plant and equipment		-	(5,500)
Loss on sale of investments in securities		15,925	-
Change in net unrealized (gains) losses on investments in securities		(341,199)	(120,270)
Interest income		(544,126)	(838,853)
Dividend income		(101,708)	(83,418)
		(724,385)	(776,434)
(Increase) decrease in current assets:			
Due from reinsurers		2,128,015	(2,693,715)
Due from agent		3,720,952	(1,669,346)
Deferred commission reserve		(450,103)	194,034
Prepayments and other receivables		(266,892)	10,951
Increase (decrease) in current liabilities:			
Unearned premium reserve		475,372	(237,629)
Outstanding claims		867,031	2,218,745
Unearned commission reserve		434,448	(454,939)
Due to reinsurers		(3,368,915)	155,125
Accounts payable and accruals		417,418	(36,611)
Net cash from (used in) operating activities		**1,498,879**	**(3,289,819)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net maturity of term deposits		3,697,016	2,987,960
Purchase of investment property		(536,917)	-
Proceeds from sale of property, plant and equipment		-	5,500
Purchase of property, plant and equipment		(368,057)	(821,521)
Purchase of investments in securities		(1,112,120)	(726,108)
Proceeds from sale of investments in securities		56,075	-
Interest received		627,443	919,107
Dividends received		101,708	93,500
Net cash from investing activities		**2,465,148**	**2,458,438**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		-	(450,000)
Net cash used in from financing activities		**-**	**(450,000)**
Net increase (decrease) in cash and cash equivalents		**3,964,027**	**(1,281,381)**
Cash and cash equivalents at beginning of year		(962,130)	319,251
Cash and cash equivalents at end of year		**3,001,897**	**(962,130)**
Cash and cash equivalents are represented by:			
Cash and bank balances		3,001,897	30,452
Bank overdraft		-	(992,582)
	$	**3,001,897**	**(962,130)**

The accompanying notes are an integral part of these financial statements

1. Incorporation and Activity

Insurance Company of The Bahamas Limited (the Company) is incorporated under the Companies Act, 1992 of The Commonwealth of The Bahamas and is licensed to operate as a property and casualty insurance company in The Bahamas and Turks & Caicos Islands, B.W.I. under the Insurance Act, 1969, as amended, and the Insurance Regulations, 1990, respectively.

The registered office of the Company is situated at the offices of Messrs. McKinney, Bancroft & Hughes, Mareva House, 4 George Street, Nassau, The Bahamas. As of 31 December 2005, four (4) persons (2004: four (4)) were employed by the Company.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The Company's financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below, and in accordance with International Financial Reporting Standards (IFRS). The preparation of financial state ments in conformity 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 as of 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.

(b) General insurance funds

General insurance funds comprise unearned premiums, outstanding claims and provisions for claims incurred but not reported.

Unearned premiums represent the proportion of the net premiums written, which relate to periods of insurance coverage subsequent to the balance sheet date.

Outstanding claims comprise the Company's net share of the estimated cost of all claims incurred but not settled as of the balance sheet date whether reported or not.

The provision for claims incurred but not reported is estimated by the Company's Directors based on gross written premiums for the period and the historical performance for each class of business.

(c) Revenue and expense recognition

Premiums are recognized as revenue over the periods covered by the related policies after allowing for premiums ceded. Commission expense is incurred on gross written premiums and commission income is received on premiums ceded, and these are recognized in the same manner as premium revenue. Other revenues and expenses of the Company are recognized on an accrual basis, except for:

i. Dividend income is recognized when the Company's right to receive payment has been established;

ii. Profit and loyalty commission income and expense are recognized when the Company's right to receive, or obligation to make, payment has been established.

iii. Claims and loss adjustment expenses are recognized as incurred based on the estimated liability for compensation owed to policyholders or third parties damaged by policyholders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date regard less of whether or not they have been reported.

(d) Foreign currency translation

The financial statements are presented in Bahamian dollars which is the Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the time of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and liabilities at year-end exchange rates are recognized in the statement of income.

(e) Investment property

The Company classifies property held for capital appreciation as investment property. Investment property is comprised of land and is carried at cost. No depreciation is taken on land. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the statement of income.

(f) Property, plant and equipment

Land is stated at cost. Building, furniture and equipment, leasehold improvements, computer equipment and motor vehicles are stated at historical cost less accumulated depreciation and are depreciated using the straight-line method based on the assets' estimated useful lives as follows:

Buildings	2%
Furniture and equipment	15%
Leasehold improvements	Greater of duration of lease or 5%
Computer equipment	20%
Motor vehicles	25%

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in other income on the statement of income. Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

(g) Investments in securities

The Company has classified its investments into the following categories: held-to-maturity securi ties and securities fair valued through profit and loss. Investments with fixed dates of maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as securities fair valued through profit and loss. Prior to the amendments of International Accounting Standards 39, these securities were classified as available for sale and were reclassified on 1 January 2005 in accordance with the Standard. Management determines the appropriate classification of its investments at the time of purchase.

All purchases and sales of investments in securities are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset.Investments in securities are initially recognized at cost, which includes transaction costs, except for securities fair valued through profit and loss where transaction costs are expensed as incurred. Securities fair valued through profit and loss are subsequently remeasured at fair value based on quoted prices. Realized and unrealized gains and losses arising from sale and from changes in the fair value of these securities, respectively, are recognized in the statement of income in the period in which they arise. Held-to-maturity investments are carried at amortized cost using the effective yield method less any provision for impairment.

(h) Impairment of financials assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

(i) Premium tax

Premium tax is incurred at a rate of 3% (2004: 3%) of gross premiums written in The Commonwealth of The Bahamas.

(j) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents is comprised of cash and bank balances and bank overdraft.

(k) Employee benefits

The Company has a defined contribution pension plan for eligible employees whereby the Company pays contributions to a privately administered pension plan. The Company has no further payment obligations once the contributions have been paid. The plan requires participants to contribute 5% of their eligible earnings and such amounts are matched by the Company.

The Company's contributions to the defined contribution pension plan are charged to the statement of income in the year to which they relate.

3. Term Deposits

Included in term deposits are amounts totalling $234,083 (2004: $315,486) representing accrued interest.

4. Related Party Transactions

Related parties comprise: i) shareholders, directors and key management personnel of the Company; ii) entities in which the parties in i) have control or significant influence; and iii) entities that have control or significant influence over the parties in i). The Company's primary shareholder is J.S. Johnson & Company Limited (JSJ), which owns 40% of the outstanding shares, and serves as the Company's sole agent. The remaining shareholders of the Company represent shareholders and key management personnel of JSJ. The Company and JSJ also have certain directors in common.

The financial statements include the following balances and transactions with related parties:

		2005	2004
Balances			
Due from agents	$	2,579,079	6,300,031
Investments in securities		271,500	246,600
Due from reinsurers		1,331,297	3,459,312
Prepayments and other receivables		250,000	-
Due to reinsurers		(920,539)	(4,289,882)
Transactions			
Premiums written		42,120,234	38,801,948
Ceded to reinsurers		(31,752,057)	(29,168,404)
Commission income		8,153,236	8,224,082
Commissions expense		(9,750,335)	(9,568,973)
Excess of loss reinsurance		(3,278,269)	(2,559,917)
Profit and loyalty commissions		476,538	52,786
Personnel expenses		(271,028)	(265,382)
General and administrative expenses		(20,000)	(20,000)

5. Prepayments and Other Receivables

		2005	2004
Loan receivable	$	250,000	-
Deposit on land purchase		-	47,500
Prepayments		71,735	10,000
Other receivables		2,704	47
		324,439	**57,547**

On 6 October 2005, the directors approved a loan to a director and shareholder in the amount of $250,000. Interest is charged at 4.25% per annum and the loan, which is unsecured, is to be repaid in April 2006.

6. Investments in Securities

Securities fair valued through profit and loss

Securities fair valued through profit and loss principally comprise marketable equity securities, which are listed on The Bahamas International Securities Exchange, and are stated at fair value. Movements during the year were as follows:

		2005	2004
As of beginning of year	$	1,580,378	1,009,400
Additions		330,720	450,708
Disposals		(72,000)	-
Change in net unrealized gains (losses) during the year		341,199	120,270
As of end of year	$	**2,180,297**	**1,580,378**

As of 31 December 2005, the cost of securities fair valued through profit and loss was $1,841,416 (2004: $1,582,696).

Held-to-maturity

	Interest Rates	Maturity	2005	2004
Government Bridge Bonds	Prime +1.5%	2024	$ 130,508	130,680
Preferred shares	8%	2010	250,000	250,000
Bahamas Government	Prime +	2007 -		
Registered Stock	0.1875% to 0.53125%	2024	2,338,947	2,342,665
Clifton Heritage Authority	Prime + 0.75%	2035	283,376	-
Waterfield Bonds	7.5%	2015	500,000	-
			$ **3,502,831**	**2,723,345**

Included in amortized costs for held-to-maturity investments are amounts totalling $48,431 (2004: $50,345) representing accrued interest.

7. Investment Property

As of 31 December 2005, the carrying value of investment property totalled $536,917 (2004: $Nil). The fair value of investment property approximates cost.

8. Property, Plant and Equipment

		Land	Building	Furniture & Equipment	Leasehold Improvements	Computer Equipment	Motor Vehicles	Total
Cost								
Balance as of 1 January 2005	**$**	**420,000**	**392,050**	**46,146**	**32,982**	**22,580**	**30,000**	**943,758**
Additions		47,704	236,529	10,000	-	73,824	-	368,057
Disposals		-	-	-	(32,982)	-	-	(32,982)
Balance as of 31 December 2005		**467,704**	**628,579**	**56,146**	**-**	**96,404**	**30,000**	**1,278,833**
Accumulated depreciation								
Balance as of 1 January 2005		**-**	**1,070**	**39,719**	**32,982**	**17,919**	**12,500**	**104,190**
Charge for the year		-	(1,070)	6,427	-	2,370	6,364	14,091
Disposals		-	-	-	(32,982)	-	-	(32,982)
Balance as of 31 December 2005		**-**	**-**	**46,146**	**-**	**20,289**	**18,864**	**85,299**
Net book value as of:								
31 December 2005		**467,704**	**628,579**	**10,000**	**-**	**76,115**	**11,136**	**1,193,534**
31 December 2004		**420,000**	**390,980**	**6,427**	**-**	**4,661**	**17,500**	**839,568**

9. Outstanding Claims and Net Claims Incurred

	2005	2004
Outstanding claims		
Gross outstanding claims	$ 19,858,905	28,298,197
Less: recoverable from reinsurers	(14,699,959)	(22,272,220)
	5,158,946	**6,025,977**

Included in gross outstanding claims is a provision of $334,000 (2004: $310,500) for claims incurred but not reported as of the year end.

	2005	2004
Net claims incurred		
Claims incurred	$ 18,219,202	50,558,770
Less: recoverable from reinsurers	(13,663,586)	(45,327,538)
	4,555,616	**5,231,232**

10. Bank overdraft

During 2005 and 2004, the Company had an overdraft facility of $2,700,000 which bore interest at Nassau prime plus 2% per annum.

11. Portfolio Transfer

During 2004, the Company increased its percentage retention over the prior year on its motor and accident portfolio, with reinsurers returning the additional percentage. This required the Company to accept the unearned premiums and outstanding claims reserves from reinsurers, along with the liabilities corresponding to these funds.

12. General Reserve

The Company makes an appropriation to a general reserve for unforeseeable risks and future losses. General reserves can only be distributed following approval by the Board of Directors.

13. Commitments

Lease commitments

During 2005, the Company leased its office premises under a non-cancellable operating lease, which came to an end on 30 November 2005. The Company relocated to 33 Collins Avenue, which it purchased in 2005. Payments made under the lease were charged to the statement of income over the period of the lease. Included in general and administrative expenses is $16,413 (2004: $18,515) representing lease payments for the year. As of 31 December 2005, there were no future lease commitments.

14. Pension Plan

The Company's employees are members of J.S. Johnson Pension Plan, a defined contribution plan covering all eligible employees. This plan provides for benefits to be paid upon retirement. Employees are required to contribute an amount equal to 5% of their eligible earnings, which is matched by the Company. The amount charged to the statement of income during the year for pension costs was $14,231 (2004: $14,958).

15. Risk Management

The Company engages in transactions that expose it to insurance risk, credit risk, liquidity risk and interest-rate risk in the normal course of business. The Company's financial performance is affect ed by its capacity to understand and effectively manage these risks. The Company's challenge is not only to measure and monitor these risks but also to manage them as profit opportunities.

(a) Insurance risk

Insurance risk is the risk under insurance contracts that the insured event occurs and the amount of the resulting claim is uncertain. In the normal course of business, the Company seeks to limit its exposure to losses that may rise from any single occurrence. Reinsurance is primarily placed using a c ombination of proportional and excess of loss treaties. Obtaining reinsurance does not, however, relieve the Company of its primary obligations to the policyholders, therefore the Company is exposed to the risk that the reinsurers may be unable to fulfil their obligations under the contracts. The Company seeks to mitigate this risk by placing its reinsurance coverage with large multi-national companies and syndicates.

(b) Credit risk

Credit risk arises from the failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk includes the majority of assets. To mitigate this risk, the Company places cash with credit worthy banks; monitors the payment history of its agents before continuing to do business with them; places reinsurance coverage as noted in (a) above; and invests in debt securities of financially sound companies.

(c) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Company's financial commitments including claims. The Company maintains a level of liquidity assets, which mature or could be sold immediately to meet cash requirements for normal operating purposes.

(d) Interest-rate risk

Interest-rate risk for the Company is comprised of the risk that the value of financial assets may fluctuate significantly as a result of changes in market interest rates. The Company mitigates this risk by investing ininterest-bearing assets with floating interest rates, or investing for short time periods.

16. Fair Value of Financial Instruments

Financial instruments utilized by the Company include the recorded assets and liabilities. The majority of the Company's financial instruments are short-term in nature. Accordingly, the estimated fair value is not significantly different from the carrying value for each major category of the Company's assets and liabilities.

17. Corresponding Figures

Certain corresponding figures in the financial statements and notes have been reclassified to conform with the financial statements presentation adopted in the current year.