Vincent Yelverton D'Aguilar
1932 - 2008

ICB

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Insurance Company of The Bahamas

CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN
Hugh Sands, CMG

CHAIRMAN
EXECUTIVE COMMITTEE
Marvin V. Bethell, FCII

DIRECTORS

C. R. Bruce Fernie, ACII
Barrett H. McDonald, ACII
Alister I. McKellar, FCII
Terry L. Wilcox
Dionisio D'Aguilar

GENERAL MANAGER

Tom Duff, ACII

SECRETARY

Gloria J. Forbes

HEAD OFFICE

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P. O. Box N-8320
Nassau, Bahamas

REGISTERED OFFICE

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P. O. Box N-3937
Nassau, Bahamas

AUDITORS

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P. O. Box N-123
Montague Sterling Centre
East Bay Street
Nassau, Bahamas

PRINCIPAL AGENT

J. S. Johnson & Company Ltd.
34 Collins Avenue
P. O. Box N-8337
Nassau, Bahamas

BOARD OF DIRECTORS


Hugh Sands, CMG


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CHAIRMAN'S STATEMENT

It is with a deep sense of sadness that I undertake the duty of delivering the 2007 Chairman's Statement following the recent passing of our Founding Chairman, Vincent D'Aguilar. Benefiting from Vincent's steady stewardship over the last eleven years, Insurance Company of The Bahamas has grown from a fledgling operation into a seasoned insurance company with a capital and surplus of over $15 million. Vincent's contribution to the Company's development over this time was considerable and we shall all miss him as a Board member, a colleague and a friend.

2007 proved to be a banner year for ICB with the Company posting a record trading profit of $4.1 million. This profit was very welcome and helped boost the Company's balance sheet following our absorption of losses from hurricanes Frances, Jeanne and Wilma during the period 2004 - 2005. The 2007 hurricane season proved to be somewhat quieter than expected although The Bahamas endured a late scare with the visit of tropical storm Noel in November. However, the absence of any serious windstorm losses in 2007 was, once again, one of the major reasons for our impressive set of results. As was pointed out in last year's statement, ICB needs to post a healthy level of profit during hurricane free years in order to be able to provide an adequate return, over time, to both reinsurers and shareholders. It should be noted that the experts are suggesting that there is an above-average risk of a major hurricane making landfall somewhere in the Caribbean in 2008.

Looking ahead, it is clear that the trading environment over the next few years will be quite challenging for ICB and The Bahamas' general insurance industry at large. With a growing uncertainty surrounding the global economy, the short to medium term economic growth that was forecasted for The Bahamas this time last year may not materialise to the extent envisaged. Against this background, insurers will have to place more emphasis on improving customer service if premium income targets are to be met.

I am satisfied that ICB has the partnerships and strategies in place to be able prosper in these difficult trading conditions. Supported by our exclusive agents, J.S. Johnson and Company Limited, and our reinsurance brokers, Aon Limited, ICB will continue to deliver first class products and services and we look forward to taking these to even higher levels in the coming years.

Hugh Sands, CMG
Chairman

A PERSPECTIVE FROM THE GENERAL MANAGER

From an operational perspective, 2007 proved to be a best ever year for Insurance Company of the Bahamas Limited. I took great satisfaction from many aspects of our performance during the year but I was especially pleased that we were able to set new records in three important areas:

1. Gross Written Premium in excess of $50m.
2. A trading profit in excess of $4m.; and
3. A capital and surplus in excess of $15m.

At underwriting level, the Company fared much better than expected in 2007. Our total underwriting profit of $1.8 million was 68% better than budget. This better than expected performance was largely due to the Motor account where claims experience continued at an unusually low level for the second year in a row. Also for the second consecutive year, The Bahamas was spared the wrath of a serious hurricane - always a welcome relief.

On the investment side, income was significantly higher than expected due, in part, to an exceptional level of unrealised gains in the value of our equities.

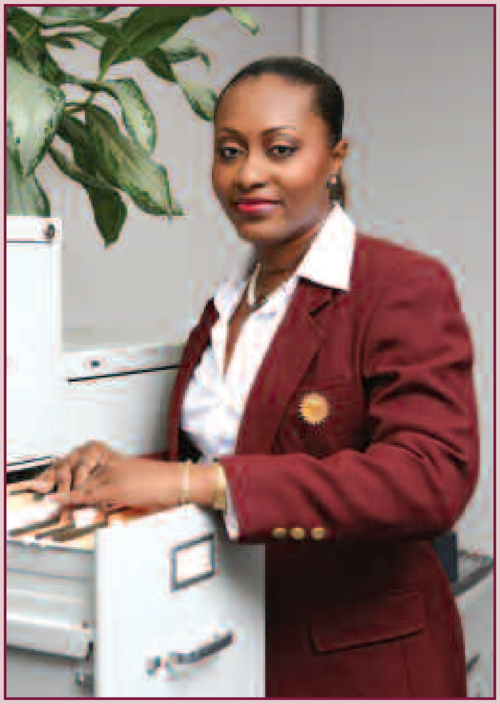
Reinsurance continues to play a major role in the smooth running of the Company's business. With the annual threat posed by North Atlantic Hurricanes, it is critical that we protect our balance sheet through the purchase of reinsurance cover with first class markets. The price and availability of this protection remains one of the most critical issues facing ICB and indeed the entire general insurance industry in The Bahamas. ICB adopts a conservative approach to the purchase of reinsurance with heavy emphasis placed on proportional cover. I continue to be extremely satisfied with the quality of our reinsurance programme and the excellent service provided by our reinsurance brokers, Aon Limited. We are supported by some of the strongest reinsurers around the globe and we value the long term relationships we are forging with many of them. Maintaining the support of the world's top reinsurers is a fundamental element of our business strategy.

I mentioned last year how ICB has matured into one of the leading general insurance companies in The Bahamas. A major factor in our progress continues to be the success of our exclusive agency arrangement with our partners J.S. Johnson & Company Limited. Working with a single underwriting agent enables us to simplify our systems and minimise our administration costs. More importantly, however, the management of both companies has a clear understanding of the dynamics of our businesses and our marketplace. This synergy allows for both companies to react quickly to common business challenges and allows for greater confidence in the setting of budgets and strategies.

The next few years will pose a number of challenges for ICB, and the insurance industry at large, as we adjust our business practices in line with the various regulations under the 2005 Domestic Insurance Act. The regulations are expected to be issued in the near future. Also, we will be challenged by ever more discerning consumers who rightly demand value for money in regard to their insurance purchases. ICB is ready and able to respond to these challenges and we will do everything necessary to ensure that we remain one of the top general insurance companies in The Bahamas.

Tom Duff
General Manager

Darnell Osborne
Financial Controller



Phelice Jones
Statistical Officer

Nicol Culmer
Accounting Officer

Angela Rahming
Accounting & Administrative Officer

INDEPENDENT AUDITORS' REPORT

KPMG
P O Box N123
Montague Sterling Centre
East Bay Street
Nassau, Bahamas

Telephone 242 393 2007
Fax 242 393 1772
Internet www.kpmg.com.bs

To the Shareholders of
Insurance Company of The Bahamas Limited

We have audited the accompanying financial statements of Insurance Company of the Bahamas Limited ("the Company") which comprise the balance sheet as at December 31, 2007 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Insurance Company of The Bahamas Limited as of December 31, 2007 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Chartered Accountants
Nassau, Bahamas
April 21, 2008

Insurance Company of The Bahamas Limited
Balance Sheet
Year ended December 31, 2007, with corresponding figures for 2006 — Expressed in Bahamian dollars

ASSETS		2007	2006
Cash and bank balances (Notes 5,7)	$	862,794	243,578
Term deposits (Notes 6,17)		5,148,030	3,536,870
Reinsurance Recoveries (Notes 4,12,17)		14,444,488	13,323,554
Due from agent (Notes 7,17)		6,241,574	9,953,548
Deferred commission reserve (Notes 7,17)		5,600,044	5,680,650
Prepaid reinsurance premiums (Notes 12,17)		20,081,005	20,127,421
Prepayments and other receivables		42,370	519,899
Investments in securities			
- fair value through profit and loss (Notes 7, 8,17)		3,605,515	2,286,797
- held-to-maturity (Notes 8,17)		6,835,381	5,418,724
- available for sale (Notes 8,17)		2,212,500	2,000,000
Investment property (Notes 9,17)		536,917	536,917
Property, plant and equipment (Notes 10,17)		1,361,687	1,394,156
Total assets	$	66,972,305	65,022,114
LIABILITIES			
General insurance funds:			
Unearned premium reserve (Notes 12,17)	$	24,628,586	24,885,954
Outstanding claims (Notes 12,17)		16,902,927	16,127,701
		41,531,513	41,013,655
Other liabilities:			
Margin Loan		–	1,000,000
Unearned commission reserve (Note 17)		5,056,626	5,063,488
Due to reinsurers (Note 4,17)		4,629,046	4,916,930
Accounts payable and accruals (Note 7,17)		377,190	1,027,394
Total liabilities		51,594,375	53,021,467
NET ASSETS	$	15,377,930	12,000,647
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 14)		2,000,000	2,000,000
Retained earnings		10,377,930	7,000,647
	$	15,377,930	12,000,647

See accompanying notes to financial statements

These financial statements were authorized for issue on behalf of the Board of Directors on April 21, 2008 by:

Director — Director

Statement of Income

Year ended December 31, 2007, with corresponding figures for 2006

Expressed in Bahamian dollars

INCOME		2007	2006
Gross written premiums (Note 7)	$	51,793,130	49,924,609
Premium tax		(1,476,230)	(1,379,945)
		50,316,900	48,544,664
Ceded to reinsurers		(40,975,310)	(38,762,463)
Net retained premiums		9,341,590	9,782,201
Decrease/(increase) in unearned premium reserve (Note 12)		210,952	(233,622)
Portfolio transfer (Note 13)		(373,786)	(841,833)
Net premiums earned		9,178,756	8,706,706
EXPENSES			
Net claims incurred (Note 12)		1,834,578	1,798,991
Net commissions incurred (Notes 7, 11)		1,179,010	1,499,675
Excess of loss reinsurance		4,287,271	3,823,171
		7,300,859	7,121,837
Underwriting profit		1,877,897	1,584,869
OPERATING INCOME AND EXPENSES			
Interest income (Notes 5, 6, 8)		683,338	536,514
Net profit and loyalty commissions (Note 7)		876,703	578,015
Dividend and other income (Note 7)		507,614	563,141
Change in net unrealized gains on investments in securities (Note 8)		1,058,888	286,175
Net realized gain on investments in securities		–	102,408
		5,004,440	3,651,122
Personnel expenses (Notes 7, 16)		(440,397)	(389,346)
Depreciation (Note 10)		(60,626)	(56,398)
Interest expenses		(1,750)	(14,540)
General and administrative expenses (Note 7)		(374,384)	(437,520)
NET INCOME	$	4,127,283	2,753,318

See accompanying notes to financial statements

Statement of Changes in Shareholders' Equity

Year ended December 31, 2007, with corresponding figures for 2006

Expressed in Bahamian dollars

	Share Capital	General Reserve	Retained Earnings	Total
Balance at December 31, 2005	$ 3,000,000	2,000,000	4,247,329	9,247,329
Net income	–	–	2,753,318	2,753,318
Balance at December 31, 2006	$ 3,000,000	2,000,000	7,000,647	12,000,647
Net Income	–	–	4,127,283	4,127,283
Dividends	–	–	(750,000)	(750,000)
Balance at December 31, 2007	$ 3,000,000	2,000,000	10,377,930	15,377,930

See accompanying notes to financial statements

Statement of Cash Flows

Year ended December 31, 2007, with corresponding figures for 2006 — Expressed in Bahamian dollars

CASH FLOWS FROM OPERATING ACTIVITIES		**2007**	**2006**
Net income	$	4,127,283	2,753,318
Adjustments for:			
Unearned premium reserve		210,952	(233,662)
Interest income		(683,338)	(536,514)
Dividend income		(276,270)	(178,266)
Interest expense		1,750	14,540
Change in net unrealized gains on investments in securities		(1,058,888)	(286,175)
Depreciation		60,626	56,398
Loss on disposal of property,plant and equipment		–	14,271
Net realized gain on investments in securities		–	(102,408)
		2,382,115	1,501,502
(Increase) decrease in assets:			
Reinsurance recoveries		(1,120,934)	2,707,702
Due from agent		3,711,974	(7,374,469)
Deferred commission reserve		80,606	(565,070)
Prepaid reinsurance premiums		46,416	(934,646)
Prepayments and other receivables		(23,261)	(195,460)
Increase (decrease) in liabilities:			
Unearned premium reserve		(468,320)	1,401,970
Outstanding claims		775,226	(3,731,204)
Unearned commission reserve		(6,862)	720,555
Due to reinsurers		(287,884)	3,995,963
Accounts payable and accruals		(650,204)	279,926
Net cash (used in)/ provided by operating activities		**4,438,872**	**(2,193,231)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net maturity of term deposits		(1,579,783)	1,545,567
Proceeds from sale of property, plant and equipment		–	1,677
Purchase of property, plant and equipment		(28,157)	(272,968)
Purchase of investments in securities		(1,416,431)	(3,916,324)
Proceeds from sale of investments in securities		50,000	282,083
Interest received		630,195	631,151
Dividends received		276,270	178,266
Net cash (used in)/provided by investing activities		**(2,067,906)**	**(1,550,548)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(750,000)	–
Interest paid		(1,750)	(14,540)
Net cash used in financing activities		**(751,750)**	**(14,540)**
Net (decrease)/increase in cash and cash equivalents		**1,619,216**	**(3,758,319)**
Cash and cash equivalents at beginning of year		(756,422)	3,001,897
Cash and cash equivalents at end of year	**$**	**862,794**	**(756,422)**

Cash and cash equivalents are represented by:			
Cash and bank balances		862,794	243,578
Margin Loan		–	(1,000,000)
	$	**862,794**	**(756,422)**

Notes to the Financial Statements

Year ended December 31, 2007 (Expressed in Bahamian dollars)

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 under the Insurance Act, 1969, as amended, and Turks & Caicos Islands, B.W.I under the Insurance Ordinance, 1989. The Company also provides treaty reinsurance with respect to property and casualty business in the Turks & Caicos Islands and occasional facultative reinsurance to other miscellaneous insurers.

The registered office of the Company is situated at the offices of Messrs. McKinney, Bancroft & Hughes, Mareva House, 4 George Street, Nassau, The Bahamas. The Company's principal place of business is located at 33 Collins Avenue, Nassau, The Bahamas.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for financial instruments at fair value through profit or loss and available for sale securities, which are measured at fair value.

The methods used to measure fair value are discussed further in the significant accounting policies below.

(c) Functional and presentation currency

These financial statements are presented in Bahamian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the finacial statements are described in notes 3(a), 3(f), 3(g), 9, 10, 12 and 17.

3. Summary of significant accounting policies

The principal accounting policies set out below have been applied consistently by the Company and are consistent with those used in the previous year:

(a) Insurance contracts

(i) Classification, recognition and measurement

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer insurance risks. Such contracts may also transfer financial risk. The Company considers an insurance risk to be significant where the sum insured or limit of indemnity exceeds $250,000. The classification of contracts identifies both the insurance and reinsurance contracts that the Company enters into.

Short term insurance contracts consist of Property, Casualty, Motor and Marine insurance contracts.

Property insurance contracts, both personal and commercial, provide compensation for loss or damage to property. Business Interruption coverage provides compensation for loss of earnings following physical damage to the insured premises.

Casualty/liability insurance contracts protect the insured against the risk of causing financial loss or injury to third parties following some act of negligence. Liabilities covered include both contractual and non-contractual. Two of the most common protections offered are "Employer's Liability", designed to indemnify employers who become legally liable to pay compensation to injured employees and "Public Liability", designed to indemnify individuals and businesses who become legally liable to pay compensation to third parties.

Motor insurance contracts cover the driver's liability to third parties in respect of personal injury or property damage. If comprehensive cover is purchased, the policy also covers damage to the policyholder's vehicle.

Marine insurance contracts include the insurance of goods in transit over land or sea and also the insurance of hulls. Hull insurances typically cover both physical damage to the vessel and also the boat owner's liability to third parties in respect of personal injury or property damage.

Premiums generated from insurance and inwards reinsurance contracts are recognized as revenue (gross written premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as unearned premium reserve, calculated using net retained premiums. Gross written premiums are shown before deduction of premium tax, premiums ceded to reinsurers and commissions. Premiums received prior to the year end and processed after the year by the agent are recognised at the time of processing.

Claims and loss adjustment expenses are charged to income as incurred based on the known or estimated liability for compensation owed to policyholders or third parties. They include direct or indirect claims settlement costs and arise from events that have occurred up to the balance sheet date regardless of whether or not they have been reported. Gross outstanding claims comprise the estimated cost of all claims incurred but not settled as of the balance sheet date whether reported or not. The Company does not discount its liabilities for outstanding claims. Liabilities for outstanding claims are estimated using: (a) the judgement of the agency's claims manager in regards to routine claims, (b) external legal opinion in connection with more complex claims, and (c) statistical analyses for claims incurred but not reported.

(ii) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. Tests include reviewing original estimates of ultimate claims cost for each accident year against the current year-end estimates. These tests are carried out at the portfolio level for each main category of business. Should any trend in reserve deficiency, at total portfolio level, become apparent then the deficiency would be immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

(iii) Reinsurance contracts held and assumed

The Company cedes (or assumes) reinsurance under a variety of formal treaty arrangements, with retention limits varying by the line of business. Under these treaties which are classified as reinsurance contracts held (or assumed) the Company is compensated (or compensates) in respect of one or more losses under contracts that meet the classification requirements for insurance contracts. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets are classified reinsurance recoveries and comprise:

a) recoveries due from reinsurers in respect of claims paid, and
b) the reinsured portion of the reserves for outstanding claims allocated in accordance with the treaty arrangements for the class of business in question.

Amounts paid to the reinsurers relating to the unexpired portion of reinsured contracts are classified as prepaid reinsurance premiums.

Reinsurance liabilities are classified as due to reinsurers and are primarily premiums payable under treaty reinsurance contracts after deduction of reinsurance recoveries on proportional contracts. Premiums to be ceded are recognized as an expense from the date the gross premiums are written and over the term of the reinsurance contract in the statement of income.

Amounts shown as reinsurance recoveries, prepaid reinsurance premiums or due to reinsurers are measured consistently with the amounts associated with reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Company assesses its reinsurance assets for any indication of impairment on an ongoing basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the statement of income. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 3 (g).

(iv) Portfolio transfer

At the anniversary date of the reinsurance agreements and at the Company's option, proportional reinsurers agree to assume the unexpired liability of all risks in force at such anniversary date. The unexpired liability is computed in accordance with the method outlined in the reinsurance agreement and accounted for when determined in the statement of income.

(v) Receivables and payables related to insurance contracts

Receivables and payables are recognized when the contractual right to receive payment and contractual obligation to make payment arise, respectively. These include amounts due to and from agent and reinsurers and are assessed for impairment and doubtful accounts. As at December 31, 2007 and 2006, no provision was made for impairment or doubtful accounts.

(b) 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 over the periods covered by the related policies.

Other revenues and expenses of the Company are recognized on an accrual basis, except for:

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

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

iii. Fronting fees – recognized when premiums are billed to customers as the Company has no further service obligations associated with these fees.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies at the date of the balance sheet are translated to the functional currency at the exchange rate prevailing at that date. Transactions in foreign currencies are translated to the functional currency at the exchange rates prevailing at the date 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.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences, if any, relating to investments at fair value through profit or loss are included in net realized gain/loss or change in net unrealized gain/loss on investments in securities in the statement of income. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents are recognised in the statement of income.

(d) Investment property

The Company classifies property held for capital appreciation as investment property. Investment property, which comprises land, is carried at cost using the cost model. No depreciation is taken on land.

The fair value of investment property is determined by independent professional appraisals, which are performed every three years. In the intervening years, the Directors determine the fair value of the investment property. The fair value of the investment property based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(e) Property, plant and equipment

Property, plant and equipment, except for land, are stated at historical cost less accumulated depreciation and impairment losses. Land is stated at cost and not subjected to depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statement of income as incurred.

Depreciation is recognized in the statement of income on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and corresponding period are as follows:

Buildings	2%
Office Furniture and equipment	15%
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.

(f) Financial instruments

Financial instruments comprise investments in equity and debt securities, term deposits, loans and receivables, cash and cash equivalents and accounts payable and accruals.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, that is, the date the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash and deposits held with financial institutions with original maturities o f less than three months. Bank overdraft and margin loan that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(i) *Investments at fair value through profit or loss*

An instrument is classified as at fair value through profit or loss if it is acquired for the purposes of selling in the near term, and which may be disposed of in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices or is designated as such upon initial recognition.

Financial assets and liabilities classified as held at fair value through profit or loss include investments in equity securities.

Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the statement of income. The determination of fair values is based on quoted market prices or dealer price quotations for financial instruments traded in active markets.

(ii) *Investments held-to-maturity*

Financial assets and liabilities with fixed dates of maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity. Financial assets classified as held-to-maturity include Government debt instruments and corporate bonds. Investments held-to-maturity are measured at amortized cost using the effective interest method, less impairment losses.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(iii) *Available for sale investments*

Available for sale investments are financial assets and liabilities that are either designated in this category or are not classified as loans and receivables, held-to-maturity investments, or investments at fair value through profit or loss. Financial assets classified as available for sale investments include preferred shares and mutual funds and are measured at fair value less impairment losses. The determination of fair values is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses, if any. If a reliable measure of fair value becomes available subsequently, the instrument is measured at fair value.

Changes in fair value are recognised directly in equity through the statement of changes in shareholders' equity, except for impairment losses. When an investment is derecognised, the cumulative gain or loss previously recognised in equity is recognised in the statement of income.

(iv) *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not held-for-trading and are measured at amortized cost using the effective interest method, less impairment losses.

Receivables arising from insurance contracts and other receivables are classified in this category.

(v) *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(g) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available for sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of income. Any cumulative loss in respect of an available for sale financial asset recognised previously in equity is transferred to the statement of income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available for sale financial assets that are debt securities, the reversal is recognised in the statement of income. For available for sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of income. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 or amortization, if no impairment loss had been recognised.

(h) Premium tax

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

(i) 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.

(j) Related parties

Related parties are classified as related companies, shareholders, directors and key management personnel who have the authority and responsibility for planning, directing and controlling the activities of the Company.

(k) Dividends

Dividends proposed or declared after the balance sheet date are not recognised at the balance sheet date.

4. Underwriting policies and reinsurance agreements

The Company follows the policy of underwriting and reinsuring all contracts of insurance, which limit the retained liability of the Company. The reinsurance of contracts does not, however, relieve the Company of its primary obligation to the policyholders. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, the Company would also be liable for the reinsured amount. The Company's credit risk management procedures are detailed in note 17.

Aon Limited, whose registered office is in London, England, a related party of J. S. Johnson & Company Limited (J .S. Johnson), the latter being the Company's primary shareholder, is the Company's reinsurance broker and acts as the intermediary between the Company and the reinsurers. Reinsurance contracts between the Company and its reinsurers are renewable annually in accordance with the terms of the individual contracts.

Reinsurance recoveries consist of:

		2007	2006
Recoveries under excess of loss reinsurance for claims paid and outstanding	$	1,229,296	1,196,443
Recoveries under proportional contracts for outstanding claims (note 12)		13,215,192	12,127,111
	$	14,444,488	13,323,554

Amounts due to reinsurers of $4,629,046 (2006 - $4,916,930) represent premiums to be ceded to the reinsurers as at December 31, 2007 less reinsurance recoveries on proportional contracts.

5. Cash and bank balances

The Company earned interest at varying rates up to 3% (2006 – varying rates up to 2.5%) per annum on accounts denominated in Bahamian dollars. Interest earned on demand deposits amounted to $52,012 (2006 - $37,568).

6. Term deposits

Term deposits with banks include accrued interest totalling $171,254 (2006 - $139,877). The term deposits are held more than three months from the date of acquisition and have the following maturities and interest rates:

	Interest rates - 2007	2007	Interest rates - 2006	2006
Three months – one year	3.4606% - 6.5%	$ 2,797,055	3.61% - 4.75%	$ 1,256,938
One – five years	6.0% - 7.0%	$ 2,350,975	6.0% - 8.0%	$ 2,279,932
		$ 5,148,030		$ 3,536,870

7. Related parties balances and transactions

J. S. Johnson, the Company's primary shareholder which owns 40% of the Company's issued shares, serves as its sole agent (referred to as agent) in accordance with the Agency Agreement entered into on January 1, 2000. The remaining shareholders of the Company represent shareholders and key management personnel of J.S. Johnson. The Company and J.S. Johnson also have certain directors in common.

Amounts due from agent are interest free and are settled over a 65-day period. Included in this balance is $500,000 held for the purpose of settling claims.

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

	2007	2006
Balances		
Due from agent	$ 6,241,574	9,953,548
Deferred commission reserve	5,600,044	5,680,650
Investments in securities – fair value through profit or loss (note 8)	330,000	258,000
Accounts payable and accruals	(4,100)	–
Transactions		
Premiums written	51,793,130	49,924,609
Commission expense (note 11)	(11,510,082)	(10,636,595)
Net profit and loyalty commission - agent commission expense	(509,821)	(54,150)
Dividend income	17,700	16,800
Other income	11,700	–
Personnel expenses	(301,225)	(276,994)
General and administrative expenses – management fees	(20,000)	(20,000)

8. Investments in securities

Securities at fair value through profit or loss

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

	2007	2006
As of beginning of year	$ 2,286,797	2,180,297
Additions	259,830	–
Disposals	–	(179,675)
Change in net unrealized gains during the year	1,058,888	286,175
As of end of year	$ 3,605,515	2,286,797

As of December 31, 2007, the cost of securities fair valued through profit or loss was $1,921,074 (2006 - $1,661,244).

The Company holds 30,000 shares of J. S. Johnson valued at $330,000 (2006 – $258,000) at a cost of $211,500 (2006 – $211,500).

Held-to-maturity securities

Held to maturity securities consist of the following:

2007

	Interest Rates	Maturity	2007
Bridge Authority	Prime + 1.5%	2024	$ 130,508
Bahamas Government Registered Stocks	Prime +	2015 to	
	0.1875% to 0.625%	2037	2,941,045
Clifton Heritage Authority	Prime + 0.75%	2035	283,376
Consolidated Water (BAH) Ltd.	7.5%	2015	712,729
Bank of The Bahamas	Prime + 1.75%	2025	750,000
First Caribbean International Bank	Prime + 0.75%	2011	1,009,932
Bahamas Electricity Corporation	Prime + 0.906%	2021	500,791
Bank of The Bahamas	Prime + 1.75%	2025	507,000
			$ 6,835,381

2006

	Interest Rates	Maturity	2006
Bridge Authority	Prime + 1.5%	2024	$ 130,508
Bahamas Government	Prime +	2007 to	
Registered Stocks	0.1875% to 0.53125%	2026	2,536,495
Clifton Heritage Authority	Prime + 0.75%	2035	283,376
Consolidated Water (BAH) Ltd.	7.5%	2015	708,413
Bank of The Bahamas	Prime + 1.75%	2025	750,000
First Caribbean International Bank	Prime + 0.75%	2011	1,009,932
			$ 5,418,724

Included in amortized costs for held-to-maturity investments is accrued interest totalling $69,766 (2006 - $48,000).

Available for sale securities

Available for sale securities consist of the following:

	Dividend Rates	Maturity	2007	2006
Caribbean Crossings Ltd.	8%	2010	$ 150,000	200,000
Caribbean Crossings Ltd.	7%	2016	50,000	50,000
Parliament Properties Ltd.	7.5%	2015	250,000	250,000
Commonwealth Bank Ltd.	Prime + 1.5%	perpetuity	1,000,000	1,000,000
Bank of The Bahamas Ltd.	Prime + 2%	perpetuity	500,000	500,000
TIGRS Series 1 Mutual Fund		2011	262,500	–
			$ 2,212,500	2,000,000

During the year the Company invested $262,500 into TIGRS, Series 1 (Class N shares) through Fidelity Bahamas International Investment Fund Limited, Index Linked Sub-Fund. The Company is protected 100% on its initial subscription upon maturity on June 30, 2011. At maturity the Company will receive a payment equal to the principal amount invested in the Class N shares, Series 1, plus any capital appreciation of the basket of Indexed Linked Options, if any, less any incentive fees.

9. Investment property

As of December 31, 2007, the cost of investment property is $536,917 (2006 - $536,917). In the directors' opinion the fair value of the investment property as at December 31, 2007 is $536,917 (2006 - $536,917).

10. Property, plant and equipment

	Land	Building	Furniture and Equipment	Computer Equipment	Motor Vehicles	Total
Cost:						
Balance as of January 1, 2007	$ 467,704	728,705	162,009	121,928	30,000	1,510,346
Additions	–	23,595	2,562	2,000	–	28,157
Balance as of December 31, 2007	$ 467,704	752,300	164,571	123,928	30,000	1,538,503
Accumulated depreciation:						
Balance as of January 1, 2007	$ –	13,449	37,775	38,602	26,364	116,190
Charge for the year	–	14,901	21,010	21,079	3,636	60,626
Balance as of December 31, 2007	$ –	28,350	58,785	59,681	30,000	176,816
Net book value:						
December 31, 2007	$ 467,704	723,950	105,786	64,247	–	1,361,687
December 31, 2006	$ 467,704	715,256	124,234	83,326	3,636	1,394,156

11. Net commissions incurred

	2007	2006
Commission earned from reinsurers	$ (10,331,072)	(9,136,920)
Commission expenses allocated to J.S. Johnson	11,510,082	10,636,595
	$ 1,179,010	1,499,675

12. Outstanding claims and net claims incurred

As at December 31, 2007 outstanding claims of $16,902,927 (2006 - $16,127,701) are shown gross of reinsurance recoveries of $13,215,192 (2006 - $12,127,111) as disclosed in note 4.

Included in gross outstanding claims is a provision of $195,500 (2006 - $404,000) for claims incurred but not reported as of the year end.

	2007	2006
Net claims incurred:		
Claims incurred	$ 11,054,225	10,523,521
Less: recoverable from reinsurers	(9,219,647)	(8,724,530)
	$ 1,834,578	1,798,991

Assumptions, change in assumptions and sensitivity

(i) Process used to decide on assumptions

The reserving process commences at the moment an insured reports a claim and there is prima facie evidence that the Company is liable under the policy. An initial reserve is established at that point based on the best information available. Assuming liability is subsequently confirmed, the reserve is revised whenever more detailed information becomes available concerning the nature of the injury or physical damage involved. The setting of reserves is the responsibility of the agency's claims manager who will use external legal or other expert advice where appropriate. Where the initial reserve exceeds the agency's claims settling threshold, the adequacy of the reserve will also be discussed with the Company. An established reserve is expected to be sufficient to meet the final cost of a claim whenever it is finally determined.

A provision for incurred but not reported (IBNR) claims has been established for each class of business and is monitored for accuracy at each year end. In determining the accuracy of the provision, management reviews the historical cost of IBNR claims and amends the provision, where necessary, taking into account statistical trends and changes in the shape and size of the portfolio.

All claims reserves are established on a gross basis and the Company accounts to proportional reinsurers for their share through quarterly returns. Claims recoveries against Excess of Loss reinsurers are made on a case by case basis on proof of payment being established.

(ii) Sensitivity analysis – claims development

The development of long tail insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. Accurate claims reserving is crucial to the long term health of the Company as it allows for more accurate pricing of products and also generates the necessary level of confidence on the part of both reinsurers and shareholders. Management uses a variety of statistical tools, including "Loss Triangulations" developed annually on an accident year basis to monitor the develoment of the Company's long tail liabilities.

The following table shows the development of the Company's claims costs by Accident year over the period of 2003 to 2007:

Insurance claims other than catastrophe – gross:

Accident Year	2003	2004	2005	2006	2007	Total
	$	$	$	$	$	$
Original estimate of ultimate claims cost at end of accident year	14,547,441	12,418,964	14,290,705	10,368,516	11,724,166	63,349,972
Current estimate of cumulative claims	14,003,922	12,298,517	13,761,332	10,044,046	11,724,166	61,831,983
Cumulative payments to date	(12,237,523)	(10,187,218)	(11,113,979)	(7,853,555)	(7,518,035)	(48,910,310)
Liability recognized in balance sheet	1,766,399	2,111,299	2,647,353	2,190,491	4,206,131	12,921,673
Liability in respect of years prior to 2003						3,791,253
Gross claims outstanding included in balance sheet						16,712,926

Insurance claims other than catastrophe – net retention:

Accident Year	2003	2004	2005	2006	2007	Total
	$	$	$	$	$	$
Original estimate of ultimate claims cost at end of accident year	3,256,278	3,150,908	3,563,914	2,458,083	2,418,235	14,847,418
Current estimate of cumulative claims	2,989,777	2,877,268	3,167,234	2,266,045	2,418,235	13,718,559
Cumulative payments to date	(2,898,269)	(2,558,210)	(2,847,923)	(1,834,355)	(1,485,607)	(11,624,364)
Liability recognized in balance sheet	91,508	319,058	319,311	431,690	932,628	2,094,195
Liability in respect of years prior to 2003						336,892
Net claims outstanding included in balance sheet						2,431,087

(iii) Movements in outstanding claims

Year ended December 31	2007			2006		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	$ 15,723,701	(12,127,111)	3,596,590	19,524,905	(14,699,959)	4,824,946
Incurred but not reported	404,000	–	404,000	334,000	–	334,000
Total claims outstanding at beginning of the year	16,127,701	(12,127,111)	4,000,590	19,858,905	(14,699,959)	5,158,946
Cash paid for claims settled in the year	(10,278,999)	8,131,566	(2,147,433)	(14,254,726)	11,297,379	(2,957,347)
Increase in liabilities						
- arising in current year claims	11,552,655	(9,413,737)	2,138,918	10,495,887	(8,760,763)	1,735,124
- arising from prior years claims	(289,930)	194,090	(95,840)	(42,365)	36,232	(6,133)
- movement in incurred but not reported	(208,500)	–	(208,500)	70,000	–	70,000
Total claims outstanding at end of the year	$ 16,902,927	(13,215,192)	3,687,735	16,127,701	(12,127,111)	4,000,590
Outstanding claims at December 31 consist of:						
Notified claims	$ 16,707,426	(13,215,192)	3,492,235	15,723,701	(12,127,111)	3,596,590
Incurred but not reported	195,500	–	195,500	404,000	–	404,000
Total claims outstanding at the end of the year	$ 16,902,927	(13,215,192)	3,687,735	16,127,701	(12,127,111)	4,000,590

(iv) Unearned premium reserve

Year ended December 31	2007			2006		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At beginning of the year	$ 24,885,954	(20,127,421)	4,758,533	23,717,646	(19,192,775)	4,524,871
Increase in the year	(257,368)	289,984	32,616	1,168,308	(627,029)	541,279
Portfolio transfer	–	(243,568)	(243,568)	–	(307,617)	(307,617)
Total at end of the year	$ 24,628,586	(20,081,005)	4,547,581	24,885,954	(20,127,421)	4,758,533

Included in the statement of income is the net decrease in unearned premium reserve of $210,952 (2006 -increase of $233,662).

These provisions represent the liability for short-term insurance contracts for which the Company's obligations are not expired at year-end.

13. Portfolio transfer

During 2007, the Company reduced its percentage retention over the prior year on its marine portfolio, with reinsurers receiving the additional percentage (2006 - reduction in percentage retention of motor and accident portfolio). This change required the Company to transfer a proportion of its unearned premiums and outstanding claims reserves to reinsurers, along with the liabilities corresponding to these portfolios.

14. General reserve

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

15. Contingencies

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

16. 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 $16,414 (2006 - $15,307).

17. Risk management

The Company is exposed to insurance risk and financial risk through its insurance assets and insurance liabilities, financial assets and financial liabilities. The insurance risk covers such things as the vagaries of the weather, the unpredictability of serious injury losses and fortuitous events such as outbreaks of fire. The main components of the financial risk are credit risk, liquidity risk and interest-rate risk. The Company's financial performance is affected 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 critical goal of the Company is to ensure that its financial assets are always more than sufficient to fund the obligations arising from its insurance contracts. The following notes expand on the nature of the aforementioned risks and the manner in which the Company manages them.

(a) Insurance risk

Insurance risk is the risk that an insured event might occur. At individual policy level and also at portfolio level, there is uncertainty in terms of both frequency of occurrence and severity of loss. For any given portfolio of insurance contracts, where the theory of probability is applied to pricing and loss reserving, the principal risk that the Company faces is that claims and other costs might exceed premiums earned. This could occur because the frequency or severity of claims is greater than estimated or that estimated original policy rates prove not to be sustainable or a combination of both. Experience shows that the greater the commonality of risk within a class of business, the smaller will be the relative variability in the expected outcome.

In addition, a more diversified portfolio is less vulnerable to a deterioration in the loss experience in any particular class of business. The Company has developed its underwriting strategy to produce a diversified portfolio of insurance risks. Within each of the individual classes of business it has sought to achieve, wherever possible, a sufficiently large population of risks to reduce the variability of the expected outcome.

At the macro level, the Company suffers from a lack of diversification in the sense that it only insures the non-life risks of individuals located in The Bahamas and Turks and Caicos; therefore, there is a concentration of insurance risk within the industry sector and territory in which the Company operates.

Casualty insurance risks

(i) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. Claims frequency can be influenced by changes in the size, composition and quality of a portfolio. Changes in social/economic conditions can also severely impact claims frequency. Claim severity is impacted by such things as general inflation. In the case of Liability claims, the most significant factor is the increasing level of awards for personal injury. Claims involving serious long term injury can take five years or more to settle.

The Company manages these risks by means of its well developed underwriting and reinsurance strategies and also by adopting a proactive approach to claims handling. The underwriting strategy attempts to ensure that the portfolio remains biased towards high quality risks. Underwriting guidelines are in place to enforce appropriate risk selection criteria. The reinsurance arrangements include both proportional and catastrophe excess of loss coverage. The effect of such reinsurance arrangements is to limit the total net insurance loss that the Company can suffer in any one year.

(ii) Sources of uncertainty in the estimation of future claim payments

Claims on casualty contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occur during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and an element of the claims provision relates to incurred but not reported claims (IBNR) and unexpired risks. Given the uncertainty in establishing claims provisions, it is likely in many cases that the final cost of a claim will vary significantly from the initial reserve. In calculating the estimated cost of outstanding claims (both reported or not), the Company uses various industry standard loss estimation techniques and the experience of its agents in settling claims of similar type.

Property insurance contracts

(i) Frequency and severity of claims

For property insurance contracts, climatic changes are giving rise to more frequent severe extreme weather events (eg. hurricanes, flooding, etc.) and their consequences. The Company has the right to re-price each individual risk on renewal. It also has the ability to impose or increase deductibles. Contracts are priced on the basis of the commercial replacement value of the properties and contents insured. The sum insured represents the maximum amount payable under a policy. The cost of repairing or rebuilding properties, the cost of providing indemnity for damaged or stolen contents and the time taken to restart business operations (business interruption insurances) are the key factors that influence the value of claims under these policies. The most likely cause of major loss under the property portfolio arises from a hurricane or other serious weather related event. The Company has reinsurance coverage in place to limit the impact of such losses in any one year.

The Company underwrites property insurance in The Bahamas and Turks and Caicos.

(ii) Sources of uncertainty in the estimation of future claim payments

The development of large losses/catastrophes is analysed separately. Property claims can be estimated with greater reliability due to the shorter settlement period for these claims and relatively little IBNR is held at year-end.

(b) Credit risk

Credit risk arises from the failure of a counterparty to perform according to the terms of the contract. In the normal course of business, the Company seeks to limit its exposure to losses that may arise from any single occurrence. Reinsurance is primarily placed using a combination 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. The Company also evaluates the financial condition of its reinsurers and monitors the credit risk of the reinsurers to minimize its exposure to significant losses from insurer insolvency. The Company’s placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The Company's main exposure to credit risk emanates from reinsurers in the form of prepaid premiums held or claims recoveries still to be made/paid under the various proportional and excess of loss treaties and is disclosed in total on the balance sheet. It is the Company's policy that no single counterparty exposure should exceed 25% of the total reinsurance assets at any given time. In addition, the Company's proportional treaties contain a "Reinsurer Participation Review Clause", which provides the Company with the option of cancelling any individual reinsurer's participation whose financial strength rating (as determined by Standard & Poors and / or A.M. Best) falls below A- or equivalent and to call for the return of prepaid premiums and loss reserves. The Company is required to serve notice of its intention within thirty days of the date of downgrade.

On its other financial assets the Company mitigates this risk as follows:

- places cash with credit-worthy banks;
- invests in debt securities of The Bahamas Government, Government-backed companies and 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 liquid assets, which mature or could be sold immediately to meet cash requirements for normal operating purposes. The tables included in note 6 for term deposits and note 8 for investments in securities shows the expected recovery or settlement of financial instruments held from the dates of acquisition. Cash and bank balances as disclosed in note 5 have original maturities of less than three months. The following summarises the expected recovery or settlement of other assets held (within 12 months from the balance sheet date):

Year ended December 31	2007			2006		
	Current	Non-current	Total	Current	Non-current	Total
Cash and bank balances	$ 862,794	–	862,794	243,578	–	243,578
Term deposits	2,797,055	2,350,975	5,148,030	1,256,938	2,279,932	3,536,870
Reinsurance recoveries	–	14,444,488	14,444,488	–	13,323,554	13,323,554
Due from agent	6,241,574	–	6,241,574	9,953,548	–	9,953,548
Deferred commission reserve	5,600,044	–	5,600,044	5,680,650	–	5,680,650
Prepaid reinsurance premiums	20,081,005	–	20,081,005	20,127,421	–	20,127,421
Prepayments and other receivables	42,370	–	42,370	519,899	–	519,899
Investments in securities						
- fair value through profit or loss	3,605,515	–	3,605,515	2,286,797	–	2,286,797
- held-to-maturity	–	6,835,381	6,835,381	–	5,418,724	5,418,724
- available for sale	50,000	2,162,500	2,212,500	50,000	1,950,000	2,000,000
Investment property	–	536,917	536,917	–	536,917	536,917
Property, plant and equipment	–	1,361,687	1,361,687	–	1,394,156	1,394,156
Total	$ 39,280,357	27,691,948	66,972,305	40,118,831	24,903,283	65,022,114

The table below summarises the maturity profile of the Company's liabilities relating to financial instruments and insurance contracts:

2007

	Up to One year	1 – 3 years	3 – 5 years	Over 5 years	No terms	Total
	$	$	$	$	$	$
Unearned premium reserve	24,628,586	–	–	–	–	24,628,586
Outstanding claims	–	–	–	–	16,902,927	16,902,927
Unearned commission reserve	5,056,626	–	–	–	–	5,056,626
Due to reinsurers	4,629,046	–	–	–	–	4,629,046
Accounts payable and accruals	377,190	–	–	–	–	377,190
Total	34,691,448	–	–	–	16,902,927	51,594,375

2006

	Up to One year	1 – 3 years	3 – 5 years	Over 5 years	No terms	Total
	$	$	$	$	$	$
Margin loan	1,000,000	–	–	–	–	1,000,000
Unearned premium reserve	24,885,954	–	–	–	–	24,885,954
Outstanding claims	–	–	–	–	16,127,701	16,127,701
Unearned commission reserve	5,063,488	–	–	–	–	5,063,488
Due to reinsurers	4,916,930	–	–	–	–	4,916,930
Accounts payable and accruals	1,027,394	–	–	–	–	1,027,394
Total	36,893,766	–	–	–	16,127,701	53,021,467

(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 in interest-bearing assets with floating interest rates, or investing for short time periods. The rates of interest on financial instruments are disclosed in notes 5, 6 and 8 in the financial statements.

(e) Price risk

Price risk is the risk that the value of the financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all financial instruments traded in the market.

As the Company's investments in securities at fair value through profit or loss are carried at fair value with fair value changes recognized in the statement of income, all changes in market conditions will directly affect operating income.

The Company is exposed to price risks arising from equity investments. Price risk is mitigated by the Company by investing in a diversified portfolio of instruments. Equity investments are held for strategic rather than trading purposes and the Company does not actively trade these investments.

18. Fair value of financial instruments

Most of the Company's financial instruments are either measured at fair value as of the balance sheet date or are carried at values which approximate fair value, except for balances due from agent. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision.

Except as stated elsewhere in the notes, the carrying amounts of the Company's financial assets and liabilities approximate their fair values due to one or all of the following reasons:

(a) immediate or short-term maturity;

(b) carrying amount approximates or equals market value.

Because of the interest-free nature and uncertainty surrounding the timing of the settlement of balances due from agent, management is unable to estimate the fair value of this financial instrument.

19. Capital management

Externally imposed capital requirements are set by The Office of the Registrar of Insurance Companies ("ORIC") in The Bahamas and by the Financial Services Commission in Turks and Caicos Island. These requirements are put in place to ensure sufficient solvency margins.

ORIC in The Bahamas generally requires companies engaged in domestic general business to have minimum paid-up and unencumbered capital of $1,000,000. Solvency ratios are established on the basis of risk assessment for each particular entity. As a guideline issued by ORIC, the minimum solvency margin ratio for insurers (net premium to capital/surplus) is 5 to 1 although 3 to 1 is preferred.

The Insurance Ordinance 1989 in Turks and Caicos requires that the Company maintains a minimum solvency margin relating to an excess of permitted assets over its liabilities. The Company has been in compliance with this requirement.

There has been no change in the Company's management of capital during the year. The Company has complied with the regulatory imposed capital requirements throughout the year.