ANNUAL REPORT AND ACCOUNTS

2010

RoyalStar Assurance

risk *(risk) n.*

1. A situation involving exposure to danger, the possibility that something unpleasant or unwelcome will happen. A person or thing regarded as a threat to something in need of protection. The possibility of financial loss.

2. (risk) v.
Expose someone or something valued to danger, harm or loss. Act or fail to act in such a way as to bring about the possibility of an unpleasant or unwelcome event.

Life and Risk

Wherever we go and whatever we do, we are surrounded by risk and as human beings we are continually assessing and endeavouring to manage the multitude of risks we encounter in our daily lives.

We can eliminate risk, run the risk, manage the risk or transfer the risk. The latter is where insurers become involved by taking the risk away in return for accepting a premium.

CONTENTS

CORPORATE INFORMATION

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REGISTERED OFFICE

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Facsimile (242) 328-2520

Financial Strength
A.M. BEST
A– Excellent

CHAIRMAN'S STATEMENT

The core business of RoyalStar Assurance Ltd. (RSA) is to accept risks – a reality which allows our policyholders to pursue their dreams and opportunities with the confidence that they have reduced the probability or threat of something identifiable interrupting that pursuit.

A reality is that when some risk, though identifiable, has not manifested itself for some time, many persons and organizations lower their guard, almost as if to dismiss the risk being real. Then, sudden change happens on a scale such as to re-affirm the notion that "a word to the wise is sufficient".

As I write this Statement, there has been a strong earthquake in New Zealand followed by a massive earthquake and tsunami in Japan highlighting in very stark terms the risks that humankind faces. Our thoughts and prayers go out to those who have been so tragically affected as the loss of life has been terrible and the loss of property runs into the tens of billions of dollars. We note that a considerable amount of this property loss will ultimately be paid by the insurance industry showing how the insurance industry is able to significantly help a society and its population recover from the material and financial losses caused by disasters. In The Bahamas, the Cayman Islands and the Turks and Caicos Islands, we are less exposed to the earthquake risk, but are in a real way exposed to the equally dangerous peril of hurricanes. Additionally, there are universal risks such as potential damage from unfortunate circumstances like fire.

A key requirement, therefore, is for a company like RSA to at all times conduct its affairs so as to be ready when, not if, one or many policyholders directly experiences the brunt of some adverse reality. The Directors and management of RSA are committed to do just that, accepting that in doing so the impact on RSA's profits will be evident therefrom. Thus, for fiscal 2010, our profits fell from approximately $6,800,000 for fiscal 2009 to just over $4,000,000. The positive news is that this reflected a respectable return on equity of 12%.

Additional positive news is that the macro-economic climate appears to be trending favorably in each of The Bahamas, the Cayman Islands and the Turks and Caicos Islands. In the case of The Bahamas, the recent launch of the BahaMar project at Cable Beach is worthy of a special reference because of its scope and anticipated impact.

And RSA is prepared. Simply, our company has never been stronger or better positioned. This extends to an increasing capital base, significant liquidity, a fantastic team of seasoned professionals as managers, respect within the re-insurance markets, a group of experienced leaders as Directors and intermediaries who conform with the demands of disciplined underwriting. In this latter regard, RSA places and enforces strict conditions on each and every intermediary accepted into our network.

On behalf of my fellow Directors, I formally note a personal thanks to all employees of RSA and to the thousands of policyholders who bestow their confidence in RSA.

MANAGING DIRECTOR'S STATEMENT

Introduction

2010 saw a return to some degree of stability in the global economy and financial markets, but unemployment remained at stubbornly high levels. This was also the case within The Bahamas, the Cayman Islands, and the Turks and Caicos Islands economies, and there is no doubt that high unemployment causes increased crime, which in turn increases insurance claims. We believe that the economic situation is improving which in turn will improve the unemployment position and stimulate increasing growth in 2011 and beyond.

2010

RSA produced a profit of $4,127,000 which consisted of an underwriting result of $3,030,000 and investment income of $1,097,000. I would characterize our result in 2010 as steady, but not at our usual level of performance, primarily because of increased motor claims including a fatality in the Cayman Islands, and reduced motor premium income as a result of the economic situation. In addition to reduced motor premium income, property premium income fell by 9.5% mostly as a result of reduced rating levels and exposures in the Cayman Islands. This however did not impact profitability as premium rates in the Cayman Islands are at levels that make the business very marginal.

As I have stated previously it is very important that we generate the bulk of our profits from underwriting as opposed to investments, and we continued to do this with 73% of profit coming from underwriting in 2010.

Regulatory Environment

The regulatory environment throughout the Caribbean continues to tighten with regulatory oversight increasing significantly. Whilst there is no doubt that the new regulatory environment results in considerable additional requirements, RSA is very well positioned in this new environment, having a strong capital base made up of high quality assets, and strong internal controls, combined with a risk based approach to managing the business.

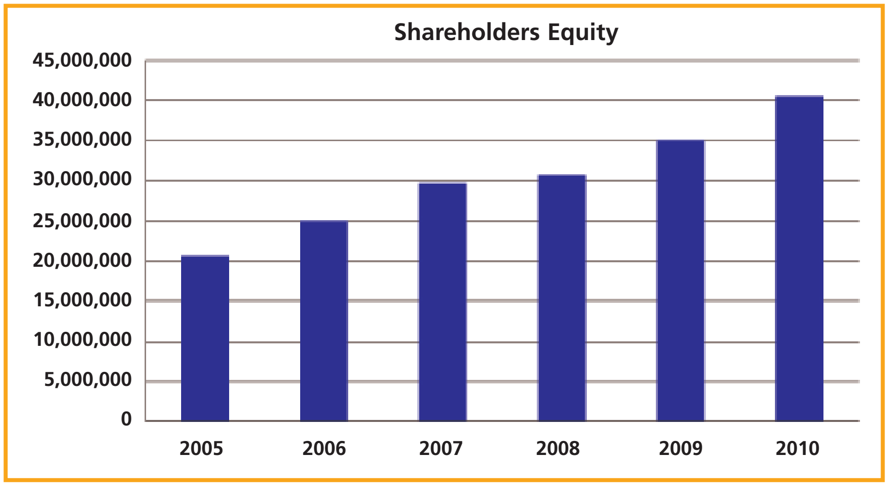
It is likely that new Regulations will be in place in both The Bahamas and the Cayman Islands at some stage in 2011, and we have already taken measures to ensure that we will be in full compliance.

Liquidity and Asset Quality

Net Asset Value or Shareholders Equity was $40,528,000 at 31 December 2010, which includes the $5 million preference share issue that was successfully concluded on 15 October 2010. Whilst our Asset value position is strong, the number by itself does not tell the full story. It is important to understand that balance sheets may have similar numerical values but comprise of very different qualities of assets. In the case of RSA our assets comprise of high quality and liquid assets.

As a Property and Casualty insurer RSA may be required to pay large amounts to our policyholders in a short time frame, especially after a hurricane strikes, which is why we maintain a large portion of our assets in cash. If instead of cash we had a large portfolio of stocks, we may not be able to sell the stocks quickly enough at a fair value to generate the liquidity that would be needed after a large hurricane. Such a large sale would drive down the price of the stock and reduce significantly the amount of cash that the sale would generate. Asset quality is a large part of the new increased regulatory environment, and rightly so.

The following is a chart highlighting the growth in the Net Asset Value during the past six years.



Risk

The theme of this year's annual report is "Risk", and this report is being written in the immediate aftermath of the Christchurch earthquake, and Sendai, Japan earthquake and tsunami, which may well be the largest ever natural disaster in modern history. The enormous loss of life is truly tragic and our thoughts and prayers go out to all of those who have suffered from these natural disasters.

As I have said in previous reports, the world is a very risky place, and as an acceptor of risk, it is incumbent on us to fully understand the risk and to price it correctly. Unfortunately our industry has a track record of under-pricing risk, and then being surprised by large losses. Properly understanding and pricing risk should mean that there are no surprises when large losses occur. In recognition of this the changing regulatory environment requires insurers to have in place a much greater level of risk assessment throughout its whole business, not just the insurance risk. We are now required to effectively run the business using a Risk Based Management philosophy, which RSA has fully embraced.

Outlook

There is no doubt that the economy is improving, but by how much and for how long is still uncertain. If we are once again spared from hurricanes in 2011, RSA is very well positioned to take advantage of the growing economy. Our growth will be focused, targeting those very specific segments which will produce the best risk based return.

In Q2 of 2011 we will start construction of the new RSA Head Office at the eastern end of JFK Drive, which we expect to complete in Q3 of 2012. An architect's rendering of the building is on page 36. The relocation from Centreville to the new location will provide a vastly superior experience for our customers, especially those filing claims. Moving to our new premises will be another major milestone in the progress of RSA, which has grown from a company with $10 million of capital operating from rented premises in 2003 to a company with over $40 million of capital operating from its own premises in 2012. Add to this the high quality balance sheet, a great team of people, and a strong base of intermediaries, and it becomes very obvious that the future is extremely bright for RSA and its many stakeholders. To everyone that has helped make this possible, I would like to give you my personal heartfelt thanks. Together your efforts have resulted in a very strong company that we can all be truly proud of.

STATEMENT OF CORPORATE GOVERNANCE

Introduction

The Board of Directors, hereinafter referred to as "The Board" and the management of RoyalStar Assurance Ltd. (RSA or the Company) believe that good Corporate Governance is essential to the effective, efficient and prudent operation of the Company's business. Therefore, the Company has implemented an internal control environment, which contains strong Corporate Governance Structures and procedures.

The Company's Corporate Governance system is based on regular contact between The Board and management of the Company. It is supported by a high level of management supervision and an external audit by a chartered accounting firm.

Mandate of the Board of Directors

The Board supervises the management of the Company's business and affairs with the objective of maintaining the strength, dynamism and integrity of the Company. In particular, The Board oversees the Company's strategic direction and organisation structure to reflect these objectives and to serve the interests of the Company, its customers, shareholders, employees and the community.

Board responsibilities include supervising the Company's principal risk management policies and related monitoring systems. The Board monitors the integrity of the internal control systems and oversees the major activities performed by the Company. In addition, The Board appoints the Managing Director and establishes appropriate compensation.

The Board fulfills its responsibilities and duties in a variety of ways. For example, at least annually, The Board is apprised of internal control and risk management policies related to insurance, credit, investment, legal and reputation risks. In addition, Board Members review the monthly performance of the Company. Results are compared and measured against a previously established and approved budget and the performance of the previous year. The monthly performance review includes significant performance ratios, large claims and aging of receivables.

Throughout the year, The Board holds meetings (at least one in each quarter) where management is invited to make presentations and respond to questions. Additionally, there are four committees focused on separate areas that meet at least twice annually.

The assessment of management performance by The Board is based on both quantitative and qualitative factors such as experience, personal performance, leadership ability and the achievement of business objectives. Quantitative criteria primarily relates to achievement of profit plan targets. Qualitative measures include maintenance of quality customer service standards and business ethics, and preservation of customer safety by compliance with solvency and other regulations governing the transaction of insurance business as stipulated by relevant regulatory authorities.

The Audit Committee in conjunction with The Board appoints the external auditors and recommends to shareholders the approval of the audited accounts and reviews any matters referred to in the management letter prepared by the external auditors. In addition, the Audit Committee meets with external auditors at least once annually.

The Board of Directors

The Company's Board comprises nine members, all of whom are senior executives in their relevant other businesses, providing vast experience highly relevant to the business of the Company. At least three of the Directors are experienced international insurance executives. The knowledge, skill and experience of the Directors is deemed sufficient to serve the interests of the Company. The majority of shareholders of RSA are all insurance or insurance-related organizations.

BOARD OF DIRECTORS

James M. Pinder
President

Franklyn R. Wilson CMG
Chairman

Herbert H. Thompson

Richard Espinet

A. Bismark Coakley

Steven A. Watson

Dean Romany

Ian Rolle

Chester Cooper

Random Events

Natural disasters and other random events are beyond our control. A property owner is wise to mitigate the effects of these events by purchasing insurance - the risk is then transferred to the insurer in return for a premium which should be commensurate with the degree of risk.

The insurer analyses the risk and decides whether or not to accept it and at what price. High quality risk analysis and management are therefore vital to the success of the insurer and the protection of its customers.

pwc

INDEPENDENT AUDITORS' REPORT

To the Shareholders of RoyalStar Assurance Ltd.

We have audited the accompanying consolidated financial statements of RoyalStar Assurance Ltd. and its subsidiaries, which comprise the consolidated balance sheet as of 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RoyalStar Assurance Ltd. and its subsidiaries as of 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas
13 April 2011

RoyalStar Assurance Ltd. (Incorporated under the laws of the Commonwealth of The Bahamas)

RoyalStar Assurance

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2010

Amounts expressed in Bahamian dollars

		2010	2009
ASSETS			
Cash in hand and at banks (Note 3)	$	4,681,423	3,765,219
Term deposits (Note 3)		26,925,904	22,197,983
Due from agents (Note 4)		15,573,391	17,181,268
Due from reinsurers		1,816,907	1,995,784
Deferred commission expense		3,271,406	3,216,749
Accounts receivable, prepayments and other assets		198,693	248,823
Investments in securities (Note 5):			
Fair value through profit or loss		9,434,707	9,132,057
Loans and receivables		1,779,295	1,797,300
Investment Property (Note 7)		1,010,913	–
Investment in associate (Note 6)		–	1,343,431
Property, plant and equipment (Note 7)		4,206,817	1,722,653
TOTAL ASSETS		**68,899,456**	**62,601,267**
LIABILITIES			
General insurance funds			
Unearned premiums reserve		10,051,316	10,771,653
Outstanding claims reserve (Note 8)		10,276,140	8,977,231
Deferred commission income		2,244,755	2,066,710
		22,572,211	21,815,594
Other liabilities			
Due to reinsurers		3,802,733	3,588,194
Accounts payable and accrued expenses		969,819	938,052
Advances from reinsurers (Note 8)		1,026,605	1,081,522
TOTAL LIABILITIES		**28,371,368**	**27,423,362**
EQUITY			
Share capital:			
Ordinary shares			
Authorized, issued and fully paid: 10,000,000 of $0.30 each		3,000,000	3,000,000
Preference shares			
Authorized: 1,000,000; issued and fully paid: 1,000,000 (2009: 500,000) shares of $10.00 each (Note 9)		10,000,000	5,000,000
Contributed surplus		7,000,000	7,000,000
Retained earnings		20,528,088	20,177,905
TOTAL EQUITY		**40,528,088**	**35,177,905**
TOTAL LIABILITIES AND EQUITY	$	**68,899,456**	**62,601,267**

APPROVED BY THE BOARD OF DIRECTORS
AND SIGNED ON ITS BEHALF BY:

13 April 2011

The accompanying notes are an integral part of these consolidated financial statements

RoyalStar Assurance

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

Amounts expressed in Bahamian dollars

		2010	2009
REVENUE			
Premiums written (Note 10)	$	60,445,195	64,572,946
Premiums ceded to reinsurers		(38,761,339)	(41,951,238)
Net premiums written		21,683,856	22,621,708
Change in unearned premiums reserve		720,337	1,539,727
Net premiums earned		**22,404,193**	**24,161,435**
DIRECT EXPENSES			
Net claims incurred (Note 8)		5,312,948	4,385,560
Net commissions incurred (Note 11)		910,604	194,609
Catastrophe and excess of loss reinsurance		8,030,154	8,744,854
Total direct expenses		**14,253,706**	**13,325,023**
Underwriting gain		**8,150,487**	**10,836,412**
OTHER INCOME			
Interest, dividends and other income		1,215,177	1,208,051
Net change in unrealized gains/losses on investments in securities (Note 5)		(118,381)	(108,745)
Total other income		**1,096,796**	**1,099,306**
OPERATING EXPENSES			
Personnel costs		2,702,852	2,975,781
General and administrative		2,095,495	1,919,145
Depreciation and amortization (Note 7)		211,619	152,273
Directors' costs		109,997	72,824
Total operating expenses		**5,119,963**	**5,120,023**
TOTAL COMPREHENSIVE INCOME	$	**4,127,320**	**6,815,695**

The accompanying notes are an integral part of these consolidated financial statements

RoyalStar Assurance

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

Amounts expressed in Bahamian dollars

	Ordinary Shares	Preference Shares	Contributed Surplus	Retained Earnings	Total
Balance as of 1 January 2009	**$ 3,000,000**	**5,000,000**	**7,000,000**	**15,777,210**	**30,777,210**
Total comprehensive income	–	–	–	6,815,695	6,815,695
Transactions with owners					
Dividends - preference shares	–	–	–	(375,000)	(375,000)
Dividends - ordinary shares	–	–	–	(2,040,000)	(2,040,000)
Total transactions with owners	–	–	–	(2,415,000)	(2,415,000)
Balance as of 31 December 2009	**3,000,000**	**5,000,000**	**7,000,000**	**20,177,905**	**35,177,905**
Balance as of 1 January 2010	**3,000,000**	**5,000,000**	**7,000,000**	**20,177,905**	**35,177,905**
Total comprehensive income	–	–	–	4,127,320	4,127,320
Transactions with owners					
Issuance of preference shares (Note 9)	–	5,000,000	–	(102,000)	4,898,000
Dividends - preference shares	–	–	–	(455,137)	(455,137)
Dividends - ordinary shares	–	–	–	(3,220,000)	(3,220,000)
Total transactions with owners	–	5,000,000	–	(3,777,137)	(1,222,863)
Balance as of 31 December 2010	**3,000,000**	**10,000,000**	**7,000,000**	**20,528,088**	**40,528,088**

Dividends per preference share: $0.46 (2009: $0.75)

Dividends per ordinary share: $0.32 (2009: $0.20)

The accompanying notes are an integral part of these consolidated financial statements

RoyalStar Assurance

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

Amounts expressed in Bahamian dollars

		2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Total comprehensive income	$	4,127,320	6,815,695
Adjustments for:			
Interest, dividends and other income		(1,215,177)	(1,208,051)
Net change in unrealized gains/losses on investments in securities		118,381	108,745
Depreciation and amortization		211,619	152,273
(Increase)/Decrease in operating assets			
Term deposits		121,969	(1,100,346)
Due from agents		264,446	(669,851)
Due from reinsurers		178,877	(1,631,724)
Deferred commission expense		(54,657)	500,122
Accounts receivable, prepayments and other assets		50,130	(118,175)
Increase/(Decrease) in operating liabilities			
Unearned premiums reserve		(720,337)	(1,539,727)
Outstanding claims reserve		1,298,909	(408,466)
Deferred commission income		178,045	(311,694)
Due to reinsurers		214,539	1,677,279
Accounts payable and accrued expenses		31,767	(170,007)
Advances from reinsurers		(54,917)	424,824
Net cash from operating activities		**4,750,914**	**2,520,897**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received		1,297,928	1,197,448
Purchase of investments in securities		(421,031)	(598,927)
Proceeds from sale/maturity of investments in securities		37,500	–
Investment in associate		–	3,816
Purchase of property, plant and equipment		(1,019,834)	(83,788)
Net cash from/(used in) investing activities		**(105,437)**	**518,549**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of preference shares		4,898,000	–
Payment of dividends on preference shares		(455,137)	(375,000)
Payment of dividends on ordinary shares		(3,220,000)	(2,040,000)
Net cash from/(used in) financing activities		**1,222,863**	**(2,415,000)**
Net increase in cash and cash equivalents		5,868,340	624,446
Cash and cash equivalents as of beginning of year		12,936,744	12,312,298
Cash and cash equivalents as of end of year (Note 3)	$	**18,805,084**	**12,936,744**

See Note 6 for significant non-cash transaction.

The accompanying notes are an integral part of these consolidated financial statements

The Wider Implications

The role of interdependency within the world's financial markets contributed to what amounted to their collapse. This was a classic example of not properly identifying or understanding risk and protecting against the worst case scenario.

It could be compared to driving a car very fast, with bald tires, no brakes, on icy roads whilst not wearing a seat belt. It is obvious what the likely outcome will be.

1. General Information

RoyalStar Assurance Ltd. (the Company) is incorporated under the Companies Act, 1992 of the Commonwealth of The Bahamas (The Bahamas) and is licensed to operate as a property and casualty insurance company in The Bahamas under the Insurance Act, 2005. The Company is also licensed to operate in the same capacity under the relevant statutes and regulations in the Cayman Islands, the Turks and Caicos Islands and the British Virgin Islands. Additionally, the Company through a wholly owned subsidiary, RoyalStar Investments Ltd., invests in commercial real estate.

The Company's registered office is at Mareva House, 4 George Street, Nassau, Bahamas.

The Company is sole beneficiary of a trust established to comply with regulations promulgated by the Cayman Islands insurance regulator (Note 3). The Company consolidates the trust for financial reporting purposes. The Company and its subsidiaries are collectively referred to as the Group.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, except as disclosed in the accounting policies below. The preparation of financial statements in accordance with IFRS requires management to exercise judgement in the process of applying the Group's accounting policies. It also 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 consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Notes 2(e), 2(f), 2(i) and 2(j).

Amendments and interpretations to published standards that became effective for fiscal periods beginning on or after 1 July 2009 were not relevant to the Group's operations and accordingly did not impact the Group's accounting policies or consolidated financial statements.

The application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Group's accounting policies or consolidated financial statements in the period of initial application.

(b) Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The Group uses the purchase method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Acquisition costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealized gains on transactions between group entities are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its investment in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Foreign currency translation

The consolidated financial statements are presented in Bahamian dollars which is the Group's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates 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 consolidated statement of comprehensive income.

(d) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, current accounts at banks and unrestricted term deposits with original contractual maturities of three months or less.

(e) Financial assets

The Group classifies its financial assets into the following categories: loans and receivables (due from agents and reinsurers; accounts receivable; and investments in government bonds, corporate bonds and certain preference shares) and financial assets at fair value through profit or loss (investments in equity securities). Management determines the classification of its financial assets at initial recognition and re-evaluates this at each reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell in the short term or that it has designated as at fair value through profit or loss.

A financial asset is classified into the financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Information about these financial assets is provided internally on a fair value basis to the Group's key management personnel. All of the Group's investments in securities designated as at fair value through profit or loss have been so designated by management.

Regular-way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs, except for financial assets at fair value through profit or loss where transaction costs are expensed as incurred. Financial assets are derecognized when the rights to receive cash flows from them have expired or when they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Loans and receivables are carried at amortized cost using the effective interest method, less any provision for impairment.

Financial assets at fair value through profit or loss are subsequently carried at fair value based on quoted prices for investments traded in active markets or valuation techniques, including recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants for investments not traded in active markets. Gains and losses arising from sales or changes in fair value of these investments are recognized in the consolidated statement of comprehensive income in the period in which they arise.

(f) Impairment of financial assets

The Group evaluates at each consolidated balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. By comparison, the amount of loss on financial assets at fair value through profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of interest for a similar financial asset.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. When a financial asset is uncollectible, it is written off against the related allowance account. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statements of comprehensive income. Recoveries of accounts previously written off are recognized directly in the consolidated statement of comprehensive income.

(g) Property, plant and equipment

Property, plant and equipment, are carried at historical cost less accumulated depreciation and amortization, except land which is not depreciated. Historical cost includes expenditures that are directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Furniture, equipment and software	5 to 10 years
Motor vehicles	3 years
Leasehold Improvements	Lesser of lease term and 10 years

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are recognized in the consolidated statement of comprehensive income.

(h) Investment Property

Property held for capital appreciation that is not occupied by the Group is classified as investment property. Investment property comprises freehold land and is accounted for using the accounting policies applicable to property, plant and equipment.

(i) General insurance funds

General insurance funds comprise unearned premiums reserve, outstanding claims reserve and deferred commission income. Unearned premiums reserve represents the portion of the net written premiums, which relate to periods of insurance coverage subsequent to the consolidated balance sheet date.

The outstanding claims reserve is estimated using: the input of assessments for individual cases reported to the Group; and statistical analyses for claims incurred but not reported, and the estimate of the expected ultimate cost of more complex claims that may be affected by external factors. The Group does not discount its reserve for outstanding claims.

Deferred commission income represents the portion of commissions earned on premiums ceded, which relate to periods of insurance coverage subsequent to the consolidated balance sheet date. Deferred commission expense represents the portion of commissions incurred on premiums written, which relate to periods of insurance coverage subsequent to the consolidated balance sheet date.

(j) Revenue and expense recognition

Net premiums written (premiums written less premiums ceded) are recognized as revenue over the periods covered by the related policies. Commission expense incurred on premiums written and commission income earned on premiums ceded are recognized in the same manner as net premiums written.

The Group's net share of 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 that arise from events that have occurred up to the consolidated balance sheet date regardless of whether or not they have been reported.

Interest income and expense for all interest-bearing financial instruments are recognized using the effective interest method. Other revenues and expenses are recognized on the accrual basis, except for profit commissions and dividend income, which are recognized when the Group's right to receive, or obligation to make, payment has been established.

(k) Taxation

Premium tax is incurred at the rate of 3% of gross premiums written in the Commonwealth of The Bahamas, which is charged separately to policyholders. No premium tax is incurred in other jurisdictions in which the Group operates.

Under the current laws of The Bahamas, the country of domicile of the Group, there are no income, capital gains or other corporate taxes imposed. The Group's operations do not subject it to taxation in any other jurisdiction.

(l) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Calculated Risks

From our earliest years we are all exposed to many different risks. As adults we generally understand the consequences involved when we participate in high risk behaviour. Extreme sports, potentially dangerous work situations and adrenaline raising leisure activities all expose us to the risk that something could go wrong.

Calculated risk taking has always played an important role in our development in both our business and personal lives.

(m) Employee benefits

The Group has a defined contribution pension plan for its Bahamian employees, whereby the Group makes fixed contributions to a privately administered pension plan. The Group has no further obligations to pay contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

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

(n) Corresponding figures

Where necessary, corresponding figures are adjusted to conform to changes in presentation adopted in the current year.

3. Cash and Cash Equivalents

		2010	2009
Cash in hand and at banks	$	4,681,423	3,765,219
Term deposits		26,925,904	22,197,983
Accrued interest included in term deposits		(225,711)	(327,957)
Restricted term deposits		(3,638,237)	(2,961,783)
Term deposits with original contractual maturities of more than three months		(8,938,295)	(9,736,718)
	$	**18,805,084**	**12,936,744**

The restricted term deposits represent funds placed by the Group in a trust and other term deposit accounts that cannot be distributed without the permission of the insurance regulators in the Cayman Islands, the Turks and Caicos Islands and the British Virgin Islands. Interest rates on term deposits range from 0.05% to 6.25% (2009: 0.02% to 6.5%).

4. Due from Agents

		2010	2009
Receivable from agents	$	16,073,391	17,431,268
Provisions for doubtful debts		(500,000)	(250,000)
	$	**15,573,391**	**17,181,268**

During the year, an agent settled balances totalling $1,343,431 owing to the Group by the transfer of a related party's shareholding in SUN-RSA Ltd. to the Group; see Note 6.

Movements in the provision for doubtful debts comprise:

		2010	2009
Balance as of beginning of year	$	250,000	100,000
Provision for doubtful debts		250,000	300,000
Bad debts written off		–	(150,000)
Balance as of end of year	**$**	**500,000**	**250,000**

As of 31 December 2010, the Group had balances past due totalling $473,087 (2009: $245,000) that are impaired and $3,573,254 (2009: $3,898,000) that are past due but not impaired.

5. Investments in Securities

Financial assets at fair value through profit or loss

The Group ranks its investments in securities based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs lead to the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity securities and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

		2010	2009
Level 1			
Equity securities	$	1,525,079	1,492,412
Level 3			
Equity securities		6,953,835	6,886,075
Mutual fund shares		955,793	753,570
		7,909,628	7,639,645
Total financial assets at fair value through profit or loss	**$**	**9,434,707**	**9,132,057**

As of 31 December 2010, the cost of financial assets at fair value through profit or loss totalled $7,652,376 (2009: $7,231,345), of which $6,574,410 (2009: $6,191,450) represented Level 3 securities.

Movements in financial assets at fair value through profit or loss comprise:

		Level 1	Level 3	Total
Balance as of 1 January 2009	$	1,396,026	7,245,849	8,641,875
Purchases		243,126	355,801	598,927
Sales		–	–	
Net realized gains/(loss)		–	–	–
Net change in unrealized gains/(losses)		(146,740)	37,995	(108,745)
Balance as of 31 December 2009		**1,492,412**	**7,639,645**	**9,132,057**
Balance as of 1 January 2010		1,492,412	7,639,645	9,132,057
Purchases		38,071	382,960	421,031
Sales		–	–	–
Net realized gain/(loss)		–	–	–
Net change in unrealized gains/(losses)		(5,404)	(112,977)	(118,381)
Balance as of 31 December 2010	**$**	**1,525,079**	**7,909,628**	**9,434,707**

Loans and receivables

	Interest Rate	Maturity		2010	2009
The Government of The Bahamas Bridge Authority bonds	Prime + 1.00%	24/03/2014	$	1,200	1,200
	Prime + 1.25%	24/03/2019		13,600	13,600
	Prime + 1.50%	24/03/2024		51,200	51,200
	Prime + 1.63%	24/03/2029		23,300	23,300
Sunshine Holdings Limited corporate bonds	Prime + 0.50%	27/06/2012		250,000	250,000
	Prime + 0.50%	28/07/2012		250,000	250,000
Consolidated Water (Bahamas) Limited corporate bonds	Prime + 2.00%	21/06/2015		212,500	250,000
Caribbean Crossing Limited Series B preference shares	Prime + 1.50%	30/06/2016		50,000	50,000
Sun Shipping Ltd. preference shares	Prime + 3.50%	Perpetual		200,000	200,000
Sun Shipping Ltd. corporate bonds	Prime + 3.50%	27/12/2013		700,000	700,000
				1,751,800	1,789,300
Accrued interest				27,495	8,000
Total loans and receivables			**$**	**1,779,295**	**1,797,300**

6. Investment in Associate

In the prior year, the Group was a party to a joint venture agreement with a related party. Each party owned 50% of the outstanding shares of a private company incorporated in The Bahamas, SUN-RSA Ltd. During the current year, the Group acquired the 50% interest of the related party with proceeds offset against receivables due from a related agent.

The fair value of consideration transferred amounted to $1,343,431, representing the net book value of the shareholding acquired. The net book value was deemed fair value. Following the acquisition, the name of the private company was changed to RoyalStar Investments Ltd.

The purpose of the former joint venture and current subsidiary is the development of a commercial building complex in New Providence, Bahamas, with the Group expected to occupy a portion of the complex and lease the remainder.

The movements in the investment in associate are as follows:

		2010	2009
Balance as of beginning of year	$	1,343,431	1,347,247
Investment in associate		–	(3,816)
Acquisition of related party interest		1,343,431	–
Transfer of property, plant and equipment following acquisition		(2,686,862)	–
Balance as of end of year	**$**	**–**	**1,343,431**

The financial position of the Company's associate in the prior year was as follows:

		2009
Assets	$	2,700,000
Liabilities		–

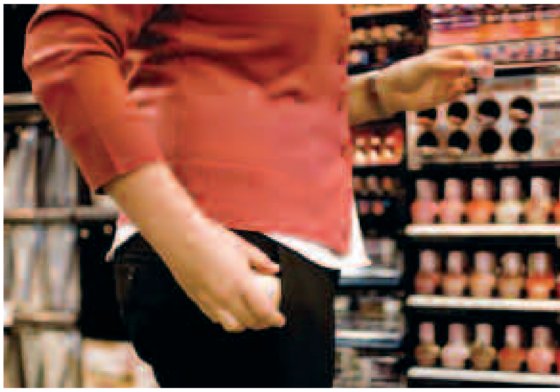
7. Property, Plant and Equipment

	Land	Furniture Equipment and Software	Motor Vehicles	Leasehold Improvements	Total
Cost:					
As of 1 January 2010 $	1,010,913	3,079,592	245,952	309,433	4,645,890
Additions	3,172,490	526,453	–	7,753	3,706,696
Transfer	(1,010,913)	–	–	–	(1,010,913)
Disposals	–	–	(58,317)	–	(58,317)
As of 31 December 2010	3,172,490	3,606,045	187,635	317,186	7,283,356
Accumulated Depreciation/ Amortization:					
As of 1 January 2010	–	2,441,190	172,614	309,433	2,923,237
Charge for the year	–	161,128	49,781	710	211,619
Disposals	–	–	(58,317)	–	(58,317)
As of 31 December 2010	–	2,602,318	164,078	310,143	3,076,539
Net book value as of 31 December 2010	3,172,490	1,003,727	23,557	7,043	4,206,817
Cost:					
As of 1 January 2009	1,010,913	3,016,248	225,508	309,433	4,562,102
Additions	–	63,344	20,444	–	83,788
As of 31 December 2009	1,010,913	3,079,592	245,952	309,433	4,645,890
Accumulated Depreciation/ Amortization:					
As of 1 January 2009	–	2,345,721	115,810	309,433	2,770,964
Charge for the year	–	95,469	56,804	–	152,273
As of 31 December 2009	–	2,441,190	172,614	309,433	2,923,237
Net book value as of 31 December 2009	1,010,913	638,402	73,338	-	1,722,653

As disclosed in Note 6, the Group acquired a subsidiary, the sole asset of which at the time was land and structure. The Group continued to invest in the property development project associated with the subsidiary. During the year and following the acquisition of the subsidiary, the Group changed its plans to develop a commercial building complex on land owned prior to the acquisition of the subsidiary. Accordingly, such land has been transferred to investment property; the carrying value is considered to approximate the fair value of investment property.

Unnecessary Risk

Avoiding unnecessary risks can reap rewards over time. Businesses manage these risks by using a number of tools, including employing high quality people and continually updating their skills, using good information technology to improve efficiency, guarding against theft and buying insurance to protect them in case something unforeseen destroys or interrupts their business.



8. Outstanding Claims Reserve and Net Claims Incurred

Outstanding claims reserve comprises:		2010	2009
Gross provision of claims	$	18,139,008	19,206,396
Amounts recoverable from reinsurers		(7,862,868)	(10,229,165)
	$	**10,276,140**	**8,977,231**

As of 31 December 2010, the Group held $1,026,605 (2009: $1,081,522) in advances received from reinsurers to settle catastrophe claims still being processed.

Net claims incurred comprise:		2010	2009
Gross claims incurred	$	9,356,846	8,151,707
Amounts recoverable from reinsurers		(3,619,386)	(3,357,681)
Net change in outstanding claims reserve		(424,512)	(408,466)
	$	**5,312,948**	**4,385,560**

Insurance claims other than catastrophe – Gross

Accident year		2006	2007	2008	2009	2010	Total
Estimate of ultimate claims cost:							
At end of accident year	$	5,888,285	6,112,252	20,905,272	5,758,841	6,928,098	45,592,748
One year later		6,644,648	7,733,897	15,708,905	7,088,031	–	–
Two years later		6,260,069	7,690,613	15,617,710	–	–	–
Three years later		6,372,944	6,544,627	–	–	–	–
Four years later		6,389,767	–	–	–	–	–
Current estimate of cumulative claims		6,389,767	6,544,627	15,617,710	7,088,031	6,928,098	42,568,233
Cumulative payments to date		(5,009,331)	(5,929,276)	(14,224,232)	(5,197,380)	(3,790,300)	(34,150,519)
Liability included in gross provision of claims		**1,380,436**	**615,351**	**1,393,478**	**1,890,651**	**3,137,798**	**8,417,714**
Liability in respect of prior years							6,740,667
Total liability included in gross provision of claims						$	**15,158,381**

Insurance claims other than catastrophe - Net

Accident year		2006	2007	2008	2009	2010	Total
Estimate of ultimate claims cost:							
At end of accident year	$	4,265,850	4,296,212	6,363,458	3,845,948	4,268,257	23,039,725
One year later		5,055,364	4,859,503	6,947,451	4,917,046	–	–
Two years later		4,822,121	4,885,035	6,998,289	–	–	–
Three years later		5,025,107	4,424,725	–	–	–	–
Four years later		5,097,282	–	–	–	–	–
Current estimate of cumulative claims		5,097,282	4,424,725	6,998,289	4,917,046	4,268,257	25,705,599
Cumulative payments to date		(3,830,390)	(3,981,453)	(5,933,273)	(3,596,548)	(2,190,434)	(19,532,098)
Liability recognized in balance sheet		**1,266,892**	**443,272**	**1,065,016**	**1,320,498**	**2,077,823**	**6,173,501**
Liability in respect of prior years							4,102,639
Total liability included in balance sheet						$	**10,276,140**

9. Preference Shares

During 2010, the Directors approved the issuance of 500,000 Series B preference shares, with the same terms, rights and conditions as Series A preference shares. The cost of the issuance of the Series B preference shares totalled $102,000, which has been deducted from retained earnings. Total preference shares issued and outstanding as of 31 December 2010 total 1,000,000 shares comprised of 500,000 Series A preference shares and 500,000 Series B preference shares.

The preference shares outstanding are variable rate cumulative redeemable preference shares with a par value of $10 per share, redeemable solely at the option of the Group with the declaration of dividends at the discretion of the Directors of the Group. The dividend rate is Bahamian dollar Prime rate plus 2.00% payable semi-annually, and any dividends undeclared are cumulative and payable before any distribution to ordinary shareholders.

10. Premiums Written

		2010	2009
Gross premiums written	$	61,729,002	66,031,705
Premium tax recovered from policyholders		(1,283,807)	(1,458,759)
	$	**60,445,195**	**64,572,946**

11. Net Commissions Incurred

		2010	2009
Amounts paid to agents	$	8,263,273	8,317,995
Amounts received from reinsurers		(7,476,057)	(8,311,814)
		787,216	6,181
Movement in deferred commission expense		(54,657)	500,122
Movement in deferred commission income		178,045	(311,694)
	$	**910,604**	**194,609**

12. Related Party Balances and Transactions

Related parties comprise significant shareholders, directors, key management personnel and entities in which these parties have control or significant influence. The Group's primary shareholder is SunStar Ensure Limited, which owns 52% of the Group's outstanding shares and is owned equally by Sunshine Holdings Limited and Star General Holdings Limited. The consolidated financial statements include the following balances and transactions with related parties:

		2010	2009
Balances			
Due from agents	$	11,797,192	13,166,117
Investments in securities			
Fair Value through profit or loss			
- Level 1		296,287	258,844
- Level 3		6,953,835	6,886,075
Loans and receivables		1,400,000	1,400,000
Transactions			
Premiums written		26,771,035	28,291,623
Commissions (paid to agents)		4,115,884	4,387,721
Personnel costs		1,058,132	1,351,283

As of 31 December 2010, the Group had balances due from related party agents totalling $3,573,254 (2009: $3,693,000) that are past due but not impaired.

The Directors of the Group remeasured investments in unlisted securities of related parties. The fair values were determined based on recent arm's length transactions and other valuation techniques, which resulted in a net unrealized loss of $115,200 (2009: $11,700). The cumulative net unrealized gain on investments in unlisted securities of related parties totals $1,329,425 (2009: $1,444,625).

13. Employee Benefits

The pension costs recognized in the consolidated statement of comprehensive income in personnel costs in the current year total $136,970 (2009: $130,461). The Group's contributions to the pension plan vest 50% with employees upon completion of five years of employment, and fully vest upon completion of ten years of service.

As of 31 December 2010, the Group employed 30 (2009: 30) persons.

14. Commitments and Contingent Liabilities

Commitments

The operating lease for premises occupied by the Group expired during 2009. The Group continues to lease the premises on a month to month basis. Monthly rental payments under this arrangement total $14,882.

Contingent liabilities

The Group is a defendant in several legal actions involving claims. Management believes that the resolution of these matters will not have a material impact on the Group's consolidated financial statements and adequate provision has been made in the outstanding claims reserve.

15. Risk Management

The Group engages in transactions that expose it to insurance risk, credit risk, liquidity risk, interest-rate risk and price risk in the normal course of business. The Group's financial performance is affected by its capacity to understand and effectively manage these risks, and its 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 Group seeks to limit its exposure to losses that may arise from any single occurrence. Reinsurance is primarily placed using a combination of proportional, facultative and excess of loss treaties.

Obtaining reinsurance does not, however, relieve the Group of its primary obligations to the policyholders; therefore, the Group is exposed to the risk that the reinsurers may be unable to fulfil their obligations under the contracts. The Group seeks to mitigate this risk by placing its reinsurance coverage with large multi-national insurers.

Insurance contracts issued in The Bahamas represent approximately 70% (2009: 73%) of all contracts issued by the Group.

(b) Credit risk

Credit risk arises from the potential failure of a counterparty to perform according to the terms of a contract. The Group's exposure to credit risk includes the majority of its assets. To mitigate this risk, the Group places cash with banks in good standing with the applicable banking regulators; 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, including related parties.

Related party agents' balances are supported by shares of the Group, indirectly owned by these parties that have been pledged in favor of the Group as collateral.

(c) Liquidity risk

Liquidity risk is the risk that the Group may not have the necessary funds to honour all of its financial commitments including claims. All 'other liabilities' are due on demand and claims principally have short term cash outflows. The remaining general insurance liabilities could result in cash outflows within one year.

The Company maintains a level of liquid assets (principally cash at banks and term deposits), which mature or could be sold immediately to meet cash requirements for normal operating purposes.

(d) Interest-rate risk

Interest-rate risk is the risk that the fair value or cash flows of financial instruments may fluctuate significantly as a result of changes in market interest rates. The Group's exposure to fair value interest rate risk is considered minimal as its interest bearing financial instruments for the most part have short terms to maturity or interest rates that periodically reset to market rates. The resulting cash flow interest rate risk is not hedged and considered a profit opportunity.

(e) Price risk

Price risk is the risk that the fair value and/or amounts realized on sale of financial instruments may fluctuate significantly as a result of changes in market prices. The securities held at fair value through profit or loss expose the Group to price risk. The Group invests in private equity securities of companies demonstrating profit potential generally accompanying underlying assets with fair values in excess of the entity's equity. Investments are also made in exchange traded securities of companies that the Group's directors, with the advice of an investment manager, consider to have income and/or capital gains potential.

16. Capital Management

The Group's objectives when managing capital are:

- To comply with the insurance capital requirements required by the regulators of the insurance markets in which the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide adequate returns to shareholders by pricing insurance contracts commensurate with the level of risk.

In each country in which the Group operates, the insurance regulator specifies the minimum amount and type of capital that must be held and solvency ratio that must be maintained, based on the applicable laws and regulations governing the country's insurance industry. The minimum capital requirements applicable to the Group range from $150,000 to $5,000,000. The Group has complied with all of the externally imposed capital requirements to which it is subject.

As of 31 December 2010 and 2009, the Group had an A.M. Best Financial Strength Rating of A- (Excellent) with a stable outlook.

17. Fair Values of Financial Instruments

Financial instruments utilized by the Group are limited to the recorded financial assets and liabilities included in the consolidated balance sheet. Carrying amounts of all financial instruments reflect fair values or are considered to approximate fair value given their short-term nature and/or interest rates that periodically reset to market interest rates.

DISTRIBUTION NETWORK

FREEPORT

Star General Insurance Agency (Grand Bahama) Ltd.
Star General Insurance Building
2B The Mall, P. O. Box F-43044
Tel (242) 350-7827

ABACO

Abaco Insurance Agency Ltd.
Stratton Drive, P. O. Box AB-20404, Marsh Harbour
Tel (242) 367-2549

ELEUTHERA

J. H. (Andy) Higgs Insurance Agency
P. O. Box EL-27475, Spanish Wells
Tel (242) 333-4105

Eleuthera Insurance Agents & Brokers Limited
P. O. Box EL-26030, Rock Sound
Tel (242) 334-2254

CAYMAN

Fidelity Insurance (Cayman) Ltd.
Cayman Financial Centre, 36A Dr. Roy's Drive
P. O. Box GT-2174, George Town, Grand Cayman
Tel (345) 949-7221

NASSAU

Advantage Insurance Brokers & Agents Ltd.
Miller House, 61 Collins Avenue, P. O. Box N-9942
Tel (242) 356-0285

Star General Insurance Agents & Brokers Ltd.
Marathon Road, P. O. Box N-1108
Tel (242) 393-5529

Sunshine Insurance (Agents & Brokers) Ltd.
Sunshine House, Shirley Street & Highland Terrace
P. O. Box N-3180
Tel (242) 394-0011

A. Scott Fitzgerald Insurance Brokers & Agents Company Ltd.
Miracle Mall, Prince Charles Drive, P. O. Box SS-6765
Tel (242) 356-5709

CMA Insurance Brokers & Agents Ltd.
East Bay Street, P. O. Box SS-19067
Tel (242) 393-6734

Cole Insurance Agents & Brokers Ltd.
131 Shirley Street, P. O. Box N-121
Tel (242) 323-4111

Lampkin & Company Insurance Brokers & Benefit Consultants Ltd.
Harley Street, P. O. Box EE-15280
Tel (242) 325-0850

Architect's rendering
of the new RSA Building