



Mission Statement

To strengthen and further develop our position as Bermuda's leading insurer through a professional, innovative and caring approach to meeting all of the insurance needs of the community we serve. Through the excellence of our service, we intend to satisfy the needs of our policyholders, the requirements of our shareholders and the aspirations of our staff.

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Directors and Group Executive

DIRECTORS

¹Glenn M. Titterton, A.C.I.I., Chartered Insurer - *Chairman*

¹Gavin R. Arton - *Deputy Chairman, Senior Vice President, XL Capital Ltd.*

³The Hon. Dale Butler J.P., M.P., *Director, Training, Learning & Communications, MEF Enterprises Ltd.*

³Jeannette Cannonier, O.B.E., J.P.

²Peter N. Cooper, *Managing Director, A.S. Cooper & Sons, Ltd.*

²Nancy L. Gosling, B.Com., C.G.A. *President & Chief Executive Officer, Gosling Brothers Limited*

²W. D. Hilton, Jr., *President & Chief Executive Officer, Trust Services Inc.*

¹Stephen W. Kempe, *President, Admiral Management Services Limited*

²R. Blake Marshall, B.B.A., M.Sc., C.A., *President, Par Management & Consulting Services Ltd.*

¹Fernance B. Perry, J.P., *Owner & President, Mayfair Limited*

¹Richard D. Spurling, *Retired Partner, Appleby Spurling Hunter, Barristers & Attorneys*

³David A. J. G. White, *President & Managing Director, Knick Knack Co. Ltd.*

R. John Wight, C.A., *President & Chief Executive Officer, BF&M Limited*

¹ Finance & Corporate Governance Committee

² Audit, Compliance & Corporate Risk Management Committee

³ Nominating Committee

GROUP EXECUTIVE *(photograph right)*

1 R. John Wight, C.A., *President & Chief Executive Officer*

2 David McLeod, A.C.I.I., *Chartered Insurer, Executive Vice President, BF&M Limited*

3 Vincent Chaves, B.Com, C.A., *Senior Vice President, BF&M Life Insurance Company Limited*

4 Glen P. Gibbons, B.A., A.C.I.I., *Chartered Insurer, Senior Vice President, BF&M General Insurance Company Limited*

5 Peter M. Lamb, CFP, CHFC, CLU, REBC, LTCP, *Vice President, Sales & Customer Relations, BF&M Life Insurance Company Limited*

6 Gina A. Bradshaw, F.L.M.I., *Vice President, Technical Services, BF&M Life Insurance Company Limited*

7 Ross J. Hillen, A.C.I.I., *Vice President, Technical Services, BF&M General Insurance Company Limited*

8 Michelle B. Dallas, C.A., *Vice President, Finance & Secretary*

9 Nick Faries, MCSE, BSc., Dip. Eng., *Vice President, E-Business & Technology Solutions*

10 Debby L. Graham, P.H.R., *Vice President, Human Resources*



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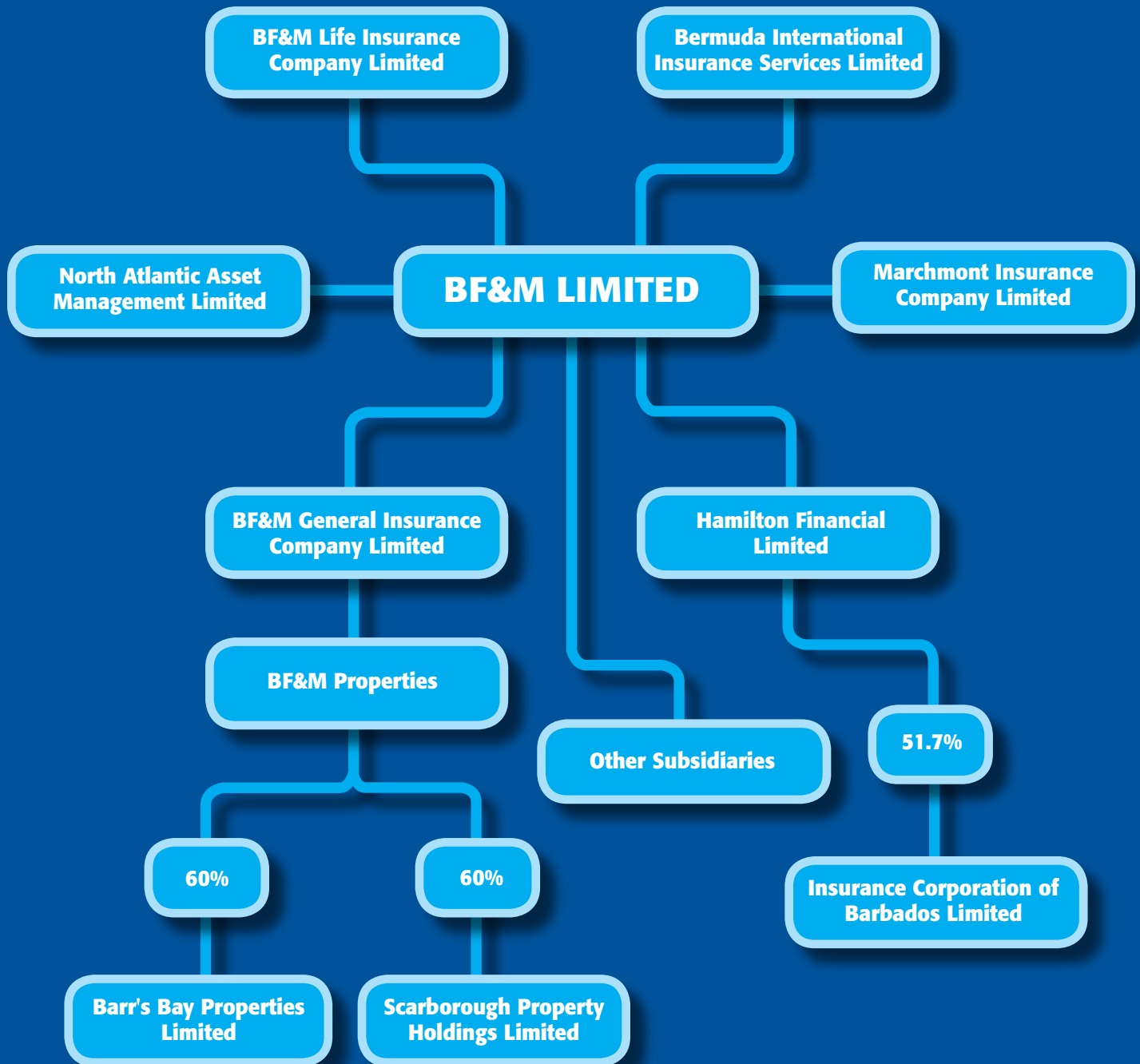
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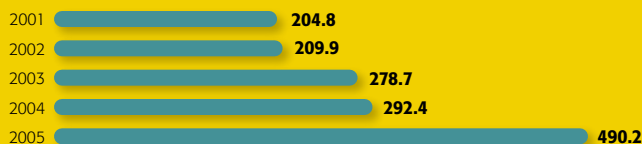
Corporate Structure



Financial and Statistical Summary

END OF YEAR

Total Assets *in millions of dollars*



Shareholders' Equity *in millions of dollars*



Number of Common Shares *in millions*



PER COMMON SHARE

Net Earnings *in dollars*



Cash Dividends *in cents*



Book Value *in dollars*

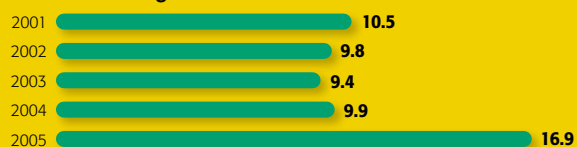


FOR THE YEAR

Gross Premiums Written *in millions of dollars*



Net Earnings *in millions of dollars*



Dividends Declared *in millions of dollars*

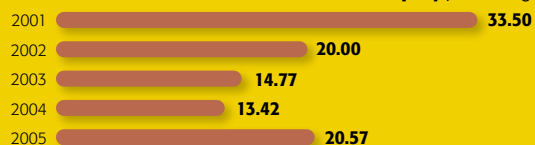


FINANCIAL RATIOS

Return on Assets *percentage*



Return on Common Shareholders' Equity *percentage*



Chairman's Report



On behalf of your Board of Directors it gives me great pleasure to present the Annual Report of the Company for the year ended 31st December, 2005.

Results

We are very pleased to announce Net Earnings of \$16,863,642 for the year ended 31st December, 2005, which represent a Return on Equity of 21%. Earnings per Share increased from \$1.46 to \$2.46.

Total Assets stood at \$490.2 million at 31st December, 2005. Shareholders' Equity increased to \$84.6 million.

2005 Net Earnings represent a substantial increase on the \$9.9 million earned in the preceding year. Results for the previous two years were impacted by unexpected events such as a history of bad motor claims experience, hurricane "Fabian" and most recently a dramatic increase in health care costs which could not be offset by increases in premiums. In this respect 2005 was the exception, with success in all profit centres. Our plans call for even further growth but we must always remember that uneven results are in the nature of the insurance business. Our plan mitigates against this uncertainty through further

business improvements but also through a programme of diversification mentioned below and more particularly in the Management Report.

Financial Rating

Your Board was pleased that A.M. Best maintained the financial strength rating for BF&M Limited at "A (Excellent)" and this rating applies additionally and independently to our principal operating subsidiaries BF&M Life and BF&M General.

The Business

Your Board, through our CEO and Management, is determined to strengthen existing businesses while seeking strategic diversification. BF&M Life and BF&M General remain the principal platform on which the Group depends. Each company achieved very strong results in 2005 and there were exciting developments in each. The Management Report specifically discusses the continuing strengthening of BF&M Life through

further developments in BF&M's role in the Bermuda business of Canada Life and Sun Life.

The Management Report also addresses the success of our diversification initiatives in recent years, which is a critical component of our plan. It refers to the impressive growth of North Atlantic Asset Management Limited in the pension asset management field; the further progress of BF&M Properties Limited in the successful development of our properties; the acquisition of a majority interest (51.7%) in the Insurance Corporation of Barbados Limited, the largest property/casualty insurer in Barbados, which offers exciting development potential; and the strong launch of Bermuda International Insurance Services Limited in the global offshore insurance market. We sold the captive management business of BF&M Management Limited because this no longer fit our plan and because the earnings could not meet our expectations.

Shares and Dividends

Our common shares opened 2005 at \$15.35 and closed the year at \$18.50 on trading volume of 494,484 shares. Shareholder Dividends for the year totaled \$3.5 million.

In my last report I detailed the process by which your Company was buying back the shareholding (both common shares resulting from the exercise of options and common shares resulting from the conversion of preference shares) held by The Bermuda Fire & Marine Insurance Company Limited ("BFMIC"). During 2005 we bought back a total of 902,279 shares. At 31st December, 2005 a balance of 1,254,317 shares remained to be purchased and this process will continue during 2006, concluding on 31st December, 2006. I would like to stress that all of these shares are being cancelled as they are acquired thus enhancing the holding of other shareholders.

Directors, Management & Staff

Subsequent to year-end and following the successful sale of BF&M Management Limited, we accepted the resignation of Mr. William (Bill) Thomson who had been Chairman of BF&M

Management as well as two other minor subsidiaries. As a long standing independent director of some of our subsidiary companies, Bill had a strong commitment to our Company and we offer sincere thanks for his efforts on our behalf. He was always a pleasure to work with.

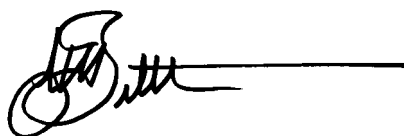
On 1st July, 2005, David McLeod, A.C.I.I., Chartered Insurer, was promoted to Executive Vice President of BF&M Limited to provide support and leadership from our Group Executive Office, while Glen P. Gibbons, B.A., A.C.I.I., Chartered Insurer, was promoted to Senior Vice President with responsibility for BF&M General.

I should report that, while not a member of the Group Executive, Elizabeth A.C. Durrant retired as a result of the sale of BF&M Management Limited. She was Vice President and Secretary of the subsidiary and we wish her future health and happiness. The Management Report refers to the retirement of two other important members of our team and Directors would wish to be associated with Management's remarks.

Conclusion

2005 was clearly a very successful year for BF&M. This would not have been so without strong leadership from our CEO and the Executive and without the contributions of every member of our team, who should be greatly proud of the results. These results are both financial and also people related, such as the successful re-accreditation as an Investor in People. The Board expresses thanks to all involved.

We have a strong business plan that we are confident will lead to future successes in our existing businesses as well as further Group diversification. Your Board is confident that we are well positioned, with strong leadership and that we have a clear focus on the future we want for the Company.



Glenn M. Titterton, A.C.I.I., Chartered Insurer,
Chairman
20th April, 2006

Management Report



I am pleased to report that 2005 was a year of significant progress and unprecedented financial results for BF&M Limited. Net earnings for the year ended 31st December, 2005 were \$16.9 million as compared with \$9.9 million for 2004. This represented a 21% return on equity for shareholders.

Gross premiums increased \$12.9 million or 12% year on year to \$118.8 million. Investment income increased 3% to \$9.7 million, and commissions and other income grew 20% to \$14.1 million. Claims, benefits, and claim expenses increased 7% to \$67.7 million.

Total assets increased from \$292.4 million at 31st December, 2004 to \$490.2 million at 31st December, 2005. Total assets include those of the Insurance Corporation of Barbados Limited, a company in which BF&M acquired a majority interest on 28th December, 2005. More information on this exciting acquisition for BF&M is contained later in this report. Shareholders' equity increased 6.7 % from \$79.4 million to \$84.6 million at 31st December, 2005.

To conclude our successful year, A.M. Best affirmed our financial strength rating of A (Excellent). This rating applies also to BF&M Life Insurance Company Limited and BF&M General Insurance Company Limited.

Our group now has seven profit centers which we will report on as follows:

- **Bermuda General Insurance**
- **Bermuda Health & Life Insurance, Pension Administration Services**
- **Bermuda Asset Management**
- **Bermuda Real Estate**
- **Risk Management Services**
- **Barbados Operation**
- **International Life Insurance**

Bermuda General Insurance

BF&M General Insurance Company Limited built on a very successful 2004 with an even better year in 2005, highlighted by good results in the Motor Account. After losing \$1.6 million in motor in 2003 and breaking even in 2004, this account earned a modest operating profit in 2005. Several actions have

been taken in the past two years to improve this account's profitability, including stricter underwriting, increased rates and deductibles, internal audits, two estimates for vehicle damage, and continuously monitoring our results. Although our Motor Account results for 2005 are encouraging, we know from experience that this account requires constant attention and disciplined risk management if we are to realize our goal of achieving long-term, sustainable profits.

Cycle thefts were down significantly year on year. In 2005, in conjunction with the Bermuda Police Service and the other Bermuda motor insurers, BF&M announced its support for Datatag Bermuda and their initiative to help reduce the ongoing social problem of cycle thefts. This initiative involves new cycles having a Datatag micro chip installed and micro dots applied if a customer wishes cover for theft insurance. BF&M is constantly seeking ways and means in which we can combat the cycle theft problem and we eagerly anticipate the success of the Datatag program.

Our Property account performed well in 2005 due to a strong focus on business retention and servicing existing policyholders which resulted in organic growth. Targets were achieved for new business. We continued to tighten our underwriting guidelines following lessons learned from Hurricane Fabian in 2003.

We have closely reviewed properties insured on the South Shore with our primary concern being ocean exposure to residences within about 40 metres of the shoreline and at an elevation of 10 metres or less. New underwriting measures have ranged from the imposing of higher deductibles to outright withdrawal of ocean damage which accompanies a hurricane or windstorm.

Our General insurance business is heavily reinsured to protect the capital of the Company in the event of catastrophes such as Hurricane Fabian. Bermuda avoided hurricanes in 2005 but several other countries were not so fortunate. BF&M is not immune from the world insurance and reinsurance markets despite our remote location. As a general rule, reinsurance costs are charged to BF&M by reinsurers regardless of whether losses are incurred in Bermuda or elsewhere.

Our Casualty account performed well in 2005, achieving significant growth as a result of an improved focus on the sales and service fronts in addition to lower claims. We were successful in obtaining construction insurance for several of the large commercial developments started in 2005.

Finally, our marine account showed a good profit for the first time in several years, principally due to low claims and stricter underwriting.

Bermuda Health & Life Insurance, Pension Administration Services

BF&M Life Insurance Company Limited followed a very poor year financially in 2004 with a much improved performance in 2005. In last year's Annual Report, we outlined that 2004 was the worst year on record for health insurance due primarily to the frequency and severity of major medical claims overseas which included three very costly premature baby claims. We were pleased that overseas catastrophic claims decreased in 2005. However, the trend in higher utilization of local medical services continues to increase and local hospital and prescription drug costs increased 19% over 2004. With medical inflation continuing in the low double digits and the increasing utilization



North Atlantic Asset Management Limited

Patrice Horner, Vice President of North Atlantic Asset Management Limited is joined by BF&M Life's Peter Lamb, Vice President, Sales and Customer Relations and Anthoni Lightbourne, Life Agent. North Atlantic is fully licensed with the Bermuda Monetary Authority under the Investment Business Act. It currently utilizes more than 80 funds from 25 investment companies.



NORTH ATLANTIC
ASSET MANAGEMENT LIMITED

of services, the increasing cost of healthcare and, in particular, Bermuda's ability to pay for these costs concerns us greatly.

BF&M continues to participate in various subcommittees that arose from the Bermuda Health Summit 2005. Organized by Government, the Summit aimed to expand the partnerships involved in the management of Bermuda's Health Care system and deal with the industry's present and future critical issues.

In addition, BF&M forms part of the Bermuda Hospital Board Leadership and Participation Team that is responsible for preparing the local hospitals for overseas accreditation and we participate in the Joint Fees Committee which makes recommendations for future rate increases. Gina Bradshaw, BF&M Life's Vice President of Technical Services, is the chairperson of the Health Insurance Association of Bermuda.

BF&M Life signed an agreement with The Canada Life Assurance Company to acquire their individual life insurance business in Bermuda. This represented the final stage in BF&M Life taking over all of Canada Life's insurance business in Bermuda. Canada Life's group client policies had been previously transferred to BF&M in 2004. Our objective in acquiring this individual life insurance business was to expand our book, thereby reducing some of the earnings volatility.

Sun Life Assurance Company of Canada ceased writing new individual life business in Bermuda mid-year. Following that decision, all seven Sun Life agents signed agreements with BF&M to start writing new business with us. Sun Life also outsourced the administration of their existing individual life business in Bermuda and selected BF&M to do this for them. We are delighted to have the Sun Life agents writing new

business for BF&M. As a consequence of BF&M administering this business for Sun Life, we have taken over the Sun Life office in Wessex House where the agents reside.

Significantly higher Group Life insurance premiums in 2005 over 2004, combined with a lower claims ratio, resulted in strong profits in this growing account. BF&M now has a better balance of business between Group Health insurance and Group Life insurance following our acquisition of the Bermuda Group Life portfolios of Sun Life in 2002 and Canada Life in 2004.

Assets under administration increased by 40% for our Pension administration department in 2005. The assignment of a dedicated pension administrator to each client provided more personalized service to our group customers which was well received.

Bermuda Asset Management

North Atlantic Asset Management Limited provides pension investment management and consulting services. In 2005, North Atlantic became fully licensed with the Bermuda Monetary Authority under the Investment Business Act. This license permits the Company to develop financial planning and investment services on an individual basis.

North Atlantic currently utilizes more than 80 funds from 25 investment companies. We provide guidance to pension plan members through risk profiles and questionnaires. In 2005, we processed over 2,500 investment trades with the fund companies on behalf of the Golden Accumulator Pension Plans and other customized plans.



Barbados Signing

John Wight, President & CEO of BF&M Limited, shakes hands with Mia Mottley, the Deputy Prime Minister of Barbados following the signing of the deal that saw BF&M acquire 51% of the shares in the Insurance Corporation of Barbados Limited from the Government of Barbados. BF&M bought a further .7% of ICBL shares from other shareholders.

In the last quarter of 2005, North Atlantic was instrumental in constructing the investment and custodial arrangements for a new structure called separately managed accounts. Separately managed accounts unwrap the mutual fund structure and deliver investment products to a pension plan on a more direct basis at a lower cost.

Bermuda Real Estate

BF&M's Real Estate portfolio consists of three first class commercial properties. The Insurance Building is owned and occupied by BF&M and houses the majority of our staff. We also own a majority interest in two investment properties, the Ace Tempest Re Building, owned 60% by BF&M and 40% by Ace Limited and PXRE House, owned 60% by BF&M and 40% by PXRE Group Ltd.

After several years of major projects that began with the development of PXRE House in 2003 and concluded with major renovations to the Insurance Building in 2004, last year was relatively quiet. Finishing touches to the Insurance Building renovations, including landscaping and painting the building yellow to match the color of PXRE House were the order of the day.

Lease agreements were renewed for all tenants of the Ace Tempest Re Building for a further five years.

Risk Management Services

As a consequence of our decision to reallocate capital to better position BF&M for future growth and profitability, we decided captive management was not a core competency and did not

provide the opportunity for future growth and profitability. Our captive insurance business included in BF&M Management Limited was sold to HSBC Insurance Solutions (Bermuda) Limited, who best met BF&M's criteria of continuing excellent service to our customers and challenging employment and advancement opportunities for staff who transferred with the business. With the sale of this business, Risk Management Services now consists of the rent-a-captive business investment in Marchmont Insurance Company Limited.

Barbados Operation

On 28th December, 2005, BF&M Limited, through its wholly owned subsidiary Hamilton Financial Limited, acquired 51% of the outstanding shares in the Insurance Corporation of Barbados Limited ("ICBL") from the Government of Barbados and 0.7% from remaining shareholders. The acquisition of this majority interest in ICBL is consistent with our strategic objective to diversify geographically into selected territories and into businesses in which we have core competencies. The price of the ICBL shares purchased by BF&M was approximately US\$26 million. As the acquisition took place at year-end, the earnings of ICBL were not included in the Consolidated Earnings of BF&M for the year ended 31st December, 2005. However, the balance sheet figures of ICBL at 31st December, 2005 were included in BF&M's Consolidated Balance Sheet at 31st December, 2005.

ICBL is already the leading provider of General Insurance in Barbados. Our goal is to utilize BF&M's expertise and products in individual and group life, health, pensions, and annuities to leverage our investment to maximize ICBL's earnings.



TB Cancer & Health

Over 1,000 walkers participated in the TB Cancer & Health Association's fundraising walk on 5th October 2005. BF&M is the major sponsor of this annual walk which raises funds for Bermudians and residents alike. The total sum raised to cover the cost of Computer Aided Diagnostic Equipment was over \$195,000. BF&M will again be the major sponsor for the 10th Anniversary 2006 walk which aims to raise proceeds to go towards the purchase of a Digital Mammography machine.

With the addition of approximately 140 employees in Barbados, the combined staff complement of BF&M and ICBL now totals approximately 280.

International Life Insurance

On 12th May, 2005, BF&M incorporated a wholly-owned subsidiary called Bermuda International Insurance Services Limited. Michael Lima, a highly respected and experienced executive in the global offshore insurance market, was hired to manage this Company. The Company has invested time and financial resources into product design, illustration and administration systems, reinsurance capacity, communication with distributors, and hiring capable and experienced staff. In January, 2006, we invited selected distributors and reinsurers to our official launch in Bermuda. We are very excited about this new business venture which we are confident will feature prominently in future growth and profitability for our Insurance Group. Much more will be communicated to shareholders about this business in the future.

E-Business and Technology Solutions

BF&M utilizes technology to differentiate us from our competitors. In our 2004 Annual Report we mentioned conducting focus groups and surveys to obtain feedback from our customers on possible improvements to our website. We listened, made changes, and in late 2004 improved our customers' capability to transact business efficiently and quickly online with us through the introduction of "BF&M Quickpay". The results proved to be very positive as business renewed online by our home, car, and boat customers nearly tripled in 2005 compared to 2004. For those customers who still enjoy

coming to our building to conduct business, we installed two kiosks inside the front entrance for fast and easy renewal of policies.

With the acquisition of Canada Life's individual life business in Bermuda came challenges to convert data to BF&M Life's system. Thanks to the dedication and diligence of our Information Systems team and BF&M Life administration department, the transition appeared seamless for our customers.

Business recovery featured prominently in the Information Systems Strategic Plan in 2005. While we hope never to have to activate the real life business recovery plan, a prudent risk management strategy dictates having a viable plan in place. Business recovery upgrades were made during the year and the Company now has real time business recovery capabilities from a satellite office in Halifax.

People and Community

Succession Planning is vital to the continued success of any company. We reported in last year's Annual Report that Vincent Chaves, C.A., had been promoted to Senior Vice President of BF&M Life on 1st January, 2005. Vince had a very successful first year in his new position and worked with the management and staff of that Company to produce strong results.

On 1st July, 2005, David McLeod, A.C.I.I., was promoted to Executive Vice President of BF&M Limited. David works closely with me on strategic initiatives for our companies and has made a major contribution to the Company since joining us in 2002. Also on 1st July, 2005, Glen Gibbons, A.C.I.I., was

promoted to Senior Vice President of BF&M General. Glen has proven himself as a respected insurance executive in Bermuda and this promotion was well earned and received. Elizabeth Durrant, a long serving manager of BF&M Management Limited, retired following the sale of the business in this Company to HSBC.

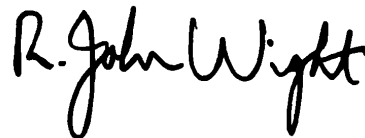
We value the commitment and experience of our long serving employees and in 2005 we were sad to say goodbye to Alison DeSilva who retired after 26 years as our Switchboard Operator and Jan Woods who retired as a group representative after 27 years of full-time service.

Community involvement means a great deal to us at BF&M. We were proud to sponsor many community events in 2005, including the Home Show, the St. George's Weight Handicap 5k Fitness Walk / Run, the TB Cancer & Health Association Breast Cancer Awareness Month, and the Festival of Lights with our co-sponsor BELCO.

Looking Ahead

2005 was an unusual year for BF&M as every line of business performed well. This was atypical as a diversified Insurance Group such as ours is susceptible to windstorms and other assorted perils that can play havoc on earnings in certain lines of business from year to year. We have set a new financial standard for our Company which will be difficult to meet in 2006 but every effort will be made to do so. Our success in 2005 can be attributed to a great team effort from each and every member of BF&M and we will continue to empower our employees to ensure future success.

Finally, amongst all the successes that we achieved in 2005, the one that is most important to me is BF&M's recertification of the "Investor in People" standard. Investor in People U.K. is an internationally recognized organization which assesses companies against best business practice criteria. Following their assessment of BF&M in late 2005, they listed our strengths as "the commitment to training and developing people" and "the ability to identify a balance of key measurable goals and focus on achieving them". We are firm believers in doing everything possible to support and encourage our employees. I am truly proud to work with so many great people who genuinely want to serve our customers and help the Company succeed.



R. John Wight, C.A.
President and Chief Executive Officer

Statements



Financial

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of BF&M Limited were prepared by management in accordance with accounting principles generally accepted in Bermuda and Canada, and include some amounts based upon management's best estimates and judgements.

The shareholders' auditors, PricewaterhouseCoopers, conduct an independent audit of the financial statements of the company and report to the shareholders regarding the fairness of financial reporting. The shareholders' auditors use the work of the appointed actuary in respect of policy liabilities included in the financial statements on which the appointed actuary has rendered an opinion.

The appointed actuary of BF&M Life, Mr. Sylvain Goulet, FCIA, is responsible for rendering an opinion to the shareholders on the appropriateness of the value of the policy liabilities included in the financial statements. The appointed actuary uses the work of the shareholders' auditors in verifying the data files used for valuation purposes.



R. John Wight, C.A.
President and Chief Executive Officer



Michelle B. Dallas, C.A.
Vice President, Finance and Secretary
20th April, 2006

APPOINTED ACTUARY'S REPORT TO THE SHAREHOLDERS

I have valued the policy liabilities in BF&M Life Insurance Company Limited's balance sheet as at 31st December, 2005, and their changes in its statement of earnings for the year then ended in accordance with accepted actuarial practice.

In my opinion, the valuation is appropriate, and the financial statements fairly present its results.



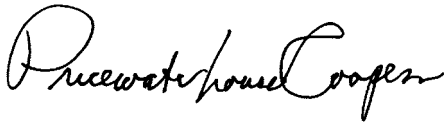
Sylvain Goulet, F.S.A., F.C.I.A., M.A.A.A.
Fellow, Canadian Institute of Actuaries
30th March, 2006

AUDITOR'S REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of BF&M Limited as at 31st December, 2005 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31st December, 2005 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.



Chartered Accountants
30th March, 2006

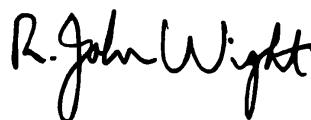
CONSOLIDATED BALANCE SHEET

As at 31st December, 2005

	2005 \$	2004 \$
ASSETS		
Cash and short-term deposits	54,106,366	38,942,276
Investments (note 4)	176,196,511	120,172,962
Segregated accounts with a guaranteed return (note 11)	116,301,043	62,613,251
Accounts receivable and other (notes 9 and 10)	18,320,693	9,732,379
Insurance balances receivable	23,455,017	13,060,719
Reinsurers' share of:		
Claims provisions (note 6)	14,954,000	6,542,586
Unearned premiums	17,330,317	9,649,170
Property, plant and equipment (note 5)	58,507,811	29,699,052
Goodwill (note 3)	1,060,167	-
Intangible assets (notes 3 and 12)	9,926,927	2,011,391
	490,158,852	292,423,786
LIABILITIES		
Provision for claims and adjustment expenses (note 6)	48,956,410	9,343,081
Provision for future policy benefits (note 7)	96,298,278	72,993,363
Provision for participating policy benefits	326,588	1,714,987
Claims payable	1,365,845	993,797
Insurance balances payable	5,340,992	5,323,531
Unearned premiums	33,791,941	17,421,000
Deferred commission income	3,044,676	2,860,536
Segregated accounts with a guaranteed return (note 11)	116,301,043	62,613,251
Accounts payable and other (notes 9 and 10)	34,832,541	22,670,345
Deferred net realized gains on bonds and equities	3,305,544	3,018,869
Loans payable (note 8)	26,691,349	6,933,906
Non-controlling interests (note 3)	35,264,762	7,178,426
	405,519,969	213,065,092
SHAREHOLDERS' EQUITY		
Share capital (note 13(a))	6,574,422	7,123,968
Contributed surplus (note 13(b))	428,725	314,994
Share premium	22,457,237	30,540,759
Unrealized appreciation on investments	2,701,819	2,241,587
Retained earnings	52,476,680	39,137,386
	84,638,883	79,358,694
	490,158,852	292,423,786



Glenn M. Titterton, A.C.I.I., Chartered Insurer,
Chairman



R. John Wight, C.A.
President and Chief Executive Officer

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

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended 31st December, 2005

	2005 \$	2004 \$
INCOME		
Gross premiums written	118,775,436	105,867,101
Reinsurance ceded	(31,710,116)	(30,969,343)
Net premiums written	87,065,320	74,897,758
Net change in unearned premiums	(682,741)	(207,725)
Net premiums earned	86,382,579	74,690,033
Investment income (note 4(e))	9,689,354	9,415,626
Commissions and other income	14,055,677	11,750,650
	110,127,610	95,856,309
EXPENSES		
Claims and adjustment expenses	5,509,934	5,055,622
Policy benefits	62,209,106	58,025,248
Commissions paid	1,594,998	1,860,158
Operating	20,736,830	18,295,258
Amortization	1,728,911	1,532,533
Interest on loans	485,217	312,458
Non-controlling interests	998,972	864,792
	93,263,968	85,946,069
NET EARNINGS FOR THE YEAR	16,863,642	9,910,240
EARNINGS PER SHARE FOR THE YEAR		
- Basic (note 13(c))	\$2.46	\$1.46
- Fully diluted (note 13(c))	\$2.40	\$1.43

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

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended 31st December, 2005

	2005 \$	2004 \$
RETAINED EARNINGS - BEGINNING OF YEAR	39,137,386	32,678,722
Adjustment for change in accounting policy (note 13(b))	-	(177,931)
Retained earnings at beginning of year as restated	39,137,386	32,500,791
Net earnings for the year	16,863,642	9,910,240
	56,001,028	42,411,031
Cash dividends	(3,524,348)	(3,273,645)
RETAINED EARNINGS - END OF YEAR	52,476,680	39,137,386

Statements



Financial

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2005

	2005 \$	2004 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for the year	16,863,642	9,910,240
Add (deduct) items not affecting cash:		
Amortization of property, plant and equipment	1,405,512	1,293,435
Amortization of intangible assets	323,399	239,098
Compensation expense related to shares and options	298,468	332,639
Loss (gain) on sale of investments	11,023	(448,520)
Provision for permanent impairment	44,535	-
Amortization of deferred gains	(1,340,162)	(1,259,446)
Amortization of premium on bonds	473,767	374,020
Non-controlling interests	998,972	864,792
Changes in assets and liabilities:		
Accounts receivable and other	(1,031,507)	(2,899,505)
Insurance balances receivable	(2,231,022)	302,449
Reinsurers' share of:		
Claims provisions	3,041,402	14,191,708
Claims payable	-	11,183,297
Unearned premiums	(881,645)	(2,041,069)
Provision for claims and adjustment expenses	(2,434,677)	(14,396,487)
Provision for future policy benefits	21,835,978	4,169,614
Provision for participating policy benefits	(1,388,399)	765,472
Claims payable	372,048	(22,253,543)
Insurance balances payable	(1,323,417)	1,344,616
Unearned premiums	1,564,388	2,248,794
Deferred commission income	184,140	465,296
Accounts payable and other	7,087,330	11,647,812
Net cash provided by operating activities	43,873,775	16,034,712
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(207,275,822)	(89,106,089)
Purchase of investment in ICBL	(19,534,796)	-
Proceeds from sales of investments	196,847,234	92,871,284
Development property costs	(487,750)	-
Acquisition of property, plant and equipment	(2,581,028)	(4,618,896)
Acquisition of customer lists	(2,455,835)	(510,420)
Net cash used in investing activities	(35,487,997)	(1,364,121)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(3,425,329)	(3,256,632)
Loan received	20,000,000	125,000
Loan repaid	(242,557)	-
Cash dividends paid to non-controlling interest	(600,000)	(400,000)
Redemption of common shares	(12,666,807)	-
Proceeds on issue of common shares	3,713,005	3,944,714
Net cash provided by financing activities	6,778,312	413,082
INCREASE IN CASH AND SHORT-TERM DEPOSITS	15,164,090	15,083,673
CASH AND SHORT-TERM DEPOSITS - BEGINNING OF YEAR	38,942,276	23,858,603
CASH AND SHORT-TERM DEPOSITS - END OF YEAR	54,106,366	38,942,276

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

1. NATURE OF THE COMPANY AND ITS BUSINESS

BF&M Limited (the "Company") was incorporated in Bermuda on 5th August, 1991 as an investment holding company, and has the following subsidiaries:

	% Owned
BF&M General Insurance Company Limited ("BF&M General")	100%
BF&M Life Insurance Company Limited ("BF&M Life")	100%
BF&M Management Limited ("BF&M Management")	100%
BF&M Properties Limited ("BF&M Properties")	100%
Marchmont Insurance Company Limited ("Marchmont")	100%
Hamilton Reinsurance Company Limited ("Hamilton")	100%
North Atlantic Asset Management Limited ("NAAM")	100%
Bermuda International Insurance Services Limited ("BIISL")	100%
Hamilton Financial Limited ("Hamilton Financial")	100%
Scarborough Property Holdings Limited ("Scarborough")	60%
Barr's Bay Properties Limited ("Barr's Bay")	60%
Insurance Corporation of Barbados Limited ("ICBL")	51.7%

The Company is involved in property, casualty, motor, marine, life, health and long-term disability insurance, annuities, and also in the management and investment of pension plans.

The Company's principal business is insurance. It determines and charges a premium to policyholders which, taken as a pool with all other policyholders, is expected to cover underwriting costs and claims which may take a number of years to settle. The business risks of insurance reside in determining the premium, settlement of claims, estimation of claims costs and management of investment funds.

To further mitigate underwriting risk, the Company purchases reinsurance to share part of the risks originally accepted by the Company in writing premiums. This reinsurance, however, does not relieve the Company of its primary obligation to policyholders. If any reinsurers are unable to meet their obligations under the related agreements, the Company remains liable to its policyholders for the unrecoverable amounts.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of income and expenses for the reporting period in the statement of earnings. Actual results could differ from those estimates.

Outlined below are the significant accounting policies of the Company:

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of BF&M Limited and its subsidiaries.

(B) CASH AND SHORT-TERM DEPOSITS

The Company considers all time deposits with an ordinary maturity of ninety days or less as equivalent to cash.

(C) INVESTMENTS

Bonds for BF&M Life are carried at amortized cost, using the scientific yield method of amortization, and bonds for BF&M General are carried at market value. Mortgage loans are carried at unpaid principal balances. Amortization of premium and discount arising on the purchase of bonds is included in investment income. Realized gains and losses arising on the sale of bonds attributable to BF&M Life are deferred and amortized on the scientific yield method over the remaining term of the bonds sold.

Equities of BF&M Life are carried on a moving average market basis whereby the carrying value is adjusted towards market value at 15% per annum and all other equities are valued at quoted market values. Realized gains and losses on equities attributable to BF&M Life are deferred and amortized at 15% per annum.

All other realized gains and losses are included in earnings and all other unrealized gains and losses on equities have been included as a separate component of shareholders' equity. A provision is established for a permanent impairment of any investment.

(D) REINSURANCE

Reinsurance on the balance sheet and the statement of earnings is recorded on a gross basis as it pertains to reinsurance recoveries, unearned premiums and premiums ceded to indicate the extent of credit risk related to reinsurance and on a net basis as it pertains to claims, benefits and claims expenses in the statement of earnings to indicate the results of its retention of losses.

(E) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less accumulated amortization. Amortization is recorded on a straight-line basis over their estimated useful lives at the following rates:

Buildings	2%
Furniture, equipment and leasehold improvements	10% - 20%
Computer hardware and software	33%
Investment property	2%

(F) POLICY LOANS

Policy loans are carried at their unpaid balance and are fully secured by the policy values on which the loans are made.

(G) GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of the cost of a business acquired over the fair value of the net assets acquired. Intangible assets are allocated between indefinite and finite life intangible assets. Goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment on an annual basis and if determined to be impaired, a charge is recorded in income to the extent the carrying value exceeds the estimated fair value. Finite life assets are amortized on a straight-line basis over their estimated useful lives.

(H) PREMIUMS WRITTEN, CEDED AND EARNED

Premiums written and ceded are recorded on an accrual basis. Premiums are earned on a pro-rata basis over the lives of the underlying policies.

Premiums receivable are recorded at amounts due less any required provision for doubtful accounts.

(I) UNEARNED PREMIUMS AND POLICY ACQUISITION COSTS

Unearned premiums are those portions of premiums written that relate to periods of risk subsequent to the year-end.

The reinsurers' share of unearned premium, net of any provision for doubtful accounts, is recognized as an asset at the same time and using principles consistent with the Company's method for determining the unearned premium liability.

Policy acquisition costs are those expenses incurred in the acquisition of business. Acquisition costs are comprised of commissions. These costs are included in accounts receivable on the balance sheet.

Policy acquisition costs related to unearned premiums are only deferred to the extent that they can be expected to be recovered from the unearned premiums, and are amortized to income over the periods in which the premiums are earned. If the unearned premiums are not sufficient to pay expected claims and expenses, a premium deficiency is said to exist. Anticipated investment income can be considered in determining whether a premium deficiency exists. Premium deficiencies are recognized by writing down the deferred policy acquisition cost asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2005

(J) DEFERRED COMMISSION INCOME

Commission income is recognized over the term of the related reinsurance policies.

(K) PROVISION FOR CLAIMS AND FUTURE POLICY BENEFITS

i) Provision for claims

Provision is made for the estimated costs of claims notified but not settled at the balance sheet date, using the best information available at that time. A provision is included for losses and loss adjustment expenses incurred but not reported on the basis of past experience. The provision is based on an actuarial analysis of the Company's accident year development experience. The method of making such estimates and for establishing the resulting provisions is continually reviewed and updated and any adjustments resulting therefrom are reflected in earnings in the period in which they are determined.

Expected reinsurance recoveries, net of any required provision for doubtful amounts, are estimated using principles consistent with the Company's method for establishing the related liability.

ii) Provision for future policy benefits

The policy actuarial liability reserves represent the amounts equal to the carrying value of the assets that, in the opinion of the Appointed Actuary and taking into account the other pertinent items on the balance sheet, will be sufficient to provide for the estimated future obligations on policies in force.

The policy actuarial liability reserves are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries ("CIA"). In accordance with these standards, the policy actuarial liability reserves have been determined using the Canadian Asset Liability Method ("CALM") and the Standards of Practice for the Valuation of Policy Liabilities of Life Insurers ("LSOP").

The policy actuarial liability reserves under CALM are calculated by projecting assets and liability cash flows under a variety of interest rate scenarios using best-estimate assumptions, together with margins for adverse deviations with respect to other contingencies pertinent to the valuation. The policy actuarial liability reserves make sufficient provision for the expected experience scenario and for adverse deviations in experience.

Expected reinsurance recoveries, net of any required provision for doubtful amounts, are estimated using principles consistent with the Company's method for establishing the related liability.

(L) POLICYHOLDER DIVIDENDS

Policyholder dividends are charged to the operations of the participating line of business on an annual basis. Dividends vary depending on the type and duration of the policy and the age of the insured at the date of issue.

(M) FOREIGN CURRENCY TRANSLATION

Transactions originating in foreign currencies are translated at the approximate rates of exchange prevailing at the date of the transactions. Monetary balances in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date. Resulting gains or losses are reflected in earnings. Non-monetary balances are translated at historical exchange rates. Self-sustaining foreign operations assets and liabilities are translated at the rates of exchange prevailing at the balance sheet date.

(N) RENTAL INCOME

Rental income is recorded on an accrual basis and is included in commissions and other income.

(O) EMPLOYEE FUTURE BENEFITS

The Company's projected pension benefit obligation is discounted using a market interest rate based on high quality debt instruments. For the purpose of calculating the expected return on plan assets, those assets are valued at a market-related value. Annual changes in net assets or obligations arising from plan amendments and transitional amounts are amortized over the expected average remaining service life of the employees covered by the plan. Actuarial gains and losses that are in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets are amortized over the average remaining service period of active employees.

In addition to pension benefits, the Company provides post-retirement benefits for health care. These costs are recognized on an accrual basis during the years when service is provided to the Company. Annual changes in the post-retirement benefits for health care obligations

arising from plan amendments are amortized on a straight-line basis over the expected average remaining service life to full eligibility age of employees covered by the plan. Actuarial gains and losses that are in excess of the benefit obligation are amortized over the average remaining service period of active employees.

(P) SHARE BASED COMPENSATION PLANS

The Company has an Equity Incentive Plan which is described in note 13(b). A compensation expense is recognized for this plan when share grants are issued to employees equal to the fair value of the shares on the grant date and is amortized over their three year vesting period.

This plan also includes share options which are issued with an exercise price set at the fair market value of the Company's shares at the date of issuance. Effective 1st January, 2004, the Company retroactively adopted the Canadian Institute of Chartered Accountants ("CICA") recommendations on accounting for stock based compensation. These recommendations required the expensing of stock options granted on and after 1st January, 2002. The Company determines the fair value of the options on the date of grant using an option pricing model and recognizes the fair value over the vesting period of the options granted.

(Q) SEGREGATED ACCOUNTS

Segregated accounts are lines of business in which the Company issues a contract where the benefit amount is directly linked to the market value of the investments held in the particular segregated accounts or a guaranteed return on assets held in the particular segregated accounts. The underlying assets are registered in the name of the Company and the segregated account contract holder has no direct access to the specific assets. The contractual arrangements are such that the segregated account policyholder bears the risks and rewards of the account's investment performance, except for segregated accounts with a guaranteed return where the risks for these accounts are borne by the Company. Accordingly, the segregated accounts with a guaranteed return are included on the Company's balance sheet and the other segregated accounts are excluded from the Company's balance sheet.

Segregated account assets are carried at fair value as disclosed in note 11. Fair values are determined using quoted market values. Segregated account assets may not be applied against liabilities that arise from any other business of the Company. The investment results of the segregated accounts are reflected directly in segregated account liabilities, except for segregated accounts with a guaranteed return where the excess or deficiency of the return on the assets over the guaranteed return is reflected in investment income in the Consolidated Statement of Earnings. For the segregated accounts where the benefit amount is directly linked to the market value of the investments, the Company derives only fee income.

Assets and liabilities for rent-a-captive segregated accounts relate to certain funding contracts, which are arranged by the Company in accordance with a Private Act and comprise the cumulative excess of premiums received and interest allocated to the "accounts" over the repayment of premiums, losses and loss expenses. Assets for these accounts are segregated and invested in accordance with the terms of the underlying policy agreements and are available only to settle the corresponding segregated account liabilities and accordingly are also excluded from the Company's balance sheet.

(R) INCOME TAX

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided using the liability method which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of other assets and liabilities.

Income tax balances relate to the Company's operations in Barbados.

3. BUSINESS COMBINATION

Effective 28th December, 2005 the Company purchased 20,161,171 shares or 51.7% interest in the Insurance Corporation of Barbados Limited ("ICBL"). ICBL is the largest general insurer in Barbados. Insurance coverage includes motor, property, marine, miscellaneous accident, group life, creditor life, group health, and pension fund management. The results of ICBL's operations have not been included in the consolidated statement of earnings. The assets and liabilities of ICBL as at 31st December, 2005 are included in the consolidated balance sheet. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as at the date of acquisition:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2005

	\$
ASSETS	
Cash and investments	50,862,462
Receivables	15,651,206
Reinsurers' share of claims provision	11,452,816
Reinsurers' share of unearned premiums	6,799,502
Segregated accounts with a guaranteed return	36,802,060
Property, plant and equipment	27,633,243
Goodwill	1,060,167
Intangible assets	5,783,101
TOTAL ASSETS ACQUIRED	156,044,557
LIABILITIES	
Provision for claims and adjustment expenses	42,048,006
Provision for future policy benefits	1,468,937
Unearned premiums	14,806,553
Payables	6,071,598
Segregated accounts with a guaranteed return	36,802,060
Non-controlling interests	28,487,364
TOTAL LIABILITIES ASSUMED	129,684,518
NET ASSETS ACQUIRED	26,360,039
TOTAL PURCHASE CONSIDERATION PAID IN CASH	26,360,039

Included in the non-controlling interests balance of \$28,487,364 is \$23,633,627 related to the minority shareholders' 48.3% share of ICBL.

4. INVESTMENTS

Investments comprise:

	2005 \$	2004 \$
Bonds (market value - \$92,454,766; 2004 - \$58,359,435)	92,645,679	55,346,371
Equities (cost - \$13,260,163; 2004 - \$7,795,996)	15,888,827	9,974,247
Mortgages and loans	67,662,005	54,852,344
	176,196,511	120,172,962

The fair value of the mortgages and loans approximate the carrying value.

Included in investments balance of \$176,196,511 is \$34,152,426 which has been pledged to meet the requirements of Section 25(5) of the Barbados Insurance Act 1996-32 and \$499,376 of investments is being held by the Supervisor of Insurance of Barbados as required under Section 23(2)(b) of the Barbados Insurance Act.

Included in the mortgages and loans balance of \$67,662,005 is \$20,000,000 which has been pledged as security for the loan taken by BF&M General to assist in the acquisition of ICBL, see note 8(b).

(A) MORTGAGES AND LOANS

Mortgages and loans comprise:

	2005 \$	2004 \$
Mortgages	65,138,046	54,852,344
Corporate loans	2,523,959	-
TOTAL	67,662,005	54,852,344

Mortgages comprise first mortgages on real property situated in Bermuda and Barbados. Bermuda mortgages are registered under The Mortgage Registration Act 1976 and The Trustee Act 1975.

The terms of the corporate loans vary from four to fifteen years at an interest rate of 6.5% to 8% per annum and are secured by a certificate of annual repayment of principal and interest by the Barbados National Bank.

(B) MARKET AND INTEREST RATE RISK

The Company is subject to market risk with its marketable investments. As a result, the market values of the marketable investments will fluctuate with changes in market prices. In addition to market risk, the Company is subject to interest rate risks on its investments in bonds, mortgages and loans. Accordingly, the market value of the bonds, mortgages and loans will fluctuate as a result of changes in market interest rates.

(C) LIQUIDITY

A significant business risk of the insurance industry is to match the cash flows of the investment portfolio with the expected payment of policy liabilities. The maturity profile of investments with specific maturities at 31st December, 2005 was as follows:

	Within 1 year \$	1 to 3 years \$	3 to 5 years \$	5 to 10 years \$	Over 10 years \$	Book value \$
Bonds	13,374,324	15,297,744	26,472,709	15,318,543	22,182,359	92,645,679
Mortgages	4,000,032	6,379,138	5,597,493	16,276,755	32,884,628	65,138,046
Loans	31,061	392,808	492,684	55,529	1,551,877	2,523,959
	17,405,417	22,069,690	32,562,886	31,650,827	56,618,864	160,307,684
Percent of total	11%	14%	20%	20%	35%	100%

The maturity profile of investments with specific maturities at 31st December, 2004 was as follows:

	Within 1 year \$	1 to 3 years \$	3 to 5 years \$	5 to 10 years \$	Over 10 years \$	Book value \$
Bonds	2,796,221	7,267,918	13,060,883	13,495,203	18,726,146	55,346,371
Mortgages	6,367,390	7,414,450	4,917,019	13,801,534	22,351,951	54,852,344
	9,163,611	14,682,368	17,977,902	27,296,737	41,078,097	110,198,715
Percent of total	8%	13%	17%	25%	37%	100%

(D) CREDIT RISK

Credit risk is the risk that a borrower will fail to fully honour its obligations to the Company. The Company manages its exposure to credit risk through an emphasis on the quality of its investments and their diversification by issuer, industry and geographical area.

(E) INVESTMENT INCOME

	2005 \$	2004 \$
Bond interest and amortization (net of management fees)	4,229,962	4,205,173
Dividends on equities	499,271	427,518
Mortgage interest	4,077,952	3,969,466
Bank deposit and policyholder loan interest	875,812	363,303
Other income	6,357	450,166
	9,689,354	9,415,626

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2005

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise:

			2005	2004
	Cost	Accumulated	Net	Net
	\$	amortization	\$	\$
		\$		
Land and buildings	13,534,632	1,048,102	12,486,530	3,974,842
Furniture, equipment and leasehold improvements	8,375,462	4,578,985	3,796,477	1,619,649
Investment properties	49,310,980	7,086,176	42,224,804	24,104,561
	71,221,074	12,713,263	58,507,811	29,699,052

Investment properties consist of the ACE Tempest Re building owned by Scarborough, a 60% owned subsidiary, and PXRE House, owned by Barr's Bay, a 60% owned subsidiary. The minority shareholder of Barr's Bay holds an equitable mortgage as security for its loan to Barr's Bay, see note 8. The Company acquired investment properties arising from the ICBL acquisition totalling \$18,565,892. The acquired investment properties include land being used for car parking facilities and two buildings being used for rental. The Company also acquired in the acquisition of ICBL, land and buildings totalling \$7,866,471 and furniture and equipment totalling \$1,200,880.

6. PROVISION FOR CLAIMS AND ADJUSTMENT EXPENSES

The reconciliation of provision for claims and adjustment expenses for the years ended 31st December, 2005 and 2004 is as follows:

	2005	2004
	\$	\$
Net provision for claims and adjustment expenses at beginning of year	2,800,495	3,005,274
Reinsurers' share of provision for claim and adjustment expenses	6,542,586	20,734,294
Gross provision for claims and adjustment expenses at beginning of year	9,343,081	23,739,568
Gross claims and adjustment expenses incurred in respect of losses in:		
Current year	8,561,703	6,556,933
Prior years	232,262	1,159,812
Total	8,793,965	7,716,745
Gross claims and adjustment expenses paid in respect of losses in:		
Current year	4,840,599	4,183,082
Prior years	6,388,043	17,930,150
Total	11,228,642	22,113,232
Net provision for claims assumed in acquisition of ICBL	30,595,190	-
Reinsurers' share of provision for claims assumed in acquisition of ICBL	11,452,816	-
Gross provision for claims assumed in acquisition of ICBL	42,048,006	-
Net provision for claims and adjustment expenses at end of year	34,002,410	2,800,495
Reinsurers' share of provision for claim and adjustment expenses	14,954,000	6,542,586
Gross provision for claims and adjustment expenses at end of year	48,956,410	9,343,081

The fair value of the net provision for claims and adjustment expenses of \$34,002,410 is \$33,775,465.

(A) ASSUMPTIONS

Uncertainty exists on reported claims in that all information may not be available at the reporting date, therefore, the claim cost may rise or fall at some date in the future when the information is obtained. In addition, claims may not be reported to the Company immediately, therefore, estimates are made as to the value of claims incurred but not yet reported, a value which may take some months to finally

determine. In order to determine the liability, assumptions are developed considering the characteristics of the class of business, the historical pattern of payments, the amount of data available and any other pertinent factors.

(B) REINSURANCE RECOVERIES

The Company has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. In 2005 and 2004 the Company had no write-offs. No information has come to the Company's attention indicating weakness or failure of any of its current reinsurers, therefore no provision has been made in the accounts for doubtful collection.

7. PROVISION FOR FUTURE POLICY BENEFITS

Actuarial liabilities represent the amount required, together with estimated future premiums and investment income, to provide for estimated future benefits to policyholders and administration expenses under insurance and annuity contracts. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

The Company's financial position may be affected by its exposure to interest rate risk. If the assets supporting the liabilities do not match the timing and amount of the policy obligations, interest rate losses or gains may occur due to future changes in interest rates. To manage and control interest rate risk, the Company maintains an appropriate asset/liability management process for each of its liability segments.

The composition of the Company's actuarial liabilities is as follows:

	2005	2004
	\$	\$
Participating		
Individual life	27,265,117	23,370,987
Annuities	-	13,835
Non-participating		
Individual life	6,171,345	4,657,242
Universal life	6,642,732	-
Annuities	38,409,880	30,431,775
Group life	4,029,191	2,726,789
Health and accident	13,780,013	11,792,735
	96,298,278	72,993,363

The changes in the actuarial liabilities for insurance and annuity benefits are as follows:

	2005	2004
	\$	\$
Balance - Beginning of year	72,993,363	68,823,749
Normal changes	6,952,676	8,707,935
Interest rate assumption	3,375,798	(2,030,000)
Mortality assumption	(191,911)	(1,601,935)
AIDS assumption	(1,075,208)	(611,617)
Changes in other actuarial assumptions	312,400	55,158
Changes due to acquisition and assumption transactions of book of business	12,488,817	-
Changes due to acquisition of ICBL	1,468,937	-
Other changes	(26,594)	(349,927)
Balance - End of year	96,298,278	72,993,363

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2005

8. LOANS PAYABLE

(A) In prior years, the Company borrowed from an affiliated company of the minority shareholder of Barr's Bay, \$6,933,906 against the \$7,000,000 in promissory notes available to finance the construction of PXRE House.

Interest on the variable rate loan is adjusted quarterly at the lower of 7% or 2% less than the average of the prevailing per annum First Mortgage rates of banks in Bermuda. Interest accrues on the date of each drawdown and is payable on the last day of each calendar quarter commencing one year after completion of the building but only to the extent that Barr's Bay has cash surplus to its needs arising from income in excess of all operating expenses (including payments of interest). Accrued interest on the loan at 31st December, 2005 and 2004 was \$805,172 and \$469,002 respectively. Repayment of accrued interest will be made separately, beginning in the year 2006. Repayments of loan principal commenced in the current year with full repayment to be made by 1st January, 2026.

During the year \$242,557 of the principal balance was repaid. Estimated principal repayments on the loan balance of \$6,691,349 for the next five years are as follows:

	\$
2006	311,009
2007	328,470
2008	346,912
2009	518,452
2010	547,560
	2,052,403

The loan payable amount on the balance sheet is comprised of the principal amount payable of \$6,691,349 (2004 - \$6,933,906). Accrued interest of \$805,172 (2004 - \$469,002) is included in accounts payable.

(B) To assist in the acquisition of 51.7% interest in ICBL, BF&M General obtained a \$20,000,000 bank loan from the Bank of N.T. Butterfield ("the Bank"). The term of the loan is eight years from date of initial drawdown which was on 15th November, 2005. The interest rate is adjusted quarterly at the rate determined by the Bank two business days before the interest period at being 1.5% above the rate the Bank is offered funds in the London Inter-Bank Eurodollar market.

The loan is secured by a floating charge over the mortgage portfolio held by BF&M General in the amount of \$20,000,000. The total mortgage portfolio of BF&M General at 31st December, 2005 was \$32,301,121.

Interest payments are due quarterly in arrears calculated from the date of initial drawdown of the loan. Principal repayments of \$625,000 are due quarterly over the term of the loan. Principal repayments and interest payments commenced on 15th February, 2006.

Principal repayments on the loan balance of \$20,000,000 for the next five years will be \$2,500,000 per year.

The loan payable amount on the balance sheet is comprised of the principal amount payable of \$20,000,000. Accrued interest of \$149,047 is included in accounts payable.

9. POLICYHOLDER DIVIDENDS AND LOANS

Accounts payable include policyholder dividends of \$5,136,326 (2004 - \$4,194,952) representing dividends and interest left to accumulate by the participating policyholders. Accounts receivable include policyholder loans of \$4,028,279 (2004 - \$3,411,918).

10. TAX PAYABLE AND DEFERRED TAXES

Accounts payable include tax payable of \$1,791,847 representing income tax on the current year profit of ICBL.

Accounts receivable include deferred taxes of \$141,565 relating to the following items:

	2005	2004
	\$	\$
Other	9,824	-
Pension plan	462,060	-
	471,884	-
Deferred tax asset at depreciation tax rate of 30%	141,565	-

11. SEGREGATED ACCOUNTS

The table below details the changes in segregated funds net assets for the years ended 31st December, 2005 and 2004 and the segregated funds net assets as at 31st December, 2005 and 2004.

	2005	2004
	\$	\$
CHANGES IN SEGREGATED FUNDS NET ASSETS		
ADDITIONS TO SEGREGATED FUNDS		
Deposits:		
Rent-a-captive premiums	28,945,752	138,319,314
Reinsurance recoveries	18,292,725	-
Collateral and expense funding	2,148,688	2,222,488
Pension contributions	50,875,361	50,893,133
Annuities	-	142,445
Life	562,778	58,576
Net realized and unrealized gains	10,589,628	7,440,980
Other investment income	1,187,604	2,107,519
	112,602,536	201,184,455
DEDUCTIONS FROM SEGREGATED FUNDS		
Reinsurance premiums	-	(108,500,000)
Payments to policyholders and their beneficiaries	(54,102,972)	(26,416,842)
Management fees	(1,751,275)	(1,629,882)
Underwriting expenses	(68,256)	(67,153)
	(55,922,503)	(136,613,877)
Net additions to segregated funds	56,680,033	64,570,578
Segregated funds assumed in acquisition of book of business	39,339,234	-
Segregated funds assumed in acquisition of ICBL	36,802,060	-
Segregated funds net assets - beginning of year	241,317,353	176,746,775
Segregated funds net assets - end of year	374,138,680	241,317,353
SEGREGATED FUNDS NET ASSETS		
Assets:		
Segregated and mutual funds	235,123,795	144,399,022
Equities	73,510,409	2,527,970
Cash and short-term deposits	65,504,476	94,390,361
SEGREGATED FUNDS NET ASSETS - END OF YEAR	374,138,680	241,317,353

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2005

Included in segregated funds net assets balance of \$374,138,680 (2004 - \$241,317,353) is \$116,301,043 (2004 - \$62,613,251) representing policies and contracts with a guaranteed return. This amount is included in the Company's assets and liabilities.

12. INTANGIBLE ASSETS

Intangible assets comprise:

	Cost \$	Accumulated amortization \$	2005 Net \$	2004 Net \$
Customer lists	4,910,346	766,520	4,143,826	2,011,391
ICBL customer relationships and contracts	5,086,472	-	5,086,472	-
ICBL brand	696,629	-	696,629	-
	10,693,447	766,520	9,926,927	2,011,391

During the current year the Company purchased rights to certain customer lists in the amount of \$2,455,835 (2004 - \$510,420). These costs are amortized over 10 years, being the expected lives of the business assumed.

The Company acquired intangible assets arising from the ICBL acquisition including the ICBL brand, customer relationships, and pension contracts totalling \$5,783,101. Of the total intangible assets acquired, \$5,086,472 was identified as the value of intangible assets that have finite lives and will be amortized over 10 years, being the estimated expected lives of the existing relationships. The remaining balance of \$696,629 relates to the ICBL brand acquired and was determined to have an indefinite life.

13. SHARE CAPITAL

(A) SHARE CAPITAL COMPRISES:

	2005 \$	2004 \$
Authorized - 10,000,000 (2004 - 10,000,000) common shares of a par value of \$1 each	10,000,000	10,000,000
Issued and fully paid - 6,574,422 (2004 - 7,123,968) common shares of a par value of \$1 each	6,574,422	7,123,968

The issuances and cancellation of issued and fully paid share capital for the years ended 31st December, 2005 and 2004 is as follows:

	2005 \$	2004 \$
Balance - Beginning of year	7,123,968	6,704,794
Shares issued under employee share purchase plan	16,267	14,196
Stock options exercised under equity incentive plan	54,316	110,002
Stock grants issued under equity incentive plan	7,150	19,976
Options exercised by BFMIC	275,000	275,000
Cancellation of shares purchased from BFMIC	(902,279)	-
Balance - End of year	6,574,422	7,123,968

During the year, 16,267 (2004 - 14,196) shares were issued under the employee share purchase plan. The fair value of the shares amounted to \$229,475 (2004 - \$192,822) which was credited to share capital and share premium. The discount of \$34,424 (2004 - \$28,918) was charged to compensation expense.

The Bermuda Fire and Marine Insurance Company Limited (in liquidation) ("BFMIC") had an option to subscribe for up to 1,100,000 common shares in the Company at a subscription price of \$11.27 per share in years 2004 to 2006 inclusive. On 23rd December, 2004 BFMIC exercised their option and subscribed for 275,000 shares in the Company for proceeds of \$3,099,250. During the current year the Company exercised their call option, requiring BFMIC to sell to the Company these 275,000 shares at a price representing the weighted average closing price of the Company's shares on the Bermuda Stock Exchange over a period of 180 days prior to 23rd December, 2004. The price of \$13.04 resulted in a payment to BFMIC of \$3,586,000 and the shares were subsequently cancelled. On 30th September, 2005, BFMIC subscribed for a further 275,000 shares in the Company for proceeds of \$3,099,250. Subsequent to the exercise of these options, the Company exercised their call option, requiring BFMIC to sell to the Company these shares at a price representing the weighted average closing price of the Company's shares on the Bermuda Stock Exchange over a period of 180 days prior to 30th September, 2005. The price of \$14.38 resulted in a payment to BFMIC of \$3,954,500 and these shares were subsequently cancelled. BFMIC has a remaining option to subscribe for 550,000 shares at a subscription price of \$11.27 per share expiring on 31st December, 2006.

On 8th February, 2005 an agreement was signed between the Company and BFMIC whereby the Company is acquiring 1,056,596 shares currently owned by BFMIC in three tranches as follows:

Tranche 1 – 31st March, 2005 – 352,279 shares
 Tranche 2 – 31st December, 2005 – 352,279 shares
 Tranche 3 – 31st December, 2006 – 352,038 shares

The price to be paid by the Company for each tranche is calculated as 10% above the weighted average closing price of the shares of the Company traded on the Bermuda Stock Exchange over the period 180 days immediately prior to the value date. The value date is seven days prior to the tranche sale date for which the sale price is to be determined. The price for tranche 1 of \$14.53 resulted in a payment to BFMIC of \$5,118,614, plus commissions of \$7,693, on 5th April, 2005. These shares were subsequently cancelled. The price for tranche 2 of \$16.02 resulted in a payment to BFMIC of \$5,643,510, plus commissions of \$8,485, on 3rd January, 2006. These shares were also cancelled subsequent to year-end. The price to be used in the calculation of the purchase price for tranche 3 shall be no less than 10% above the weighted average closing price for the shares as calculated with effect 31st January, 2005 which is \$14.49.

(B) EQUITY INCENTIVE PLAN

i) Stock options

The stock options granted have a ten year term and vest to the grantees over a three year period.

The following table summarizes the stock options issued under the Company's Equity Incentive Plan:

	# of options	2005 Weighted average exercise price	# of options	2004 Weighted average exercise price
Outstanding at beginning of year	151,054	10.19	193,736	7.82
Granted	38,167	15.35	77,000	12.00
Cancelled	-	-	(9,680)	11.10
Exercised	(54,316)	10.13	(110,002)	7.20
Outstanding at end of year	134,905	11.55	151,054	10.19
Exercisable at 1st January, 2006 and 2005	88,338	10.43	87,154	9.21

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2005

The following table summarizes information about stock options outstanding at year-end:

Stock options expiring 1st January	# of options	# of options exercisable as at 1st January, 2006	exercise price
2010	4,625	4,625	6.14
2011	15,950	15,950	6.59
2012	9,454	9,454	7.73
2013	13,976	13,976	10.25
2014	55,700	32,600	12.00
2015	35,200	11,733	15.35
	134,905	88,338	

The fair value of stock options granted in the year ended 31st December, 2005, was \$3.29 (2004 -\$2.06) per share, using the Black-Scholes option-pricing model with the following assumptions:

	31st December, 2005	31st December, 2004
Expected yield	3.39%	4.00%
Risk free interest rate	4.73%	4.22%
Expected volatility	20%	20%
Expected lives	10 years	10 years

Effective 1st January, 2004, the Company retroactively adopted the CICA recommendations on accounting for stock based compensation. These recommendations required the expensing of stock options granted on and after 1st January, 2002. The effect of the retroactive change in accounting policy has been adjusted through the opening balance of retained earnings and contributed surplus of the prior period to reflect the cumulative effect of the change on the years ended 31st December, 2003 and 31st December, 2002. The amount of the adjustment to opening retained earnings in 2004 was \$177,931.

The amount of the benefit of the stock options granted totalled \$115,808 (2004 - \$158,620) and will be amortized through earnings as the options vest over a three year period. The amount charged to compensation expense in the current year is \$113,731 (2004 - \$137,063).

ii) Stock grants

During the year 7,150 (2004 - 19,976) common shares were issued to certain key employees in respect of restricted share awards. These shares are held by the Company and are restricted from sale or use by the employees for three years from the grant date. The amount of the benefit to these key employees totalled \$103,890 (2004 - \$299,640) and will be amortized through earnings over a three year period. The amount charged to compensation expense in the current year totalled \$150,313 (2004 - \$166,658).

The following table summarizes information about the outstanding stock grants:

Restricted shares vesting	# of shares
1st January, 2006	10,770
1st January, 2007	18,326
1st January, 2008	7,150
	36,246

(C) EARNINGS PER SHARE

The following sets forth the computation of basic and diluted earnings per share for the years ended 31st December, 2005 and 2004.

	2005			2004		
	Income (numerator)	Average weighted shares (denominator)	Per share amount	Income (numerator)	Average weighted shares (denominator)	Per share amount
Net income	\$16,863,642			\$9,910,240		
Basic earnings per share						
Income available to common shares	16,863,642	6,847,572	\$2.46	9,910,240	6,775,171	\$1.46
Effect of dilutive securities						
Stock options		170,824			176,830	
Diluted earnings per share						
Income available to common shareholders and assumed conversions	\$16,863,642	7,018,396	\$2.40	\$9,910,240	6,952,001	\$1.43

The weighted average number of shares used in the calculation of diluted earnings per share for 2005 excludes 35,200 share options granted to employees of the Company, as these would have been anti-dilutive.

14. SEGMENTED INFORMATION

The following tables present the segments of the business based on internal management reporting. The operating segments are as follows:

(A) HEALTH, LIFE, ANNUITY AND PENSION

Insurance coverage includes group and individual health and accident, life, disability, annuity and pension business.

(B) PROPERTY AND CASUALTY

Insurance coverage includes personal and commercial fire, windstorm, burglary, public liability, marine, special types, personal automobile, personal autocycle, workmen's compensation and commercial vehicles.

(C) REAL ESTATE

The Company currently owns and occupies one building and is a majority owner in two buildings that are leased principally to non-related parties.

(D) BARBADOS OPERATIONS

Effective 28th December, 2005 the Company purchased an interest in ICBL, see note 3. Insurance coverage includes motor, property, marine, miscellaneous accident, group health, group life, and pension business.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2005

(E) INDUSTRY SEGMENTS

	Health, life, annuity and pension 2005 \$'000	Property and casualty 2005 \$'000	Real Estate 2005 \$'000	Barbados operations 2005 \$'000	Corporate and other 2005 \$'000	Total 2005 \$'000
Income earned from external customers	82,051	22,834	3,032	-	2,211	110,128
Intersegment income	-	-	1,182	-	111	1,293
Segment amortization	625	286	767	-	51	1,729
Segment interest expense	-	-	336	-	149	485
Segment earnings	7,467	7,222	1,745	-	430	16,864
Segment assets	245,668	92,669	31,731	149,201	16,211	535,480
Segment property, plant and equipment expenditures	757	434	1,386	-	4	2,581
Segment goodwill expenditures	-	-	-	-	1,060	1,060

	Health, life, annuity and pension 2004 \$'000	Property and casualty 2004 \$'000	Real Estate 2004 \$'000	Barbados operations 2004 \$'000	Corporate and other 2004 \$'000	Total 2004 \$'000
Income earned from external customers	71,141	20,478	2,402	-	1,835	95,856
Intersegment income	-	-	1,104	-	140	1,244
Segment amortization	425	316	754	-	38	1,533
Segment interest expense	-	-	312	-	-	312
Segment earnings	3,175	5,307	1,209	-	219	9,910
Segment assets	199,417	56,565	31,109	-	10,626	297,717
Segment property, plant and equipment expenditures	402	445	3,760	-	12	4,619

Figures included in the "corporate and other" column above represent the combined operations of two holding companies and three operating segments of the Company. The segments include a management company, a financial reinsurance company, and an investment management company.

The accounting policies of the segments are the same as those described in note 2. Intersegment income is recorded at management's estimate of current market prices. Reconciliation of segment income to total income, segment earnings to total earnings, and segment assets to total assets are listed below:

	2005	2004
	\$'000	\$'000
INCOME		
Total income for reportable segments	109,099	95,125
Other income	2,322	1,975
Elimination of intersegment income	(1,293)	(1,244)
Total company income	110,128	95,856
EARNINGS		
Total earnings for reportable segments	16,434	9,691
Other profit	430	219
Total company earnings	16,864	9,910
ASSETS		
Total assets for reportable segments	519,269	294,323
Other assets	16,211	3,394
Elimination of intersegment assets	(45,321)	(5,293)
Total company assets	490,159	292,424

15. PENSION PLANS

The Company sponsors a defined benefit pension plan for employees who were hired before 1st January, 1999. The pension amount at retirement is based on an employee's final average earnings. Post-retirement indexing has been provided on an ad-hoc basis.

The Company sponsors a defined contribution pension plan for employees who were hired after 1st January, 1999 and for those who elected to convert from the defined benefit plan as of 1st January, 1999. The cost of the defined contribution pension plan is not reflected in the following tables. Contributions of \$551,293 (2004 - \$484,257) equating to the service cost for the year for these employees were made to this plan. The employer portion was \$271,103 (2004 - \$231,206).

The Company also sponsors a post-retirement benefit plan for its employees. The main benefit provided is for health care.

The total cash payments made by the Company during 2005 were \$162,000 (2004 - \$467,000). The cash payments consisted of contributions required to fund the pension plan and premiums paid for the other post-retirement benefit plan.

The Company measures the fair value of assets and the accrued benefit obligations as of 31st December. The most recent actuarial valuation of the pension plan for funding purpose was as of 31st December, 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31st December, 2005

The following table provides summaries of the defined benefit pension and post-retirement plans' estimated financial position at 31st December, 2005 and 2004:

	Pension benefit plans		Other benefit plans	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
ACCRUED BENEFIT OBLIGATION				
Balance - Beginning of year	24,037	22,161	6,567	4,130
Current service cost	532	657	787	590
Interest cost	1,426	1,367	414	357
Benefits and expenses paid	(1,071)	(780)	(114)	(113)
Actuarial loss	1,537	632	343	1,603
BALANCE - END OF YEAR	26,461	24,037	7,997	6,567
PLAN ASSETS				
Fair value - Beginning of year	27,597	24,846	-	-
Actual return on plan assets	2,828	3,177	-	-
Employer contributions	48	354	-	-
Benefits and expenses paid	(1,071)	(780)	-	-
FAIR VALUE - END OF YEAR	29,402	27,597	-	-
Funded Status – plan surplus (deficit)	2,941	3,560	(7,997)	(6,567)
Unamortized net actuarial loss	1,922	1,466	2,194	1,936
Unamortized transitional (asset) obligation	(3,544)	(3,797)	2,090	2,240
ICBL accrued benefit liability at date of acquisition	(462)	-	-	-
ACCRUED BENEFIT ASSET (LIABILITY)	857	1,229	(3,713)	(2,391)

Plan assets consist of the following:

	2005 %	2004 %
Equities	34	31
Fixed income	38	35
Real estate	16	16
Other	12	18
Total	100	100

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of 31st December, 2005 and 2004):

	Pension benefit plans 2005 %	Pension benefit plans 2004 %	Other benefit plans 2005 %	Other benefit plans 2004 %
Benefit cost during the year				
Discount rate	5.00	6.25	5.00	6.25
Expected long-term rate of return on plan assets	6.00	7.00	-	-
Rate of compensation increase	3.00	4.00	-	-
Accrued benefit obligation at end of year				
Discount rate	5.00	6.00	5.00	6.00
Compensation increase	3.00	4.00	-	-
Post-retirement indexation	0.25	1.25	-	-

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed to be 9% for years 2005 to 2009, 7% for years 2010 to 2014, 5% for years 2015 to 2019, and 3% thereafter.

The Company's net benefit plan expense is as follows:

	Pension benefit plans		Other benefit plan	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current service cost	532	657	787	590
Interest cost	1,426	1,367	414	357
Actual return on plan assets	(2,828)	(3,177)	-	-
Actuarial loss	1,537	632	343	1,603
NET BENEFIT PLAN EXPENSE BEFORE ADJUSTMENTS	667	(521)	1,544	2,550
ADJUSTMENTS TO RECOGNIZE THE LONG-TERM NATURE OF EMPLOYEE FUTURE BENEFIT COSTS				
Difference between expected and actual return on plan assets	1,047	1,490	-	-
Difference between recognized and actual actuarial loss	(1,503)	(618)	(258)	(1,523)
Amortization of transitional (asset) obligation	(253)	(253)	150	150
NET BENEFIT PLAN EXPENSE	(42)	98	1,436	1,177

Health care cost calculations are based on trend rate assumptions which may differ from actual results. Changes in trend rate assumptions by 1% in either direction will change the health care cost as follows:

	Increase 2005 \$'000	Increase 2004 \$'000	Decrease 2005 \$'000	Decrease 2004 \$'000
Aggregate of current service cost and interest cost	279	198	(215)	(158)
Accrued benefit obligation	1,483	1,189	(1,182)	(952)

16. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments comprise all assets and liabilities, except for the reinsurers' share of provision for unearned premiums, property, plant and equipment, unearned premiums, deferred commission income, deferred net realized gains on bonds and equities and the non-controlling interest in subsidiaries.

The fair value of the Company's investments is disclosed in note 4. The fair value of the Company's provision for claims is disclosed in note 6. The fair value of the Company's other financial instruments approximate the carrying values in the balance sheet except for Barr's Bay's loan with a minority shareholder which has an interest rate 2% below the average of the prevailing First Mortgage rates of banks in Bermuda. The cash flows of the Barr's Bay loan have been discounted using a market interest rate. The fair value of the loan, recorded in the Company's balance sheet at \$6,691,349 (2004 - \$6,933,906), is \$5,888,904 (2004 - \$6,132,537).

17. DIRECTORS' AND OFFICERS' SHARE IN INTERESTS AND SERVICE CONTRACTS

Pursuant to Regulation 6.8 (3) of Section 11A of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and officers of the Company in the common shares of the Company at 31st December, 2005 were 264,575 shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer, other than those disclosed in note 13(b).

There are no service contracts with directors.

18. CONTINGENCIES

On 31st August, 2005 BF&M Management sold its right to all contracts held with third parties to provide management services and brokerage services to HSBC Insurance Solutions (Bermuda) Limited ("HSBC"). The purchase price for the sale of the contracts was \$1,200,000. On the closing date of 31st August, 2005 \$600,000 was paid to the Company. The remaining amount is payable to the Company in two tranches as follows:

	\$
Tranche 1 – 31st August, 2006	300,000
Tranche 2 – 31st August, 2007	300,000

If any time during the period commencing 31st August, 2005 and ending 31st August, 2007, a client gives a notice of termination of their contract, the next tranche payable to the Company by HSBC is reduced by the sum of the annual fee revenue of the terminated client multiplied by a range of 1.5 to 1.75. If circumstances result in tranche 1 being a negative amount then tranche 2 is reduced by the absolute value of tranche 1. If circumstances result in tranche 2 being a negative amount then HSBC shall have no obligation to pay the Company any further amounts.

19. COMPARATIVE FIGURES

Certain of the 2004 comparative figures have been restated to reflect the financial statement presentation adopted for the current year.

Directors and Officers of Principal Operating Subsidiaries

BF&M GENERAL INSURANCE COMPANY LIMITED

DIRECTORS	Fernance B. Perry, J.P., <i>Chairman</i> Peter N. Cooper, <i>Deputy Chairman</i> Gavin R. Arton Glen P. Gibbons, A.C.I.I., <i>Chartered Insurer</i> Nancy L. Gosling, B.Com., C.G.A. Ross J. Hillen, A.C.I.I. David McLeod, A.C.I.I., <i>Chartered Insurer</i> Glenn M. Titterton, A.C.I.I., <i>Chartered Insurer</i> R. John Wight, C.A.
MANAGEMENT	R. John Wight, C.A., <i>President & Chief Executive Officer</i> Glen P. Gibbons, A.C.I.I., <i>Chartered Insurer, Senior Vice President</i> Ross J. Hillen, A.C.I.I., <i>Vice President, Technical Services</i> Michelle B. Dallas, C.A., <i>Vice President, Finance & Secretary</i> Diane Boca, <i>Assistant Vice President, Customer Relations & Personal Insurance</i> Malcolm Jack, <i>Assistant Vice President, Business Unit</i> Iris Cundliffe, C.A., <i>Assistant Vice President & Controller</i>

BF&M LIFE INSURANCE COMPANY LIMITED

DIRECTORS	Richard D. Spurling, <i>Chairman</i> Jeannette Cannonier, O.B.E., J.P., <i>Deputy Chairman</i> Gina A. Bradshaw, F.L.M.I. Dale Butler, J.P., M.P. Vincent L. Chaves, C.A. Stephen W. Kempe Peter M. Lamb, C.F.P., C.H.F.C., C.L.U., REBC, LTCP Glenn M. Titterton, A.C.I.I., <i>Chartered Insurer</i> David A. J. G. White R. John Wight, C.A.
MANAGEMENT	R. John Wight, C.A., <i>President & Chief Executive Officer</i> Vincent L. Chaves, C.A., <i>Senior Vice President</i> Gina A. Bradshaw, F.L.M.I., <i>Vice President, Technical Services</i> Michelle B. Dallas, C.A., <i>Vice President, Finance & Secretary</i> Peter M. Lamb, C.F.P., C.H.F.C., C.L.U., REBC, LTCP, <i>Vice President, Customer Relations & Sales</i> Iris Cundliffe, C.A., <i>Assistant Vice President & Controller</i> Fiona M. Davies, B.A., F.L.M.I., A.C.S., A.R.E., <i>Assistant Vice President, Technical Services</i> Alyson L. Nicol, C.A., C.P.A., <i>Assistant Vice President, Pensions</i>
ACTUARIAL	Sylvain Goulet, F.S.A., F.C.I.A., M.A.A.A., (<i>Eckler Partners Limited, Toronto</i>), <i>Consulting Actuary</i>

Directors and Officers of Principal Operating Subsidiaries *(continued)*

BERMUDA INTERNATIONAL INSURANCE SERVICES LIMITED

DIRECTORS	Richard D. Spurling, <i>Chairman</i> R. Blake Marshall, B.B.A., M.Sc., C.A., <i>Deputy Chairman</i> R. John Wight, C.A. Michael Lima
OFFICERS	R. John Wight, C.A., <i>President & Chief Executive Officer</i> Michael Lima, <i>Vice President & General Manager</i>

MARCHMONT INSURANCE COMPANY LIMITED

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