

FamGuard Corporation Limited

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE SIX MONTHS TO 30 JUNE 2004 (AMOUNTS EXPRESSED IN BAHAMIAN DOLLARS)

	6 months to 30 June 2004 \$	6 months to 30 June 2003 \$ (Note 5)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	2,471,223	288,676
Adjustments for:		
Depreciation and amortisation	360,379	747,612
Change in unrealised loss on available-for-sale investments	(586,573)	460,968
Realised loss on available-for-sale investments	251,440	-
Loans written-off, net of recoveries	(25,000)	-
Change in mortgage provision	30,804	56,603
Reserve for policyholder benefits	5,350,564	2,852,065
Interest income	(3,114,351)	(2,939,710)
Dividend income	(165,401)	(153,779)
Operating profit before working capital changes	4,573,085	1,312,435
(Increase) decrease in operating assets		
Receivables and other assets	(2,377,066)	(2,358,656)
Premiums in arrears	(128,546)	350,070
(Decrease) increase in operating liabilities		
Payables and accruals	1,408,246	3,173,336
Other policyholder funds	(1,981,933)	62,861
Net cash from operating activities	1,493,786	2,540,046
CASH FLOWS FROM INVESTING ACTIVITIES		
Policy loans	(157,197)	114,956
Purchase of government bonds	(660,400)	(3,428,100)
Purchase of fixed assets	(164,234)	(761,720)
Net mortgage loans issued	(668,696)	(2,273,130)
Proceeds from maturity of government bonds	-	100,000
Proceeds from sale of ordinary shares	44,220	-
Proceeds from partial redemption of preferred shares	283,333	-
Interest received	3,059,580	2,738,874
Dividends received	165,401	153,779
Net cash from (used in) investing activities	1,902,007	(3,355,341)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid - preference shares	(375,000)	(375,000)
Dividends paid - ordinary shares	(431,250)	-
Net cash used in financing activities	(806,250)	(375,000)
Net increase (decrease) in cash and cash equivalents	2,589,543	(1,190,295)
Cash and cash equivalents at beginning of period	6,520,960	10,809,955
Cash and cash equivalents at end of period	9,110,503	9,619,660

See accompanying notes to unaudited interim consolidated financial statements.

FamGuard Corporation Limited

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2004 (AMOUNTS EXPRESSED IN BAHAMIAN DOLLARS)

	Share Capital Preference Shares \$	Share Capital Ordinary Shares \$	Share Premium \$	Revaluation Surplus \$	Retained Earnings \$	Total \$
Balance as of 1 January 2003, as previously reported	10,000,000	1,725,000	2,891,694	1,008,179	1,696,958	17,321,831
Change in accounting policy, net (Note 4)	-	-	-	-	11,436,335	11,436,335
Balance as of 1 January 2003, as restated	10,000,000	1,725,000	2,891,694	1,008,179	13,133,293	28,758,166
Transfer from revaluation surplus	-	-	-	(5,816)	5,816	-
Net income for the period	-	-	-	-	288,676	288,676
Dividends declared and paid - preference shares	-	-	-	-	(375,000)	(375,000)
Balance as of 30 June 2003	10,000,000	1,725,000	2,891,694	1,002,363	13,052,785	29,046,842
Balance as of 1 January 2004	10,000,000	1,725,000	2,891,694	5,242,979	12,699,870	32,559,543
Transfer from revaluation surplus	-	-	-	(26,727)	26,727	-
Net income for the period	-	-	-	-	2,471,223	2,471,223
Dividends declared and paid - preference shares	-	-	-	-	(375,000)	(375,000)
Dividends declared and paid - ordinary shares	-	-	-	-	(431,250)	(431,250)
Balance as of 30 June 2004	10,000,000	1,725,000	2,891,694	5,216,252	14,391,570	34,224,516

See accompanying notes to unaudited interim consolidated financial statements.

FamGuard Corporation Limited

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS 30 JUNE 2004

1. ACCOUNTING POLICIES

The interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2003.

The unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Family Guardian Insurance Company Limited, FG General Insurance Agency Limited and BahamaHealth Insurance Brokers and Benefit Consultants Limited.

2. EARNINGS PER SHARE

	6 months to 30 June 2004	6 months to 30 June 2003
Weighted average number of ordinary shares outstanding	8,625,000	8,625,000
Consolidated net income	2,471,223	288,676
Earnings per share	\$0.29	\$0.03

3. COMMITMENTS

Outstanding commitments to extend credit under mortgage loan agreements amounted to approximately \$3,430,112 at 30 June 2004 (31 December 2003: \$2,069,049).

4. CHANGE IN METHOD OF CALCULATING INSURANCE RESERVES

The Company changed its method of calculating policy reserves for its life insurance business from the full preliminary term method to the Canadian Policy Premium Method, effective 1 January 2003. The change was in response to the Board of Directors decision to respond to the changing market as the majority of Bahamian life insurance companies were on this basis. The Company accounted for this change in reserve basis as a change in accounting policy resulting in a release of policy reserves as of 1 January 2003 of \$20,663,616. This change in methodology necessitated an elimination of previously recorded PVP. The \$20,663,616 net of the \$9,227,281 of intangible assets is reported in the prior year's consolidated statement of changes in shareholder's equity as an adjustment to the opening balance of retained earnings.

5. CORRESPONDING FIGURES

Staff loans have been reclassified to receivables and other assets to conform with the current year's presentation.



FamGuard Corporation Limited



Interim Report

Unaudited Results for
the six months ended
30 June 2004

Message from the Chairman

Dear Shareholder:

INTERIM REPORT – SECOND QUARTER AND SIX MONTHS ENDING JUNE 30, 2004

The second quarter of 2004 reflects a continuing improving trend in our operations. For the first six months ended June 30, 2004, we are happy to report a net profit of \$2.5 million. This represents earnings per share of 29 cents. Our results over the past six months show a significant improvement over our prior year-to-date profit and record not only the ongoing positive impact of the consolidation of our company and the conversion to the Canadian method of calculating reserves but also the expansion of our insurance business and sustained improvement in the equities market.

For the first half of the year, net premium income increased by 9% over prior year-to-date. This was derived mainly from our health insurance products. While we have seen strong growth in the sale of new ordinary life policies this year, the accumulated impact of this premium income will only be fully reflected next year. The increase in our operating expenses through June 30, 2004, represents primarily the increase in commission payments derived from our ordinary life new sales growth. The equities market rebounded in late 2003 and, as a result, realized and unrealized gains on ordinary shares improved significantly from a loss of \$460,968 as at June 30, 2003, to a gain of \$335,133 at the end of June 2004.

Total assets increased by 6% over prior year moving from \$106.1 million to \$112.6 million as at December 31, 2003. Similarly, shareholders' equity grew by 5% from \$32.6 million in December 2003 (as restated) to \$34.2 million as at June 30, 2004. Shareholders' equity represented 48% of policyholder reserves for the period.

The Board of Directors declared a dividend of 6 cents per share for shareholders of record on August 6, 2004, to be paid on August 13, 2004.

Sincerely,



Norbert F. Boissiere,
Chairman

FamGuard Corporation Limited

CONSOLIDATED BALANCE SHEET (UNAUDITED) AT 30 JUNE 2004

(AMOUNTS EXPRESSED IN BAHAMIAN DOLLARS)

	2004 \$	31 December 2003 \$
ASSETS		
Bank deposits	5,626,017	4,583,422
Government bonds	17,802,900	17,142,500
Ordinary shares	5,114,737	4,823,824
Preferred shares	1,633,334	1,916,667
Policy loans	8,113,822	7,956,625
Mortgage loans, net	45,698,012	45,035,120
Total investment assets	83,988,822	81,458,158
Cash and bank balances	3,484,486	1,937,538
Receivables and other assets	6,802,436	4,370,599
Premiums in arrears	1,217,267	1,088,721
Fixed assets, net	17,079,226	17,275,371
	112,572,237	106,130,387
LIABILITIES		
Reserves for future policyholder benefits	66,876,381	61,525,817
Other policyholder funds	4,211,302	6,193,235
Policy liabilities	71,087,683	67,719,052
Payables and accruals	7,260,038	5,851,792
	78,347,721	73,570,844
SHAREHOLDERS' EQUITY		
Preference shares	10,000,000	10,000,000
Ordinary shares	1,725,000	1,725,000
Share premium	2,891,694	2,891,694
Revaluation surplus	5,216,252	5,242,979
Retained earnings	14,391,570	12,699,870
	34,224,516	32,559,543
	112,572,237	106,130,387

See accompanying notes to unaudited interim consolidated financial statements.

FamGuard Corporation Limited

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2004

(AMOUNTS EXPRESSED IN BAHAMIAN DOLLARS)

	6 months to 30 June 2004 \$	6 months to 30 June 2003 \$
Net premium income and deposits	23,754,788	22,861,544
Investment income	3,511,326	3,503,511
Total income	27,266,114	26,365,055
Benefits	14,254,860	14,704,249
Operating expenses	10,475,536	10,106,947
Depreciation and amortisation expense	360,379	747,612
Bad debt expense	39,249	56,603
Total benefits and expenses	25,130,024	25,615,411
Income from operating activities	2,136,090	749,644
Realised loss on available-for-sale investments	(251,440)	-
Change in unrealised gain/(loss) on available-for-sale investments	586,573	(460,968)
Net income	2,471,223	288,676
Earnings per share (Note 3)	0.29	0.03
3 months to 30 June 2004		
	\$	\$
Net premium income and deposits	12,178,218	12,025,223
Investment income	1,791,791	1,627,951
Total income	13,970,009	13,653,174
Benefits	7,420,688	7,715,561
Operating expenses	5,546,544	5,040,218
Depreciation and amortisation expense	188,641	377,327
Bad debt expense	27,050	37,372
Total benefits and expenses	13,182,923	13,170,478
Income from operating activities	787,086	482,696
Realised loss on available-for-sale investments	(239,740)	-
Change in unrealised gain/(loss) on available-for-sale investments	357,644	(124,806)
Net income	904,990	357,890
Earnings per share (Note 3)	0.10	0.04

See accompanying notes to unaudited interim consolidated financial statements.