

# **BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED**

## **TABLE OF CONTENTS**

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022:	
Statement of Financial Position	3 – 4
Statement of Profit or Loss	5
Statement of Profit or Loss and Other Comprehensive Income/(Loss)	6
Statement of Changes in Equity	7
Statement of Cash Flows	8 – 9
Notes to Financial Statements	10 - 58

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Bahamas First General Insurance Company Limited:

### Opinion

We have audited the financial statements of **Bahamas First General Insurance Company Limited** ("the Company"), which comprise the statement of financial position as at December 31, 2022, the statement of profit or loss, statement of profit or loss and other comprehensive income/(loss), statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte & Touche*

Nassau, Bahamas  
April 30, 2023

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2022

(Expressed in Bahamian dollars)

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	Notes	2022	2021
<b>ASSETS</b>			
Cash and cash equivalents	6	\$ 9,946,597	\$ 5,192,043
Trade accounts receivable, net	4,8	12,083,254	13,356,664
Sundry receivables and prepayments	20	2,231,639	1,861,773
Deferred commission costs	9	6,852,086	7,325,645
Unpaid claims recoverable from reinsurers	4,10	25,672,686	28,076,154
Deferred reinsurance premiums	9	28,928,881	31,099,245
Investments	7	20,971,935	21,960,806
Receivables from Parent	20	22,102,013	23,017,158
Receivables from other related companies	20	2,442,704	3,936,424
Right-of-use assets	13	47,904	5,230
Investment property	11	2,300,000	2,100,000
Property and equipment	4,12	9,017,113	8,271,096
Intangible assets	14	<u>2,421,429</u>	<u>2,278,571</u>
TOTAL		<u>\$ 145,018,241</u>	<u>\$ 148,480,809</u>

(Continued)

See notes to financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2022


(Expressed in Bahamian dollars)

	Notes	2022	2021
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Accrued expenses and other liabilities		\$ 2,094,295	\$ 3,209,735
Lease liability	13	48,702	5,806
Trade accounts payable		7,315,851	6,911,205
Unearned commission income	9	7,032,312	7,624,250
Unearned premiums	9	40,839,228	42,972,210
Unpaid claims	4,10	<u>37,687,853</u>	<u>37,915,220</u>
Total liabilities		<u>95,018,241</u>	<u>98,638,426</u>
<b>EQUITY:</b>			
Share capital	15	7,500,000	7,500,000
Contributed surplus		14,100,000	14,100,000
Reserves	16,17	5,757,677	5,363,657
Retained earnings		<u>22,642,323</u>	<u>22,878,726</u>
Total equity		<u>50,000,000</u>	<u>49,842,383</u>
TOTAL		<u>\$ 145,018,241</u>	<u>\$ 148,480,809</u>
			(Concluded)

See notes to financial statements.

These financial statements were approved by the Board of Directors on April 28, 2023 and are signed on its behalf by:

  
\_\_\_\_\_  
Alison Treco, Chair

  
\_\_\_\_\_  
Patrick G.W. Ward, Director

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2022

(Expressed in Bahamian dollars)

	Notes	2022	2021
UNDERWRITING INCOME:			
Gross premiums written	20	\$ 104,360,399	\$ 106,028,979
Movement in unearned premiums	9	<u>2,132,982</u>	<u>(6,419,896)</u>
		106,493,381	99,609,083
Premiums ceded to reinsurers		<u>(74,528,878)</u>	<u>(76,625,648)</u>
Movement in deferred reinsurance premiums	9	<u>(1,330,935)</u>	<u>4,776,404</u>
Net premiums earned		30,633,568	27,759,839
Commission income from reinsurers		<u>19,029,906</u>	<u>18,949,899</u>
Total underwriting income		<u>49,663,474</u>	<u>46,709,738</u>
UNDERWRITING EXPENSES:			
Commission expense	20	21,120,183	18,471,716
Cost of excess of loss reinsurance		8,097,915	7,429,040
Net claims incurred	10	8,494,229	4,068,568
Premium tax		<u>3,039,623</u>	<u>3,088,223</u>
Total underwriting expenses		<u>40,751,950</u>	<u>33,057,547</u>
Net underwriting income		<u>8,911,524</u>	<u>13,652,191</u>
OTHER EXPENSES:			
Management fees	20	3,223,532	2,860,884
Salaries, benefits and bonuses	19,20	2,688,151	2,406,441
General and administrative expenses	13,20	2,257,272	2,090,288
Depreciation and amortization of intangible assets	12,13,14	<u>786,686</u>	<u>692,915</u>
Total other expenses		<u>8,955,641</u>	<u>8,050,528</u>
UNREALIZED LOSS ON INVESTMENT	7	(348,984)	(1,741,527)
OTHER INCOME	18	<u>3,325,119</u>	<u>1,418,314</u>
PROFIT FOR THE YEAR		<u>\$ 2,932,018</u>	<u>\$ 5,278,450</u>

See notes to financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ENDED DECEMBER 31, 2022

*(Expressed in Bahamian dollars)*

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	Notes	2022	2021
PROFIT FOR THE YEAR		<u>\$ 2,932,018</u>	<u>\$ 5,278,450</u>
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of land and buildings	12,17	937,693	-
Items that may be reclassified subsequently to profit or loss:			
Unrealized loss on available-for-sale investments	7,17	<u>(543,673)</u>	<u>(403,498)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		<u>394,020</u>	<u>(403,498)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>\$ 3,326,038</u></u>	<u><u>\$ 4,874,952</u></u>

See notes to financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2022

*(Expressed in Bahamian dollars)*

	Share Capital	Contributed Surplus	General Reserve	Revaluation Reserve	Retained Earnings	Total
December 31, 2020	\$ 7,500,000	\$ 14,100,000	\$ 3,500,000	\$ 2,267,155	\$ 17,600,276	\$ 44,967,431
Profit for the year	-	-	-	-	5,278,450	5,278,450
Other comprehensive loss	-	-	-	(403,498)	-	(403,498)
Total comprehensive income	-	-	-	(403,498)	5,278,450	4,874,952
December 31, 2021	7,500,000	14,100,000	3,500,000	1,863,657	22,878,726	49,842,383
Profit for the year	-	-	-	-	2,932,018	2,932,018
Other comprehensive income	-	-	-	394,020	-	394,020
Total comprehensive income	-	-	-	394,020	2,932,018	3,326,038
Dividends paid (Note 15)	-	-	-	-	(3,168,421)	(3,168,421)
Balance at December 31, 2022	<u>\$ 7,500,000</u>	<u>\$ 14,100,000</u>	<u>\$ 3,500,000</u>	<u>\$ 2,257,677</u>	<u>\$ 22,642,323</u>	<u>\$ 50,000,000</u>

See notes to financial statements.



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022

(Expressed in Bahamian dollars)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year		\$ 2,932,018	\$ 5,278,450
Adjustments for:			
Depreciation	12,13	279,544	281,189
Amortization of intangible assets	14	507,142	411,726
Amortization of discounts on bonds	7,18	86,106	16,439
Leasee interest	13	1,974	816
Unrealized loss on investment	7	348,984	1,741,527
Realized gain on sale of investments	7,18	(2,077,136)	(451,450)
(Increase)/decrease in operating assets			
Decrease/(increase) in trade accounts receivable, net		1,273,410	(896,563)
(Increase)/decrease in sundry receivables and prepayments		(369,866)	2,749,990
Decrease/(increase) in deferred commission costs	9	473,559	(1,621,760)
Decrease/(increase) in deferred reinsurance premiums	9	2,170,364	(4,776,404)
Increase in receivable from related companies	20	(759,556)	(23,113)
Decrease in investment property	11,18	12,772	-
Increase/(decrease) in operating liabilities			
(Decrease)/increase in accrued expenses and other liabilities		(1,115,440)	985,580
Increase/(decrease) in trade accounts payable		404,646	(23,484,452)
(Decrease)/increase in unearned commission income	9	(591,938)	1,139,034
(Decrease)/increase in unearned premiums	9	(2,132,982)	6,419,896
Increase/(decrease) in net unpaid claims	10	2,176,101	(2,721,406)
Net cash from/(used in) operating activities		<u>3,619,702</u>	<u>(14,950,501)</u>

(Continued)

See notes to financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022 (Expressed in Bahamian dollars)

	Notes	2022	2021
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	12	\$ (66,670)	\$ (59,930)
Payments for investment property	11	(212,772)	-
Proceeds from sales and maturities of investments	7	3,927,884	3,385,629
Purchase of investments	7	(1,840,640)	(3,969,268)
Purchase of intangible assets	14	(650,000)	-
Net cash from/(used in) investing activities		<u>1,157,802</u>	<u>(643,569)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Lease liability cash payments		<u>(22,950)</u>	<u>(23,401)</u>
Net cash used in financing activities		<u>(22,950)</u>	<u>(23,401)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		4,754,554	(15,617,471)
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR		<u>5,192,043</u>	<u>20,809,514</u>
END OF YEAR		<u>\$ 9,946,597</u>	<u>\$ 5,192,043</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:			
Interest received, investments		<u>\$ 499,787</u>	<u>\$ 461,527</u>
Dividends received		<u>\$ 264,641</u>	<u>\$ 126,657</u>
Premium taxes paid		<u>\$ 3,039,623</u>	<u>\$ 3,088,223</u>
Non-cash dividends paid		<u>\$ 3,168,421</u>	<u>\$ -</u>

(Concluded)

See notes to financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

*(Expressed in Bahamian dollars)*

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### 1. GENERAL

Bahamas First General Insurance Company Limited (the “Company”) was incorporated on September 8, 1982 under the laws of the Commonwealth of The Bahamas. Effective January 1, 1998 the Company became a wholly-owned subsidiary of Bahamas First Holdings Limited (“BFH” or “Parent”). It is registered to carry on general insurance business. One of BFH’s subsidiaries, Nassau Underwriters Agency Insurance Agents and Brokers Ltd. (“NUA”) acts as an insurance agent for the Company. First Response Limited (“FRL”), a wholly-owned subsidiary of BFH, provides motor vehicle claim roadside assistance and claim adjusting services to the Company. Bahamas First Corporate Services (“BFCS”), a wholly owned subsidiary of BFH, provides administrative and corporate services to the Company.

The Company, BFH, and the other subsidiaries of BFH are hereinafter collectively referred to in these financial statements as the “Group”. All of the Group’s companies except BFH International Limited (“BFHIL”) and its subsidiaries are incorporated in The Bahamas. BFHIL, Cayman First Insurance Company Limited (“CFI”), BFH Services (Cayman) Limited, and Brac Insurance Associates Ltd. are incorporated under the laws of the Cayman Islands.

The registered office of the Company is located at 32 Collins Avenue, Nassau, Bahamas.

### 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) AND INTERNATIONAL ACCOUNTING STANDARDS (“IAS”)

#### a. *New and amended Standards and Interpretations adopted by the Company*

In the current year, there were several new and amended standards and interpretations issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee of the IASB effective for annual reporting periods beginning on or after January 1, 2022. However, they do not have a material effect on the Company’s financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS) (CONTINUED)

- b. Standards and Interpretations effective but not affecting the reported results or financial position on the basis that the Company elected for the temporary exemption*

#### *IFRS 9 – Financial Instruments*

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets. IFRS 9 also replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ model. Under IFRS 9 credit losses are recognized earlier than under IAS 39.

During 2022, the Company performed a high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its statement of financial position and equity, except for the effect of applying the impairment requirements of IFRS 9. The Company expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

The IASB issued a temporary exemption for the effective date of implementation of IFRS 9 for insurance companies which meet certain qualifying criteria. This exemption allows the application of IFRS 9 to be deferred until January 1, 2023. At December 31, 2022, the Company met these qualifying criteria of i) not applying any previous version of IFRS 9 and ii) at least 90% of its total liabilities being connected to insurance contracts and has therefore deferred implementation of IFRS 9.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS) (CONTINUED)

#### *c. Standards and Interpretations in issue but not yet effective*

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the aforementioned date.

*Effective for annual periods beginning on or after January 1, 2023*

#### *IFRS 17 – Insurance contracts*

IFRS 17 was issued in May 2017 as a replacement for IFRS 4 Insurance Contracts. IFRS 17 applies to all types of insurance contracts as well as to certain financial instruments with discretionary participation features. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model for insurance contracts are, as follows: the measurement of the present value of future cash flows incorporating an explicit risk adjustment and remeasured at each reporting period (the fulfilment cash flows); a contractual service margin that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognized in profit or loss over the service period (coverage period); the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The standard allows a choice between recognizing changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The Company is expected to recognize changes in the statement of profit or loss.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The Company is expected to adopt this approach for its contracts.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts. The Company has not yet fully assessed the impact of the new standard on its results.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS) (CONTINUED)

#### *c. Standards and Interpretations in issue but not yet effective (Continued)*

Effective for annual periods beginning on or after January 1, 2023 (continued)

#### *Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Noncurrent*

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It further explains that rights are in existence if covenants are complied with at the end of the reporting period and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

This amendment is not anticipated to have a material impact on the Company’s financial statements.

#### *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies*

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

This amendment is not anticipated to have a material impact on the Company’s financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies:

- a. ***Basis of preparation*** - These financial statements have been prepared in accordance with IFRS. They have been prepared on the accrual basis and under the historical cost convention, except for certain investments measured at fair value, land and buildings, which are carried at revalued amounts based on valuations performed every three years and investment property which are carried at fair value. The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

During the current year, within the statement of financial position, the reinsurance balances payable caption was renamed trade accounts payable and within the statement of profit or loss, the lease interest caption was reclassified to the general and administrative expenses caption. Where necessary, in the financial statements, corresponding figures have been reclassified to conform with changes in presentation in the current year.

The accounting policies are consistent with those used in previous years.

- b. ***Financial instruments***

*Classification and measurement* - On initial recognition, a financial asset or liability is measured at its fair value plus, in the case of investments not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortized.

The classification depends on the nature and purpose of the financial assets. Management determines the classification of its investments at initial recognition and re-evaluates the classification at each reporting date.

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"); available-for-sale ("AFS"); held-to-maturity investments; or loans and receivables; and are measured as follows:

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### b. *Financial instruments (continued)*

##### Classification and measurement (continued)

##### (i) Financial assets at fair value through profit or loss

Financial assets are classified as FVTPL where the financial asset is either held for trading or is designated as FVTPL. A financial asset is classified into the FVTPL category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. These assets are stated at fair value, with any resultant gain or loss recognized in the statement of profit or loss and other comprehensive income.

##### (ii) Available-for-sale investments

AFS financial assets are those non-derivative financial assets that are either designated as available for sale or are not classified as a) FVTPL, b) held-to-maturity or c) loans and receivables. AFS assets are stated at fair value. Cost may be used to approximate the fair value of AFS assets.

##### (iii) Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments.

Held-to-maturity investments are non-derivative financial assets which are carried at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis. Investment income is recorded in interest income in the statement of profit or loss and other comprehensive income. As at December 31, 2022 the Company does not hold any investments within this classification.



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### b. *Financial instruments (continued)*

##### *Classification and measurement (continued)*

##### (iv) Loans and receivables

Loans and other receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, and which the Company has no intention of trading or designating at fair value. Loans and receivables are recognized when the Company provides goods or services to debtors or cash is advanced to borrowers. Loans and receivables are subsequently carried at amortized cost using the effective interest method, less any impairment.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value.

Cash and cash equivalents, trade accounts receivable, sundry receivables and prepayments, unpaid claims recoverable from reinsurers and receivables from parent and other related companies are classified as loans and receivables and are carried at cost, which equates to amortized cost, less provision for bad debts. Trade accounts payable and accrued expenses and other liabilities are financial liabilities, which are carried at cost, which equates to amortized cost.

Investments in Bahamas Government Registered Stock are classified as loans and receivables and are carried at amortized cost. Preference shares and redeemable fixed rate note investments that meet the criteria are also classified as loans and receivables and carried at amortized cost. Preference shares and mutual fund investments that do not meet the loan and receivables recognition criteria are classified as available-for-sale and are measured at fair value at the statement of financial position date. All other investments are classified as financial assets at fair value through profit or loss.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### b. *Financial instruments (continued)*

##### Classification and measurement (continued)

Gains and losses arising from changes in fair value of available-for-sale investments are recognized in other comprehensive income (loss) until the investments are disposed of or are determined to be permanently impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income (loss) is included in profit or loss for the period. Investments are measured at fair value with reference to market prices, or, for non-listed companies, financial information on the company. The gain or loss on investments classified as at fair value through profit or loss is recognized in the statement of profit or loss.

Recognition and derecognition - Regular way purchases and sales of financial assets are recognized on the trade date on which the Company commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred its right to receive cash flows from the asset and substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished.

- c. **Trade accounts receivable** - Trade accounts receivable is stated at cost less provision for bad debts. The provision for bad debts is based on management's evaluation of the accounts receivable portfolio, as noted in Note 4c.
- d. **Investment property** - Investment property is initially measured at cost and subsequently at fair value with any change therein recognized in profit or loss. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in the statement of profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Rental income from investment property is recognized as other income on a straight-line basis over the term of the lease. Lease incentives granted are recognized over the term of the lease.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- e. ***Property and equipment*** - Property and equipment, other than freehold land and buildings, are stated at cost less accumulated depreciation and impairment losses.

Expenditure incurred in the construction or replacement of property and equipment is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the property and equipment. All other expenditure is recognized in the statement of profit or loss as an expense as incurred. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized in the statement of profit or loss.

Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the assets. Land is not depreciated and expenditure incurred on construction-in-progress is not depreciated until construction is completed.

The estimated useful lives are as follows:

Buildings	40 years
Furniture and equipment	5 - 10 years
Leasehold improvements and others	3 - 5 years

Freehold land and buildings are stated at fair market value, based on independent professional appraisals, which are performed at least once every three years. At the end of each reporting period, management updates its assessment of the fair value of each property, considering current information available and the most recent independent valuations. The fair value measurement is categorized in Level 3 in the fair value hierarchy. A revaluation increment is recorded in other comprehensive income (loss), unless it reverses a revaluation decrease of the same asset previously recognized as an expense and is transferred to retained earnings to the extent realized by complete or partial disposal of the related asset, including depreciation.

Any revaluation decrease is recognized as an expense unless it reverses a revaluation increase that was previously recognized in other comprehensive income (loss).

Any depreciation accumulated on an asset at the date of revaluation is eliminated against the gross carrying amount of the asset and the resulting net amount restated to the revalued amount of the asset. The accumulated depreciation is reduced or eliminated, and any remaining surplus is used to increase cost.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- f. ***Intangible assets*** – Intangible assets are comprised of acquired software licenses. These licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life of the software, estimates of which range between three and seven years.
- g. ***Impairment*** – The Company evaluates at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

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

Non-financial assets, except for investment property, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where one of these assets previously suffered an impairment, it is reviewed for possible reversal of the impairment at the end of each reporting period. To the extent that the impairment is reversed, it is recognized in the statement of profit or loss.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### h. *Insurance contracts*

Product classification - Insurance contracts are those that transfer significant insurance risk at the effective date of the contract. Insurance risk is transferred when the Company agrees to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract under IFRS 4 Insurance Contracts are classified as investment contracts. The main insurance contracts issued by the Company are as follows:

Property and casualty ("P&C") insurance contracts - Property and casualty contracts are generally one-year renewable contracts issued by the Company covering insurance risks over property, motor, marine, engineering and general accident.

Reinsurance contracts - Contracts with reinsurers under which the Company is compensated for losses are classified as reinsurance contracts held. Insurance contracts in which the contract holder is another insurer (inwards reinsurance) are accounted for in the same manner as insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term recoverables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or balances payable to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense over the period of the contract. Balances payable to reinsurers are classified as trade accounts payable in the statement of financial position.

The Company assesses its reinsurance assets for impairment on an ongoing basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the statement of profit or loss.

Portfolio Transfer In / (Out) - At the option of the Company and at the anniversary date of the reinsurance agreements, proportional reinsurers agree to relinquish (assume) liability for all policies in force at such anniversary date. The Company debits (credits) the reinsurers with the related portion of the deferred reinsurance premiums and unpaid claims recoverable calculated in accordance with the method outlined in the agreement.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### h. *Insurance contracts (continued)*

Premiums - Premiums written are recognized as income over the periods covered by the related policies taking into consideration the exposure period to which they relate. The adjustment to apportion the gross premiums written and ceded over the life of the policy is made through the movement in the unearned premiums.

Unearned premiums at year end, represent the proportion of the premiums written which relate to periods of insurance subsequent to the statement of financial position date. This amount is calculated on a quarterly pro-rated basis using the eights method with some catastrophe based seasonality adjustments. This method is based on the general assumption that the premiums are spread uniformly over the quarter. For property business exposed to catastrophes, the apportionment is adjusted accordingly to better align the recognition of premium income with the exposure of the hurricane season.

Premiums ceded - Premiums ceded to reinsurers are recognized as an expense over the periods covered by the related policies taking into consideration the exposure period to which they relate.

Deferred reinsurance premiums in the statement of financial position at year end represent the proportion of the premiums ceded which relate to periods of insurance subsequent to the statement of financial position date. This amount is calculated on a quarterly pro-rated basis using the eights method, adjusting accordingly for seasonality to align with the exposure of the hurricane season.

#### i. *Unpaid claims and unpaid claims recoverable from reinsurers* - The provision for unpaid claims and the reinsurers' share thereof, represents an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred on or before each statement of financial position date. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries.

The provision is periodically reviewed and evaluated in the light of emerging claims experience and changing circumstances. Changes in estimate of the ultimate liability are included in net claims incurred in the statement of profit or loss.

At the date of the statement of financial position, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows. If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. Management has engaged independent actuaries to assist in performing the liability adequacy test at year-end.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. ***Policy acquisition cost***

Deferred and unearned commissions - At year end, deferred and unearned commissions represent the proportion of the commission paid to agents and brokers and received from reinsurers which related to periods of insurance subsequent to the statement of financial position date. These amounts are calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate using the eights method, adjusting accordingly for seasonality to align with the exposure of the hurricane season.

Commission income and expense - Base commissions paid to agents and received from insurers and reinsurers are calculated based on gross premiums written and reinsured. Base commissions paid and received are adjusted so that they are recognized over the period covered by the related policies taking into consideration the exposure period to which they relate.

Profit commissions received from reinsurers are calculated based on past underwriting results. Profit commission income and expense are recognized when the Company's right to receive, or obligation to make, payment has been established.

k. ***Dividend and interest income*** – Dividends are recognized in profit or loss when the Company's right to receive the dividend income is established. Interest income is accounted for on an accrual basis. Both are recognized in other income in the statement of profit or loss.

l. ***Cash and cash equivalents*** - Cash and cash equivalents consist of cash on hand and deposits with banks maturing within ninety days from the date of acquisition.

m. ***Share capital*** - Shares are classified as equity when there is no obligation to transfer cash or other assets. Share capital is comprised of common shares. When common shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction in equity.

Dividends on common shares are recognized as a liability and deducted from equity when they are declared by the Company's Board of Directors.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. **Foreign currency translation:**

- (i) **Functional and presentation currency** - Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (functional currency), the Bahamian dollar. The financial statements are presented in Bahamian dollars, which is also the Company's presentation currency.
- (ii) **Transactions and balances** - Assets and liabilities denominated or accounted for in currencies other than the Bahamian dollar are translated into Bahamian dollars at the exchange rates prevailing at the statement of financial position date. Foreign currency transactions and income and expense items have been translated at the exchange rates prevailing at the date of the transaction. Gains or losses arising from transactions in foreign currencies are included in the statement of profit or loss.

o. **Related parties** - Related parties include:

- (i) key management personnel, including Directors; and close members of that person's family;
- (ii) entities that have the ability to control or exercise significant influence over the Company in making financial or operational decisions; and
- (iii) entities that are controlled, jointly controlled or significantly influenced by parties in (i) and (ii).

p. **Pension benefits** - The Company's employees participate in a defined contribution plan. Under the plan, the Company contributes a fixed percentage of annual salary that is expensed in the year. Once the contributions have been made, the Company has no further obligations. The expensed amount is included in salaries, benefits and bonuses in the statement of profit or loss.

q. **Leases** - At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16, Leases.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to office premises.



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### q. *Leases (continued)*

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- (i) fixed payments, including in-substance fixed payments;
- (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (iii) amounts expected to be payable under a residual value guarantee; and
- (iv) the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents its right-of-use asset and lease liability in the statement of financial position.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. *Leases (continued)*

*Short-term leases and leases of low-value assets*

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

- r. **Taxation** - The Company is subject to tax on taxable gross premium income at the flat rate of 3% (2021: 3%) for premium tax on all policies and at 10%, effective January 1, 2022, (2021: 12%) for value added tax ("VAT") on all policies except owner occupied dwellings. Effective July 1, 2022, insurance subsidiaries operating in The Bahamas are subject to a business license tax on non-premium turnover at a sliding scale rate ranging from 0.50% to 1.25%.

Gross premiums written are presented inclusive of premium tax in the statement of profit or loss. The premium tax expense is presented within the underwriting expenses section of the statement of profit or loss.

VAT on premiums and premium taxes are recorded as receivables from the policyholders and payables to the government agencies in the month in which they are processed.

There are no other taxes on corporate income or capital gains levied on the Company.

- s. **Contingent liabilities** - A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that the Company will be required to settle that obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle that obligation at the reporting date and are discounted to present value.

Potential recoveries from third parties are recognized as a receivable when it is virtually certain that the recoveries will be received and the amount can be measured reliably.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. *The ultimate liability arising from claims made under insurance contracts*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Company will ultimately pay to settle such claims.

The provision for unpaid claims is necessarily based on estimates due to the fact that ultimate disposition of claims incurred prior to the date of the statement of financial position, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include, inter alia, jury decisions, court interpretations, legislative changes, and the cost of automobile and property repair materials and labour rates.

Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. Management estimates and judgments are based on the Company's claims experience, relevant circumstances and/or advice from legal counsel.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within one to three months after the claims event.

Information for long-tail claims such as casualty claims for bodily injury and general third party and employers' liability claims may not be readily available. The provision for the long-tail claims is continually evaluated by management and is based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### a. *The ultimate liability arising from claims made under insurance contracts (continued)*

The ultimate cost of outstanding claims is estimated using a range of standard actuarial claims projection techniques. The Company actuary has used a combination of actuarial methodologies to determine the estimate of ultimate liabilities on an undiscounted basis. The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

The Company does not establish provisions for catastrophes (such as natural disasters) in advance of the occurrence of such events. These events can cause significant volatility in the Company's level of incurred losses and the provision for unpaid claims.

The impact of critical accounting estimates and judgments on the ultimate liability arising from claims made under insurance contracts is partially mitigated through relief arising from reinsurance contracts held.

The carrying value at the statement of financial position date of gross unpaid claims reported and loss adjustment expenses and claims incurred but not reported ("IBNR") was \$37,687,853 (2021: \$37,915,220). The amount of reinsurance recoveries estimated at the statement of financial position date is \$25,672,686 (2021: \$28,076,154).

Refer to Note 10 for further information on the provision for unpaid claims.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### b. *Pro-ration of premiums and commissions*

As described in Note 3h, unearned premiums and deferred reinsurance premiums at year end represent the proportion of the premiums which relate to periods of insurance subsequent to the statement of financial position date. Similarly, as per Note 3j, deferred and unearned commissions at year end represent the proportion of the commission paid to agents and brokers and received from reinsurers which relate to periods of insurance subsequent to the statement of financial position date. Commissions received from reinsurers are dependent on the underlying loss ratio of the various classes of business, on an underwriting year basis. Commissions are susceptible to adjustments in future years as the underwriting year result develops.

These amounts are calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

#### c. *Provision for bad debts*

As described in Note 3c, provision for bad debts is based on management's evaluation of the respective portfolios. This evaluation is based on the aged analysis of the trade accounts receivable. Trade accounts receivable, which is shown net of provision for bad debts, is comprised of amounts receivable from insurance agents that have signed agency agreements with the Company. The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering the trade accounts receivable in its entirety or a portion thereof. The carrying value at the statement of financial position date for trade accounts receivable, net was \$12,083,254 (2021: \$13,356,664).

#### d. *Depreciation*

Depreciation is based on management's estimates of the future useful life of property and equipment. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the depreciation charges. The Company reviews the future useful life of property and equipment periodically, taking into consideration the factors mentioned above and all other important factors. In case of significant changes in the estimated useful lives, depreciation charges are adjusted prospectively.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### e. *Fair value of financial assets and liabilities*

The fair values of listed equities are based on current bid prices reported on recognized exchanges. The fair value of debt securities is based on either current bid prices reported on recognized exchanges, secondary markets or pricing data provided by internationally recognized pricing services. Mutual funds are carried at fair value based on the net asset value per share provided by the administrator of the fund. If prices are not readily available, the fair value is estimated using either dealer quotes or pricing models or discounted cash flow models or management's estimate of amounts that could be realized under current market conditions and which are based on observable market-based inputs when available.

Where fair value has been determined using data provided by a recognized pricing service, dealer quotes, pricing models or net asset value per share, the Company has obtained an understanding of the methods, models and inputs used in pricing and has controls in place that management considers sufficient to validate that prices represent fair value.

Investments for which observable market prices do not exist are reported at fair value as determined in good faith by management. Fair value is based on the best information available and is determined by reference to information including, but not limited to the following: projected income, net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), book value, relevant public or private transactions, valuations for publicly traded companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and restrictions on disposition. The amount determined to be fair value may incorporate management's own assumptions (including appropriate risk adjustments for non-performance and lack of marketability).

For certain financial instruments carried at cost, the carrying amounts approximate to fair value due to the short term nature of these instruments. Such instruments include trade accounts receivable, reinsurance balances receivable, sundry receivables and prepayments, trade accounts payable and accrued expenses and other liabilities.

For long term financial instruments carried at cost with fixed interest rates, despite a change in market rates since the issuance of the financial assets there has been no observable change in fair values; accordingly, the carrying values approximate fair values. Other long term instruments carried at cost have rates that periodically reset to market rates minimizing the exposure to fair value interest rate risk.

Refer to Notes 5 and 7 for further information on the fair value of financial assets and liabilities.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### f. *Land and buildings revaluations*

Land and buildings are revalued triennially based on outputs derived from an independent appraisal report. The techniques used by the appraiser involve the use of assumptions to provide a fair value estimate of land and buildings. Information about the valuation technique and inputs used in determining the fair value of the land and buildings are disclosed in Notes 11 and 12.

### 5. RISK MANAGEMENT

The Company is concerned about the risks inherent in its business activities (insurance risk) and the risks associated with the management of the financial assets and liabilities (financial risk) which support the operational activities. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management structure. The Company has established the Technical Review and Risk Compliance Committee, and the Finance and Investment Committee to oversee the management of the risks assigned within its respective Board approved mandate. It is management's responsibility to adhere to the parameters established within the Board's risk management structure. This is executed through periodic evaluation of risk registers, development of appropriate policies and procedures, periodic measurement of Key Performance Indicators, and the necessary controls to ensure reliable reporting and material compliance with regulatory guidelines. The Company's Internal Audit function reviews the risk management policies and processes and reports directly to the Audit Committee. The Audit Committee oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks that face the Company. The committees report regularly to the Board of Directors on their activities.

The Company has exposures to risks that may develop in each class of business and could have a material impact upon the Company's financial position.

#### **Insurance risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

Risk factors that affect insurance are many and include the lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Company insures the risks of entities within The Bahamas. Below is a discussion of insurance risks specific to the lines of coverage provided by the Company.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) *(Expressed in Bahamian dollars)*

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### 5. RISK MANAGEMENT (CONTINUED)

#### Insurance risk (continued)

##### Property and casualty insurance risks

Property risks are comprised of physical damage to property. Property policies are underwritten by reference to the commercial replacement value of the properties and content insured.

Casualty risks are comprised of personal injury from motor claims, public liability, employers' liability, workmen's compensation and personal liability coverage.

For the Company's property and casualty insurance contracts, significant risk exposure arises from low frequency, high severity events such as hurricanes. Single events, such as flooding and fires may also generate significant claims.

Claim payment limits are always included to cap the amount payable on occurrence of the insured event. The key factors that influence the quantum of claim settlements are the costs of rebuilding properties and the replacement of or indemnity for building contents.

The frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. The Company manages this risk through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. Underwriting limits are in place to enforce appropriate risk selection criteria. The Company actively manages and pursues early settlement of all claims to reduce its exposure to unpredictable developments. It has a dedicated in-house claims department and uses third party loss adjusters as necessary. The Company will, where necessary, appoint lawyers to act on the Company's behalf in respect of serious bodily injury claims thus ensuring settlements and avoiding claims development.

##### Reinsurance risks

The Company follows the policy of underwriting and reinsuring contracts of insurance, which generally limit the liability for any one risk. In addition, catastrophe reinsurance is obtained to limit liability to a maximum of 10% of the Company's capital and reserves in the event of a series of claims arising out of a single occurrence.

The Company is exposed to contractual disputes with its reinsurers and the possibility of default by its reinsurers. The Company is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance constraints. The Company's strategy is to select reinsurers with the best combination of financial strength, price and capacity.



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) *(Expressed in Bahamian dollars)*

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### 5. RISK MANAGEMENT (CONTINUED)

#### **Insurance risk (continued)**

##### Reinsurance risks (continued)

In the event that the Company's reinsurers are unable to meet their obligations under the reinsurance programs in place, the Company would still be obligated to pay all claims made under the insurance policies it issues, but would only receive reimbursement to the extent that the reinsurers could meet their above mentioned obligations.

Management does not anticipate that there will be any issues with the collection of amounts due from reinsurers as they become due, and is not aware of any disputes with reinsurers, overdue amounts or any specific credit issues.

The reinsurance program used by the Company is reviewed and approved by the Technical Review and Risk Compliance Committee on an annual basis.

#### **Financial risk**

The Company is exposed to financial risk through its financial assets and liabilities. The components of financial risk that have an impact on the Company are credit risk, market risk and liquidity risk. Market risk exposure results from adverse movements in market rates and prices and as a result the Company is exposed to interest rate risk, foreign currency risk and price risk.

Financial risk is a significant risk for the Company's operations. The risk framework combines investment policies, limits, stress tests and regular monitoring to control the nature and level of financial risk and to ensure adherence to Company and regulatory policies and guidelines.

The following table reconciles financial assets and financial liabilities to the Company's statement of financial position:

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 5. RISK MANAGEMENT (CONTINUED)

#### Financial risk (continued)

	2022	2021
<b>Financial assets:</b>		
Cash	\$ 9,946,597	\$ 5,192,043
Investments:		
Loans and receivables	3,799,842	4,485,364
Fair value through profit or loss	9,008,762	9,625,899
Available-for-sale	8,163,331	7,849,543
Loans and receivables:		
Trade accounts receivable, net	12,083,254	13,356,664
Receivables from related companies	24,544,717	26,953,582
Sundry receivables*	<u>1,831,421</u>	<u>1,517,867</u>
Total financial assets	<u>69,377,924</u>	<u>68,980,962</u>
Non - financial assets	<u>75,640,317</u>	<u>79,499,847</u>
Total assets	<u>\$ 145,018,241</u>	<u>\$ 148,480,809</u>
<b>Financial liabilities:</b>		
Payables at amortized cost:		
Trade accounts payable and accrued expenses and other liabilities	<u>\$ 9,410,146</u>	<u>\$ 10,120,940</u>
Total financial liabilities	<u>9,410,146</u>	<u>10,120,940</u>
Non - financial liabilities	<u>85,608,095</u>	<u>88,517,486</u>
Total liabilities	<u>\$ 95,018,241</u>	<u>\$ 98,638,426</u>

\*excludes prepayments of \$400,218 (2021: \$343,906).

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) *(Expressed in Bahamian dollars)*

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### 5. RISK MANAGEMENT (CONTINUED)

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Key areas where the Company is exposed to credit risk are in cash and cash equivalents, investments, unpaid claims recoverable from reinsurers, trade accounts receivable, receivables from related companies and sundry receivables.

The Company's investment policy permits the Company to invest in fixed income securities, equity securities, private placements of financial institutions and term deposits, and to limit exposure to any one issuer. The Company's deposits are placed with well-known high quality financial institutions. Policies and guidelines are in place to limit the exposure faced by the Company.

The Company is exposed to credit risk in respect of trade accounts receivable balances due from agents that bind insurance policies on its behalf. The Company periodically inspects the financial records of these intermediaries to proactively address any negative trends. Commissions paid to these intermediaries are also netted off against amounts receivable from them to reduce the amount at risk for default.

The Company is also exposed to credit risk with respect to the amounts recoverable from its reinsurers. The Company's liability as primary insurer is not discharged if a reinsurer defaults on the obligation to pay. The Technical Review and Risk Compliance Committee ensures that management assesses the creditworthiness of all reinsurers by reviewing credit ratings as determined by independent rating agencies and other publicly available financial information.

The Company has approved limits for the maximum participation of any one reinsurer in its reinsurance program. Reinsurance coverage is placed with a number of major international third party reinsurers, including underwriting members of Lloyd's, with credit ratings of A- or higher from A.M. Best or Standard & Poor's. The concentration of credit risk is also monitored to minimize the Company's exposure to significant losses from reinsurer insolvency.

The Company, as part of the BFH group, analyses its credit exposure to related parties and the impact this has on its credit risk. The group has devised a strategy to substantially liquidate related party exposures over the short to medium term period and maintain the balances at minimum operating levels thereafter. The recovery strategy principally involves the allocation of dividend payments received by the parent of the group from other BFH subsidiaries. Based on the overall liquidity within the group, the expected credit loss on related party balances was determined to be immaterial.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

### 5. RISK MANAGEMENT (CONTINUED)

#### Credit risk (continued)

The following assets of the Company are exposed to credit risk:

s

	2022	2021
Available-for-sale securities:		
Preference shares	\$ 1,550,000	\$ 1,550,000
Fixed income debt securities	6,613,331	5,790,840
Mutual fund	-	508,703
Loans and receivables:		
Bahamas Government Registered Stocks	2,179,100	3,179,100
Fixed income debt securities	1,620,742	1,306,264
Trade accounts receivable	12,083,254	13,356,664
Receivables from related parties	24,544,717	26,953,582
Sundry receivables	1,831,421	1,517,867
Reinsurers' share of provision for unpaid claims	25,672,686	28,076,154
Cash	9,946,597	5,192,043
Total	<u>\$ 86,041,848</u>	<u>\$ 87,431,217</u>

Debt securities comprising fixed income securities and Bahamas Government Registered Stocks are analysed in the table below using Standard & Poor's ("S&P") ratings.

	2022	2021
A	\$ 775,066	\$ 865,713
BBB	6,047,365	6,134,228
Below BBB or Not rated	3,590,742	3,276,263
Total debt securities	<u>\$ 10,413,173</u>	<u>\$ 10,276,204</u>

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

### 5. RISK MANAGEMENT (CONTINUED)

#### Credit risk (continued)

Financial and other assets exposed to credit risk that are neither past due nor impaired, past due but not impaired and those that are impaired are analyzed in the table below:

<b>At December 31, 2022</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>	<b>Impaired</b>	<b>Total</b>
Available-for-sale securities	\$ 8,163,331	\$ -	\$ -	\$ 8,163,331
Loans and receivables:				
Debt Securities	3,799,842	-	-	3,799,842
Trade accounts receivable	10,692,043	1,391,211	-	12,083,254
Receivables from related parties	24,544,717	-	-	24,544,717
Sundry receivables	1,831,421	-	-	1,831,421
Reinsurers' share of provision for unpaid claims	25,672,686	-	-	25,672,686
Cash	9,946,597	-	-	9,946,597
Total assets exposed to credit risk	<u>\$ 84,650,637</u>	<u>\$ 1,391,211</u>	<u>\$ -</u>	<u>\$ 86,041,848</u>

<b>At December 31, 2021</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>	<b>Impaired</b>	<b>Total</b>
Available-for-sale securities	\$ 7,849,543	\$ -	\$ -	\$ 7,849,543
Loans and receivables:				
Debt Securities	4,485,364	-	-	4,485,364
Trade accounts receivable	12,061,620	1,295,044	-	13,356,664
Receivables from related parties	26,953,582	-	-	26,953,582
Sundry receivables	1,517,867	-	-	1,517,867
Reinsurers' share of provision for unpaid claims	28,076,154	-	-	28,076,154
Cash	5,192,043	-	-	5,192,043
Total assets exposed to credit risk	<u>\$ 86,136,173</u>	<u>\$ 1,295,044</u>	<u>\$ -</u>	<u>\$ 87,431,217</u>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above. The Company does not hold collateral as security.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 5. RISK MANAGEMENT (CONTINUED)

#### Credit risk (continued)

##### Concentration of exposure

The concentration of the Company's gross written premium are as follows:

	2022	2021
Group agents and insurers	\$ 46,035,080	\$ 45,704,283
Non-Group agents	<u>58,325,319</u>	<u>60,324,696</u>
Total	<u>\$ 104,360,399</u>	<u>\$ 106,028,979</u>

The concentration of credit risk is regularly monitored and evaluated. Specifically for non-related agents, the Company evaluates payment history as well as its financial position on a periodic basis.

The geographical locations of the Company's portfolio of investments are as follows:

	2022	%	2021	%
Bahamas	\$ 16,328,604	78%	\$ 18,139,966	83%
USA	<u>4,643,331</u>	<u>22%</u>	<u>3,820,840</u>	<u>17%</u>
Total	<u>\$ 20,971,935</u>	<u>100%</u>	<u>\$ 21,960,806</u>	<u>100%</u>

#### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cashflows will fluctuate due to changes in market interest rates. This is primarily a concern with fixed and fluctuating interest rate financial instruments, which the Company intends to hold for the long-term. The Company's investment in debt securities and cash and cash equivalents are all subject to interest rate risk. Fluctuations in interest rates impact the level of gains and losses on the Company's interest bearing investments.

The coupon rates associated with the fixed income debt securities held by the Company range from 1.20% to 8.00% (2021: 1.20% to 8.00%) per annum.

#### Foreign currency risk

Foreign currency risk relates to the Company operating in different currencies and converting non-Bahamian earnings at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Company is not directly exposed to foreign currency risk, as investments are denominated in Bahamian dollars and US dollars. The Bahamian dollar is fixed to the US dollar at the following rate: B\$1 = US\$1, at the date of the statement of financial position. All other assets and liabilities of the Company are denominated in Bahamian dollars or US dollars.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

### 5. RISK MANAGEMENT (CONTINUED)

#### Price risk

The Company is subject to price risk on its investments due to fluctuations in fair value as a result of changes in market prices. One of the primary objectives of the Company's risk management policy is to mitigate potential adverse impacts of market movements. Price risk arises primarily from changes in the value of equity investments and debt securities in the event that these are required to be sold to meet liquidity needs.

Trading levels in The Bahamas, whether on BISX or over-the-counter markets, are generally low and therefore, the ability of the Company to liquidate large positions may be difficult and prices received may be severely impacted. The Central Bank has created a secondary market for certain debt securities issued by the Government of The Bahamas, and prices currently being observed in this market and over-the-counter approximate the face values of such securities.

These securities are managed according to the benchmarks as specified in the Company's statement of investment policy and guidelines. The effect of a 10% increase (2021: 10%) and a 10% decrease (2021: 10%) in prices at the date of the statement of financial position are set out below:

	Carrying value	Effect on profit and equity +10%	Effect on profit and equity -10%
<b>At December 31, 2022</b>			
Listed equity securities	\$ 9,008,762	\$ 900,876	\$ (900,876)
Listed debt equities	4,643,331	464,333	(464,333)
Unlisted debt securities	5,769,842	576,984	(576,984)
Listed preference shares	1,550,000	155,000	(155,000)
Total	<u>\$ 20,971,935</u>	<u>\$ 2,097,193</u>	<u>\$ (2,097,193)</u>
<b>At December 31, 2021</b>			
Listed equity securities	\$ 9,625,899	\$ 962,590	\$ (962,590)
Listed debt equities	3,820,840	382,084	(382,084)
Unlisted debt securities	6,455,364	645,536	(645,536)
Listed preference shares	1,550,000	155,000	(155,000)
Listed mutual fund	508,703	50,870	(50,870)
Total	<u>\$ 21,960,806</u>	<u>\$ 2,196,080</u>	<u>\$ (2,196,080)</u>

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

### 5. RISK MANAGEMENT (CONTINUED)

#### Liquidity risk

Liquidity risk is the risk that the Company may have difficulty liquidating its positions due to existing or unforeseen market constraints to meet obligations associated with financial instruments. In respect of catastrophic events the Company is exposed to a liquidity risk associated with the timing differences between cash flows and expected reinsurance recoveries to meet its insurance liability obligation. The Company's investments are either in a market that is not highly active or do not have a market and therefore may not be readily realizable. As a result, the Company may not be able to quickly liquidate its investments at an amount close to their fair value in order to meet liquidity requirements. The Company mitigates this risk by maintaining significant holdings in cash and cash equivalents and also ensures that there are set guidelines for asset allocations, portfolio limit structures and maturity profiles of investments. The statement of financial position presents assets and liabilities in order of liquidity. The carrying value of investment assets with contractual maturities of less than one year at the statement of financial position date was \$185,522 (2021: \$1,185,522). Except for the unpaid claims recoverable shown below, receivables from related companies, right-of-use assets, investment property, property and equipment and intangible assets, all assets are current assets.

The following tables indicate the timing of undiscounted cash flows arising from financial liabilities as at December 31, 2022 and 2021.

2022	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
<b>Financial liabilities</b>				
Accrued expenses and other liabilities	\$ 2,094,295	\$ 2,094,295	\$ -	\$ -
Trade accounts payable	7,315,851	7,315,851	-	-
Unpaid claims	37,687,853	20,728,318	9,798,842	7,160,693
Less: unpaid claims recoverable from reinsurers	(25,672,686)	(14,119,977)	(6,674,899)	(4,877,810)
Total undiscounted cash flows	<u>\$ 21,425,313</u>	<u>\$ 16,018,487</u>	<u>\$ 3,123,943</u>	<u>\$ 2,282,883</u>
2021	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
<b>Financial liabilities</b>				
Accrued expenses and other liabilities	\$ 3,209,735	\$ 3,209,735	\$ -	\$ -
Trade accounts payable	6,911,205	6,911,205	-	-
Unpaid claims	37,915,220	22,369,980	11,374,566	4,170,674
Less: unpaid claims recoverable from reinsurers	(28,076,154)	(16,564,931)	(8,422,846)	(3,088,377)
Total undiscounted cash flows	<u>\$ 19,960,006</u>	<u>\$ 15,925,989</u>	<u>\$ 2,951,720</u>	<u>\$ 1,082,297</u>

In addition to the analysis above, the cashflows for lease liabilities are disclosed in Note 13. All other liabilities are anticipated to be settled within one year.



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

### 5. RISK MANAGEMENT (CONTINUED)

#### Sensitivity analysis

The Company predominantly funds its net insurance liabilities through cash generated in the normal course of its operations. In the event of a catastrophe, the net insurance liabilities may be required to be funded through the Company's portfolio of investments. Several of the Company's investments are subject to the impact of interest rate fluctuations.

Insurance liabilities are calculated using historical claims data to determine an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred at the date of the statement of financial position. Projections are based on assumptions implicit in the historic claims development. As such, the sensitivity of the insurance liabilities is based on the financial impact of changes to the reported loss ratio. The provision for long tail claims is determined by using the incurred loss method and loss ratio method. The loss development factors used are based on the Company's experience.

The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant. The analyses assume that there is no correlation between the assumptions.

Sensitivity factor		Description of sensitivity factor applied				
Interest rates		The impact of a change in market interest rates by 1%				
Underwriting expenses excluding claims		The impact of a change in underwriting expenses by 5%				
Loss ratio		The impact of a change in loss ratio by 5%				
December 31, 2022 in B\$	Interest rates		Underwriting expenses excluding claims		Loss ratio	
	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	197,184	(197,184)	(1,612,886)	1,612,886	(1,126,783)	1,126,783
Impact on equity	197,184	(197,184)	(1,612,886)	1,612,886	(1,126,783)	1,126,783
December 31, 2021 in B\$	Interest rates		Underwriting expenses excluding claims		Loss ratio	
	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	250,281	(250,281)	(1,449,449)	1,449,449	(1,016,540)	1,016,540
Impact on equity	250,281	(250,281)	(1,449,449)	1,449,449	(1,016,540)	1,016,540

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 5. RISK MANAGEMENT (CONTINUED)

#### Capital management

The Company's objectives when managing capital are as follows:

- To safeguard the Company's ability to continue as a going concern through prudent and sustainable growth, so that it can continue to maximize returns for shareholders;
- To ensure that it maintains a strong credit rating (minimum AM Best rating of A-Excellent) and healthy capital ratios in order to support its business objectives; and
- To comply with regulatory capital requirements stipulated in the jurisdiction in which the Company operates.

The Company actively monitors its capital requirements and is in compliance with all relevant laws, rules and regulations.

The minimum capital requirements applicable to the Company is \$6,800,000. The minimum solvency ratio is 150%. The Company has complied with all of the externally imposed capital requirements to which it is subject.

### 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2022	2021
Cash on hand	\$ 2,200	\$ 2,200
Cash at bank	9,009,690	3,086,418
Due from investment broker	934,707	2,103,425
	<u>\$ 9,946,597</u>	<u>\$ 5,192,043</u>

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

### 7. INVESTMENTS

	2022	2021
Loans and receivables:		
Bahamas Government Registered Stock - at cost		
Unrestricted - Fair value: \$1,179,100 (2021: \$2,179,100)	\$ 1,179,100	\$ 2,179,100
Restricted - Fair value: \$1,000,000 (2021: \$1,000,000)	1,000,000	1,000,000
Other fixed income debt securities, at cost - Fair value \$1,620,742 (2021: \$1,306,264)	<u>1,620,742</u>	<u>1,306,264</u>
Total loans and receivables	<u>3,799,842</u>	<u>4,485,364</u>
At fair value through profit or loss:		
Commonwealth Bank Limited		
2,516,414 (2021: 3,166,414) common shares		
Cost \$1,038,125 (2021: \$1,306,277)	<u>9,008,762</u>	<u>9,625,899</u>
Total at fair value through profit or loss	<u>9,008,762</u>	<u>9,625,899</u>
Available-for-sale:		
Fixed income debt securities, at fair value		
Cost \$7,093,404 (2021: \$5,838,870)	6,613,331	5,790,840
Mutual fund, at fair value;		
Cost \$Nil (2021: \$397,073)	-	508,703
Preference shares, at fair value		
Cost \$1,550,000 (2021: \$1,550,000)	<u>1,550,000</u>	<u>1,550,000</u>
Total available-for-sale	<u>8,163,331</u>	<u>7,849,543</u>
Total investments	<u>\$ 20,971,935</u>	<u>\$ 21,960,806</u>

Loans and receivables investments are recorded at amortized cost based on the effective interest rate method. The variable interest rate instrument is tied to B\$ prime, with an interest rate of 4.41% (2021: range of 4.41% to 4.50%) per annum and scheduled maturity of 2030 (2021: between 2022 and 2030) at the date of the statement of financial position.

In 2011, in accordance with the Insurance Act 2005 (Amended 2009), and regulations 61 and 62 of the Insurance (General) Regulations 2010, the Company established a Trust Account (the "BFG Trust") in which \$1,000,000 of the Bahamas Government Registered Stocks have been placed in Trust. This amount is restricted for regulatory purposes but the interest income accrues to the Company.

# BAH AMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

### 7. INVESTMENTS (CONTINUED)

As at December 31, 2022, the investment in Commonwealth Bank Limited (the “Bank”) was valued at \$3.58 (2021: \$3.04) per share which was the quoted price by the Bahamas International Securities Exchange (“BISX”). As a result, the Company recorded an unrealized loss of \$348,984 (2021: \$1,741,527) for the year then ended.

Reconciliation of movements in the balance of investments is provided below:

	Loans and Receivable	Fair value through profit or loss	Available- for-sale	Total
At December 31, 2020	\$ 5,563,718	\$ 11,367,426	\$ 6,156,037	\$ 23,087,181
Cost of investments purchased	-	-	3,969,268	3,969,268
Sales and maturities	(1,078,354)	-	(2,307,275)	(3,385,629)
Amortization of discounts on bonds (Note 18)	-	-	(16,439)	(16,439)
Realized gains on sales of investments (Note 18)	-	-	451,450	451,450
Unrealised loss on investments (Note 17)	-	(1,741,527)	(403,498)	(2,145,025)
At December 31, 2021	4,485,364	9,625,899	7,849,543	21,960,806
Cost of investments purchased	500,000	-	1,340,640	1,840,640
Sales and maturities	(1,185,522)	(2,229,998)	(512,364)	(3,927,884)
Amortization of discounts on bonds (Note 18)	-	-	(86,106)	(86,106)
Realized gains on sales of investments (Note 18)	-	1,961,845	115,291	2,077,136
Unrealised loss on investments (Note 17)	-	(348,984)	(543,673)	(892,657)
At December 31, 2022	<u>\$ 3,799,842</u>	<u>\$ 9,008,762</u>	<u>\$ 8,163,331</u>	<u>\$ 20,971,935</u>

Management believes that there is no objective evidence of impairment of its investment portfolio as there has not been a significant or prolonged decline in the fair value of any of its securities.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) *(Expressed in Bahamian dollars)*

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### 7. INVESTMENTS (CONTINUED)

#### Fair value measurement

In accordance with IFRS 13 Financial Instruments: Disclosure, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and are actively traded on recognized exchanges;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In addition to the measurement hierarchy, financial instruments which have significant unobservable inputs (classified as Level 3) require the disclosures on the transfers into and out of Level 3, a reconciliation of the opening and closing balances, total gains and losses for the period split between those recognized in other comprehensive income (loss), purchases, sales, issues and settlements, and sensitivity analysis of reasonably possible changes in assumptions, if material. Disclosure is also required of the movements between different levels of the fair value hierarchy and the reason for those movements.

Specific valuation techniques used to fair value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- Other techniques, such as discounted cash flow analyses, are used to determine fair value for the remaining financial instruments.

Significant unobservable inputs for a discounted cash flow analysis are cashflows and the discount rate.

The loans and receivables investments are measured at amortized cost and the fair value of these instruments were disclosed earlier in the note. These approximate fair values were derived from secondary market prices and accordingly would be classified as Level 2 in the fair value hierarchy.

The undiscounted cash flows and ranges for interest rates for available-for-sale securities have been disclosed earlier in this note. There were no level 3 investments during 2022 and 2021.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

### 7. INVESTMENTS (CONTINUED)

#### Fair value measurement (continued)

The following table presents the Company's financial assets measured at fair value at December 31, 2022, by the level in the fair value hierarchy into which the fair value measurement is categorized.

2022	Level 1	Level 2	Total
Financial assets designated at fair value through profit or loss:			
Equity securities	\$ 9,008,762	\$ -	\$ 9,008,762
Total	9,008,762	-	9,008,762
Available-for-sale financial assets:			
Fixed income debt securities	4,643,331	1,970,000	6,613,331
Preference shares	1,550,000	-	1,550,000
Total	6,193,331	1,970,000	8,163,331
Total financial assets measured at fair value	\$ 15,202,093	\$ 1,970,000	\$ 17,172,093

There were no transfers between the various levels during the year.

The following table presents the Company's financial assets measured at fair value at December 31, 2021 by the level in the fair value hierarchy into which the fair value measurement is categorized.

2021	Level 1	Level 2	Total
Financial assets designated at fair value through profit or loss:			
Equity securities	\$ 9,625,899	\$ -	\$ 9,625,899
Total	9,625,899	-	9,625,899
Available-for-sale financial assets:			
Fixed income debt securities	-	5,790,840	5,790,840
Mutual fund	-	508,703	508,703
Preference shares	1,550,000	-	1,550,000
Total	1,550,000	6,299,543	7,849,543
Total financial assets measured at fair value	\$ 11,175,899	\$ 6,299,543	\$ 17,475,442

There were no transfers between the various levels during 2021.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED)

(Expressed in Bahamian dollars)

### 7. INVESTMENTS (CONTINUED)

#### Fair value measurement (continued)

As set out in Note 2b, the Company has chosen to defer application of IFRS 9 due to its activities being predominantly connected with insurance. To facilitate comparison with entities applying IFRS 9 in full, the table below segments the fair value of the Company's investments as at the reporting date between those that are considered to have contractual terms which are solely payments of principal and interest on the principal amount outstanding ("SPPI") and those that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("non-SPPI"). The following table presents the fair value as at the reporting date and the amount of change in the fair value during the year then ended:

#### 2022

	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
		Fair value	Change in fair value	Fair value	Change in fair value
Loans and receivables	\$ 3,799,842	\$ 3,799,842	\$ -	\$ -	\$ -
Available-for-sale	8,163,331	6,613,331	-	1,550,000	(543,673)
Fair value through profit or loss	9,008,762	-	-	9,008,762	(348,984)
	<u>\$ 20,971,935</u>	<u>\$ 10,413,173</u>	<u>\$ -</u>	<u>\$ 10,558,762</u>	<u>\$ (892,657)</u>

#### 2021

	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
		Fair value	Change in fair value	Fair value	Change in fair value
Loans and receivables	\$ 4,485,364	\$ 4,485,364	\$ -	\$ -	\$ -
Available-for-sale	7,849,543	5,790,840	-	2,058,703	(403,498)
Fair value through profit or loss	9,625,899	-	-	9,625,899	(1,741,527)
	<u>\$ 21,960,806</u>	<u>\$ 10,276,204</u>	<u>\$ -</u>	<u>\$ 11,684,602</u>	<u>\$ (2,145,025)</u>

Credit ratings of the SPPI financial assets are disclosed within Note 5.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

### 8. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable, which is shown net of provision for bad debts, is comprised of amounts receivable from insurance agents that have signed agency agreements with the Company. There was no provision recorded as at the end of 2022 and 2021.

	2022	2021
Trade accounts receivable, net	\$ 12,083,254	\$ 13,356,664

Ageing of trade accounts receivable, net is as follows:

	2022	2021
Less than 3 months	\$ 10,692,043	\$ 12,061,620
3-6 months	1,391,211	1,295,044
	<u>\$ 12,083,254</u>	<u>\$ 13,356,664</u>

### 9. DEFERRED/UNEARNED PREMIUMS AND COMMISSION COSTS

The movement in the deferred/unearned insurance assets and liabilities are as follows:

	<u>Insurance Assets</u>		<u>Insurance Liabilities</u>	
	<u>Deferred Reinsurance Premiums</u>	<u>Deferred Commission Costs</u>	<u>Unearned Premiums</u>	<u>Unearned Commission Income</u>
Balance at December 31, 2020	\$ 26,322,841	\$ 5,703,885	\$ (36,552,314)	\$ (6,485,216)
Movement during the year	<u>4,776,404</u>	<u>1,621,760</u>	<u>(6,419,896)</u>	<u>(1,139,034)</u>
Balance at December 31, 2021	31,099,245	7,325,645	(42,972,210)	(7,624,250)
Portfolio transfer in	(839,429)	-	-	-
Movement during the year	<u>(1,330,935)</u>	<u>(473,559)</u>	<u>2,132,982</u>	<u>591,938</u>
Balance at December 31, 2022	<u>\$ 28,928,881</u>	<u>\$ 6,852,086</u>	<u>\$ (40,839,228)</u>	<u>\$ (7,032,312)</u>



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED)

*(Expressed in Bahamian dollars)*

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### 10. UNPAID CLAIMS AND CLAIMS INCURRED

	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>
Unpaid claims at December 31, 2020	\$ 44,700,826	\$ (32,140,354)	\$ 12,560,472
Claims incurred, arising from current year claims	16,785,000	(7,844,000)	8,941,000
Claims incurred, arising from prior year claims	(3,221,032)	(1,651,400)	(4,872,432)
Claims paid, current year	(7,938,189)	3,313,055	(4,625,134)
Claims paid, prior years	<u>(12,411,385)</u>	<u>10,246,545</u>	<u>(2,164,840)</u>
Unpaid claims at December 31, 2021	37,915,220	(28,076,154)	9,839,066
Claims incurred, arising from current year claims	17,461,000	(7,775,000)	9,686,000
Claims incurred, arising from prior year claims	775,882	(1,967,653)	(1,191,771)
Claims paid, current year	(8,837,334)	5,370,795	(3,466,539)
Claims paid, prior years	<u>(9,626,915)</u>	<u>6,775,326</u>	<u>(2,851,589)</u>
Unpaid claims at December 31, 2022	<u>\$ 37,687,853</u>	<u>\$ (25,672,686)</u>	<u>\$ 12,015,167</u>

Net claims incurred for the year ended December 31, 2022 was \$8,494,229 (2021: \$4,068,568). Net claims paid during the year ended December 31, 2022 was \$6,318,128 (2021: \$6,789,974). The table below shows the development of claims over a period of time on a gross basis.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

### 10. UNPAID CLAIMS AND CLAIMS INCURRED

The table shows the cumulative incurred claims, including both notified and IBNR claims for each successive accident year.

	Accident Years									Total
	2014	2015*	2016*	2017	2018	2019*	2020	2021	2022	
Gross claims incurred at end of reporting year	\$20,485,000	\$26,210,000	\$ 109,630,183	\$19,650,250	\$28,081,559	\$ 386,866,239	\$16,447,047	\$16,785,000	\$17,461,000	
One year later	19,731,876	25,383,189	103,764,574	25,141,482	31,391,660	374,893,583	15,917,000	14,670,000		
Two years later	20,457,546	23,466,145	103,537,802	27,542,140	28,275,731	375,735,000	15,818,000			
Three years later	18,502,121	24,491,321	103,824,048	27,226,360	28,339,778	376,810,000				
Four years later	18,922,218	24,763,457	103,494,091	27,205,268	28,049,778					
Five years later	19,393,108	24,332,132	103,947,389	27,081,268						
Six years later	19,301,275	25,622,893	104,192,546							
Seven years later	19,176,820	25,887,156								
Eight years later	19,933,820									
Total incurred to date	19,933,820	25,887,156	104,192,546	27,081,268	28,049,778	376,810,000	15,818,000	14,670,000	17,461,000	629,903,568
Cumulative payments to date	(17,604,999)	(24,398,998)	(101,981,074)	(24,284,196)	(24,078,626)	(371,157,383)	(13,623,249)	(10,601,278)	(8,837,334)	(596,567,137)
Liability included in statement of financial position	<u>\$ 2,328,821</u>	<u>\$ 1,488,158</u>	<u>\$ 2,211,472</u>	<u>\$ 2,797,072</u>	<u>\$ 3,971,152</u>	<u>\$ 5,652,617</u>	<u>\$ 2,194,751</u>	<u>\$ 4,068,722</u>	<u>\$ 8,623,666</u>	\$ 33,336,431
Unallocated loss adjustment expenses										696,500
Reserves for prior years										<u>3,654,922</u>
Total unpaid claims including amounts recoverable from reinsurers in the statement of financial position										<u>\$ 37,687,853</u>
Comprises:										
Specific claim reserves										\$ 25,622,853
Claims incurred but not reported and unallocated loss adjustment expenses										<u>12,065,000</u>
										<u>\$ 37,687,853</u>

\*Accident years 2015, 2016 and 2019 have been restated to align with historical actuarial ultimate estimates.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 11. INVESTMENT PROPERTY

The movement of investment property for the year is as follows:

	<b>Income generating property</b>
Balance at December 31, 2020	\$ 2,100,000
Net increase in fair value of investment property	<u>-</u>
Balance at December 31, 2021	2,100,000
Capitalised subsequent expenditure	212,772
Net decrease in fair value of investment property	<u>(12,772)</u>
Balance at December 31, 2022	<u><u>\$ 2,300,000</u></u>

In September 2022, the investment property was revalued to fair market value based on a valuation performed by an independent appraiser for financial statement purposes. The fair value of the land and buildings are derived from capitalized income projections based on a property's estimated net market income adjusted for vacancies, and a discount rate derived from an analysis of market evidence. There has been no change in the valuation technique during the year. Assumptions around the projected rental revenue changed from a range of \$27/sq. ft. in the prior year's valuation to \$29/sq. ft. in the current year valuation. Updated assumptions are noted in the table below. The fair value measurement of the Company's land and building is classified as Level 3 in the fair value hierarchy as inputs are generally unobservable.

The following table illustrates the impact of changes in estimates and assumptions in determination of fair values of land and buildings.

<b>Estimate/Assumption</b>	<b>Change</b>	<b>Impact on fair value</b>
Rental Revenue (\$29/sq. ft.)	5.00%/-5.00%	\$115,986/(\$115,986)
Vacancy rates (5%)	5.00%/-5.00%	(\$122,090)/\$122,090
Discount rate (9%)	1.00%/-1.00%	(\$228,603)/\$285,754

Rental income of \$208,949 (2021: \$208,949) derived from investment property is recognized in other income in the statement of profit or loss.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

### 12. PROPERTY AND EQUIPMENT

The movement of property and equipment for the year is as follow:

	Leasehold Improvements, Land & Furniture and Buildings Equipment		Total
2022			
At January 1, 2022			
Cost/Valuation	\$ 8,661,783	\$ 811,565	\$ 9,473,348
Accumulated depreciation	(799,427)	(402,825)	(1,202,252)
Net book amount	<u>\$ 7,862,356</u>	<u>\$ 408,740</u>	<u>\$ 8,271,096</u>
Year ended December 31, 2022			
Opening net book amount	\$ 7,862,356	\$ 408,740	\$ 8,271,096
Additions	-	66,670	66,670
Revaluation of land and buildings (Note 17)	937,693	-	937,693
Charge for the year	(211,634)	(46,712)	(258,346)
At December 31, 2022	<u>\$ 8,588,415</u>	<u>\$ 428,698</u>	<u>\$ 9,017,113</u>
	Leasehold Improvements, Land & Furniture and Buildings Equipment		Total
2021			
At January 1, 2021			
Cost/Valuation	\$ 8,634,153	\$ 779,265	\$ 9,413,418
Accumulated depreciation	(588,252)	(353,731)	(941,983)
Net book amount	<u>\$ 8,045,901</u>	<u>\$ 425,534</u>	<u>\$ 8,471,435</u>
Year ended December 31, 2021			
Opening net book amount	\$ 8,045,901	\$ 425,534	\$ 8,471,435
Additions	27,630	32,300	59,930
Charge for the year	(211,175)	(49,094)	(260,269)
At December 31, 2021	<u>\$ 7,862,356</u>	<u>\$ 408,740</u>	<u>\$ 8,271,096</u>

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 12. PROPERTY AND EQUIPMENT (CONTINUED)

In September 2022, the land and buildings were revalued to fair market value based on a valuation performed by an independent appraiser for financial statement purposes. The fair value of the land and buildings are derived from capitalized income projections based on a property's estimated net market income adjusted for vacancies, and a discount rate derived from an analysis of market evidence. There has been no change in the valuation technique during the year. Assumptions around the projected rental revenue changed from a range of \$27/sq. ft. in the prior year's valuation to \$29/sq. ft. in the current year valuation. Updated assumptions are noted in the table below. The fair value measurement of the Company's land and building is classified as Level 3 in the fair value hierarchy as inputs are generally unobservable.

There were no transfers between the various levels during the year.

The following table illustrates the impact of changes in estimates and assumptions in determination of fair values of land and buildings.

<b>Estimate/Assumption</b>	<b>Change</b>	<b>Impact on fair value</b>
Rental Revenue (\$29/sq. ft.)	5.00%/-5.00%	\$453,014/(\$453,014)
Vacancy rates (5%)	5.00%/-5.00%	(\$476,857)/\$476,857
Discount rate (9%)	1.00%/-1.00%	(\$892,873)/\$1,116,092

The net book value of the land and buildings, excluding effects of revaluations would have been \$1,995,000 and \$4,705,628 (2021: \$1,995,000 and \$4,857,422) respectively.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED)

(Expressed in Bahamian dollars)

### 13. LEASES

The Company leases an office space. The lease was agreed for a period of five years. Lease payments are renegotiated every three to five years to reflect market rentals. Information about leases for which the Company is a lessee is presented below:

#### Right-of-use assets

	Office premises	Total
<b>2022</b>		
Balance at 1 January	\$ 5,230	\$ 5,230
Depreciation charge for the year	(21,198)	(21,198)
Additions	63,872	\$ 63,872
<b>Balance at 31 December</b>	<b>\$ 47,904</b>	<b>\$ 47,904</b>

	Office premises	Total
<b>2021</b>		
Balance at 1 January	\$ 26,150	\$ 26,150
Depreciation charge for the year	(20,920)	(20,920)
<b>Balance at 31 December</b>	<b>\$ 5,230</b>	<b>\$ 5,230</b>

The depreciation charge attributable to the right of use asset is presented within depreciation and amortization of intangible assets within the statement of profit or loss.

At December 31, 2022, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	2022	2021
<b>Maturity analysis – Contractual undiscounted cash flows</b>		
Less than one year	\$ 22,800	\$ 5,850
Between one and five years	28,500	-
<b>Total undiscounted lease liabilities at 31 December</b>	<b>\$ 51,300</b>	<b>\$ 5,850</b>

Lease payments are presented with the financing section of the statement of cash flows. Interest expense on the lease liability for the year ended December 31, 2022 amounted to \$1,974 (2021: \$816) and is presented within the caption general and administrative expenses in the statement of profit or loss.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 13. LEASES (CONTINUED)

#### Extension options

Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. These extensions have been factored in the lease term in determining the lease liability in the statement of financial position.

### 14. INTANGIBLE ASSETS

	2022	2021
<b>Computer Software</b>		
At January 1		
Cost	\$ 2,900,000	\$ 2,900,000
Accumulated amortisation	(621,429)	(209,703)
Net book amount	<u>\$ 2,278,571</u>	<u>\$ 2,690,297</u>
 Year ended December 31,		
Opening Net book amount	\$ 2,278,571	\$ 2,690,297
Additions	650,000	-
Amortization	(507,142)	(411,726)
Balance at December 31,	<u>2,421,429</u>	<u>2,278,571</u>

### 15. SHARE CAPITAL

The authorized share capital is 10,000,000 shares (2021: 10,000,000) with a par value of \$1.00 each; while issued and fully paid is 7,500,000 shares (2021: 7,500,000).

Dividends are accounted for in the period in which they are declared by the Company's Board of Directors. During the year dividends of \$0.42 per common share (total dividends \$3,168,421) were declared and paid, by reducing the Company's receivables from Parent. No dividends were declared or paid during 2021.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 16. GENERAL RESERVE

The Company has established a general reserve from retained earnings in the amount of \$3,500,000 (2021: \$3,500,000), which the Board of Directors have determined is not available for distribution.

### 17. REVALUATION RESERVE

The movement in the revaluation reserve is as follows:

	<b>Land &amp; Buildings</b>	<b>AFS Investments</b>	<b>Total</b>
Balance at December 31, 2020	\$ 1,800,056	\$ 467,099	\$ 2,267,155
Decrease in fair value of AFS Investments	-	(403,498)	(403,498)
Other comprehensive income	-	(403,498)	(403,498)
Balance at December 31, 2021	1,800,056	63,601	1,863,657
Revaluation of land and buildings (Note 12)	937,693	-	937,693
Decrease in fair value of AFS Investments	-	(543,673)	(543,673)
Other comprehensive loss	937,693	(543,673)	394,020
Balance at December 31, 2022	<u>\$ 2,737,749</u>	<u>\$ (480,072)</u>	<u>\$ 2,257,677</u>

In accordance with the Company's accounting policy, freehold land and buildings are subject to a revaluation exercise that is performed by an independent professional appraiser every three years. Freehold land and buildings were independently valued in September, 2022. The next appraisal is due in 2025 or when the fair value of a revalued asset differs materially from its carrying amount due to the current economic condition, whichever is earlier.



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 18. OTHER INCOME

Other income is as follows:

	2022	2021
Interest income - loans and receivables	\$ 184,510	\$ 263,006
Interest income - available for sale	402,576	250,507
Dividend income - equity securities	264,641	126,657
Rental income (Note 20)	319,445	319,445
Amortization of discounts on bonds (Note 7)	(86,106)	(16,439)
Realized gains on sales of investments (Note 7)	2,077,136	451,450
Other income	175,689	23,688
Fair value adjustment to investment property	(12,772)	-
	<u>\$ 3,325,119</u>	<u>\$ 1,418,314</u>

### 19. PENSION PLAN

The majority of the Company's employees participate in a defined contribution pension plan into which the Company contributes 3% to 5% per annum of base salary. The Company paid contributions for the year amounting to \$96,112 (2021: \$87,036), which is included in salaries, benefits and bonuses in the statement of profit or loss.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) (Expressed in Bahamian dollars)

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### 20. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances and transactions are as follows:

	2022	2021
Gross premiums written for the year	\$ 46,035,080	\$ 45,704,282
Commission expense paid for the year	\$ 9,282,831	\$ 8,478,047
Management fees paid to Bahamas First Corporate Services Ltd.	\$ 3,223,532	\$ 2,860,884
Rental income received from NUA and FRL (Note 18)	\$ 319,445	\$ 319,445
Deferred commission costs	\$ 2,666,500	\$ 2,809,042
Receivables from Parent and other related companies	\$ 24,544,717	\$ 26,953,582

Key management personnel include members of the Company's management team having authority and responsibility for planning, directing and controlling the activities of the Company's operation. Compensation to key management personnel is included in salaries, benefits and bonuses and compensation to directors is included in general and administrative expenses within the statement of profit or loss as follows:

	2022	2021
Short-term benefits	\$ 730,726	\$ 683,124
Post retirement benefits	37,712	37,435
	\$ 768,438	\$ 720,559
Receivables from key management personnel	\$ 11,239	\$ 2,624

The receivables from directors and key management personnel are included in sundry receivables and prepayments in the statement of financial position.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED) *(Expressed in Bahamian dollars)*

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### 21. CONTINGENCIES

In the normal course of its business, the Company is involved in various legal proceedings arising out of and incidental to its operations. The Company is of the opinion that litigation arising from these legal proceedings will not have a significant impact on the financial position, results of operations or cashflows of the Company.

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