BAHAMAS FIRST HOLDINGS LIMITED

2016 ANNUAL REPORT

FIRST WHEN IT MATTERS.

The consolidated financial statements in this report include the accounts of Bahamas First Holdings Limited ("BFH" or the "Company") and its subsidiaries which are collectively referred to as the "Group". The subsidiaries are as follows: Bahamas First General Insurance Company Limited ("BFG"), Cayman First Insurance Company Limited ("CFI"), Nassau Underwriters Agency Insurance Agents & Brokers Ltd. ("NUA"), Bahamas First Corporate Services Ltd. ("BFCS"), First Response Limited ("FRL"), BFH International Limited ("BFHIL"), BRAC Insurance Associates Ltd. ("BIA") and BFH Services (Cayman) Limited ("BFHS").

BAHAMAS FIRST HOLDINGS

2016 ANNUAL REPORT

& CONSOLIDATED FINANCIAL STATEMENTS

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CHAIRMAN'S MESSAGE

IAN D. FAIR

"We continue to seek out new opportunities, but only embark upon those that, after rigorous testing and deliberation, meet our standard to deliver a first class service."

IF THERE WAS EVER A YEAR to demonstrate the merit of diversification, 2016 was it! Despite experiencing one of the most powerful hurricanes ever to impact both major population centres in The Bahamas, resulting in significant damage and a high level of claims, your Company managed to generate an acceptable profit and thereby dividends. The main reasons for this is the realized profit earned by our Cayman operation and the investment results.

Patrick Ward, our President and CEO, will comment on this in more detail in his remarks, but suffice it for me to say the expansion strategy developed by your Board some years ago was more than justified by the events of 2016 alone.

The overriding themes in 2016 seem to be Anger and Change, both of which need to be monitored and managed very carefully in the years to come. Macro issues of this nature are overriding considerations of your Board's deliberations and strategic planning.

Anger showed itself in many forms including the continuing conflict in Syria, terrorism acts such as trucks being driven into crowds in Nice and Berlin and voters in many countries directing their anger and demand for change at the ballot box.

Change manifested itself in many parts of the world. In late 2015 Justin Trudeau ushered in a new and younger political era in Canada. This was followed in 2016 by the Brexit vote in the U.K. and in November came the totally unexpected election of Donald Trump as President of the United States. There was also demand for change, in a number of guises, in Australia, Hong Kong, Spain, France and Italy to name just a few. Voters seem to be fed up with the status quo and are demanding a new world order. Accepted platforms, over the past thirty years or more such as multi-national companies, free trade agreements, globalization, immigration and open borders are being challenged and in many cases rejected. What will replace them is yet to be fully enunciated. It is just another manifestation of the desire for Change, coupled with the fact that voters in the developed world are angry at the loss of jobs to the developing world, despite the many benefits that it has given them. All of this makes planning for the future ever more complicated.

Closer to home we face a General Election in The Bahamas by mid-2017. We are also extremely focused on how insurance products will be delivered in the future. The maxim that nothing stays the same for very long is so true and the timeframes seem to be getting shorter as technological changes constantly speed up.

In November, we were extremely sorry to have to accept the resignation of Karen Gavan, as a Director of the Company, as a result of her retirement from the Economical Group. Karen joined our board in September 2011 and has been an invaluable contributor to the Board's activities and deliberations. She is a seasoned insurance and business executive in Canada and elsewhere. Her wisdom and experience will be greatly missed. We welcome Michael Padfield, the Vice President, Legal and Corporate Secretary at Economical, who fills the vacancy caused by Karen's departure.

The theme for this year's annual report is "First When it Matters". Your board believes that it is critical for your company to remain at the forefront in everything that it does. We continue to seek out new opportunities, but only embark upon those that, after rigorous testing and deliberation, meet our standard to deliver a first class service. We demand nothing less!

Once again I wish to thank all of our stakeholders for their continued support, without which we could not develop and succeed. ■

PRESIDENT'S MESSAGE

PATRICK WARD

"Our core business both in The Bahamas and in Cayman is highly competitive and we expect this situation to persist, given the predominantly soft market conditions in the global P & C markets."

THE CHAIRMAN'S MESSAGE for this year's Annual Report provides a very clear picture of the state of uncertainty and complexity that characterizes the conditions in almost every corner of the globe. Making sense of the ambiguity and complexities that we face from the evolving mix of elements that create this sense of displacement will be a critical success factor for the future development of the Group.

At the same time, we will have to continually ensure that we have the capacity to handle major natural catastrophe events that trigger a coverage response for our policyholder base both in The Bahamas and Cayman.

The fourth quarter of 2016, provided ample evidence of this fact, as we had to marshal considerable human and financial resources to respond to Hurricane Matthew which impacted The Bahamas over the course of the 5th and 6th October, 2016, as a major hurricane with intensely destructive forces. The occurrence of Hurricane Matthew marked the second successive year, almost to the day, that The Bahamas experienced a major hurricane, defined as greater than Category 3 on the Saffir Simpson Hurricane Wind Scale.

The hurricane related claims, which slightly exceeded 2800, amounted to a gross loss of approximately $80 million, and, when combined with the other Property and Casualty (P & C) and Health Account claims, produced a total gross claims incurred of $131 million for 2016. This represents an unprecedented level of claims spend for the Group, but we have been able to navigate the myriad of issues both directly and indirectly associated with such a high level of claims activity. The overall net incurred claims for the year was $36.4 million, which is 33% higher than prior year's total of $27.3 million, the main difference being the substantial impact from Hurricane Matthew. Despite the elevated claims expense, the Hurricane Matthew loss was well within the modelled expectations for Bahamas First General Insurance Company Limited's (BFG) portfolio of catastrophe exposed business throughout The Bahamas.

The Group's Combined Ratio increased to 107%, compared to 89% for the preceding two years, reflecting the sharp increase in the Loss Ratio for 2016, which was 63% compared to 46% in 2015 and 43% in 2014.

The Group's Expense Ratio increased slightly, partly as a result of the additional administrative expenses incurred in handling the hurricane claims, when compared to our original expectation. While the 38% ratio is higher than the prior year level of 37%, it should be noted that the dollar value of the expenses measured by this metric are actually lower in 2016 than in 2015. The reason for the increase in the percentage calculation is entirely attributable to the intentional reduction in the Net Written Premium (NWP) and consequently the Net Earned Premium in 2016, compared to the prior year.

The Group's Net Underwriting Income reduced to $17.6 million which is 38% below the prior year's total of $28.5 million. The financial impact of the hurricane losses, whilst substantially mitigated by a strong reinsurance programme, was reflected in the decline in the Group's Profit for 2016 to $1.4 million compared to a profit of $9.2 million in 2015.

A significant uptick in the overall investment results was, however, sufficient to overcome a substantial portion of the adverse claims development, resulting in a Comprehensive Income of $2.5 million for 2016. While this is lower than the 2015 Comprehensive Income of $8.9 million, it is nonetheless a very respectable outcome in the wake of the single largest loss event ever experienced by the Group.

The 2016 Return on Equity (ROE) is 4.2%, down from the prior year figure of 15.4%, but the rolling 3-year average remains at an attractive 12.5%. The total dividends declared and paid to Common Shareholders was 8 cents per share which is two thirds the payout of 12 cents per share in 2015, despite the record level of claims incurred in 2016.

The book value per Common Share dipped just slightly, to $1.41 in 2016, compared to the prior year result of $1.44, with Total Equity remaining near the $60 million mark. Having endured the events of 2016 we were very pleased to note that A.M. Best reaffirmed our A- (Excellent) rating for both Cayman First Insurance Company Limited (CFI) and BFG, with a stable outlook in each case.

Our core business both in The Bahamas and in Cayman is highly competitive and we expect this situation to persist, given the predominantly soft market conditions in the global P & C markets. This fact, together with other external, but nevertheless influential factors, will make 2017 a challenging year. We will continue to take intentional and productive steps in pursuit of our goals and objectives.

In closing, I would like to extend a heartfelt thanks to all of our employees, throughout the organization, for their dedicated and professional service in a very stressful scenario. A number of our employees in The Bahamas had to request assistance through our formal Employee Assistance Programme, but despite their own personal challenges, they were able to focus on delivering service to our customers when it mattered. ■

SUMMARY OF RESULTS & YEAR IN REVIEW

SUMMARY OF RESULTS

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015	% Change	2014
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Total assets	243,460	183,528	33%	189,713
Equity attributable to owners of the parent	56,601	57,558	-2%	53,146
Book value per common share	**1.41**	**1.44**		**1.32**
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Gross premiums written	138,686	143,361	-3%	152,229
Net written premiums	57,303	59,158	-3%	60,545
Net premiums earned	57,334	59,872	-4%	60,375
Commission income	21,639	23,153	-7%	24,506
Net claims incurred	36,407	27,336	33%	25,808
Net underwriting income	17,599	28,500	-38%	28,796
Other income	2,368	2,252	5%	2,261
Total comprehensive income	2,543	8,982	-72%	9,903
Total comprehensive income attributable to owners of the parent	2,313	8,618	-73%	9,385
Earnings per common share	**0.02**	**0.23**		**0.25**
RATIOS				
Solvency ratio	99%	97%		88%
Combined ratio	107%	89%		89%
Loss ratio	63%	46%		43%
Expense ratio	38%	37%		36%

SOLVENCY RATIO Total equity attributable to owners of the parent as a % of net written premiums
COMBINED RATIO Net underwriting expense & administrative cost as a % of net premiums earned
LOSS RATIO Net claims incurred as a % of net premiums earned
EXPENSE RATIO Administrative expenses as a % of net premiums earned

First When It Matters – Delivering on Our Promise

A number of leading international publications within the insurance sector that focus on natural catastrophic events around the globe, have pointed to the fact that the Atlantic Hurricane Season, in 2016, was the most active since 2012. Global catastrophe losses rose to the highest levels in the past four years and in fact we saw an unusually early start to the season when we experienced a mid-January storm named "Alex". This was followed by "Bonnie" in late May. Prior to those events, the most recent occurrence for such an early start to the season was in 1955.

On a worldwide basis, total economic losses from both manmade and natural disasters was in the region of $160 to $200 billion, more than 60% higher than the prior year's total.

Natural catastrophes accounted for the vast majority of this total, around $150 billion, but insured losses, globally, were approximately $50 billion. This gap between total economic losses, which includes both insured and uninsured losses, and those losses that are covered by some form of insurance policy, indicates that there is still a significant gap in coverage requirements on a worldwide basis.

Our experience with Hurricane Matthew in The Bahamas proved that this coverage gap is very much a feature of the Bahamian market. This coverage gap manifested itself in the form of minor to major degrees of under-insurance, and in more extreme cases there was no insurance protection at all.

There is a fairly well developed understanding of the value of insurance protection in The Bahamas but the primary reason for the coverage gap is the issue of affordability. Regardless of the underlying reason, this situation inevitably leads to a negative customer experience and so we must redouble our efforts, industry wide, to improve the penetration rate to the extent where significantly higher numbers of the insuring public have adequate levels of cover, when needed. There is clearly a business opportunity here, but our success will depend to a large degree on external factors that are largely outside of our control.

In the course of dealing with the losses emanating from Hurricane Matthew, we adjudicated over 2300 homeowners' claims, over 200 commercial property claims, 232 motor claims and over 50 claims from various other lines of business. Just over 70% of these claims were related to risks in New Providence, while Grand Bahama accounted for the second largest total, at 23%. As at the 28th February 2017, over 90% of the claims reported had been paid and closed, and we expect to have virtually all of the remaining claims concluded by the end of the first quarter of 2017. Fortunately, we were spared any loss of life directly attributable to the storm, which, according to published reports, resulted in over 730 deaths, primarily in Haiti.

As a result of the reasonably strong underlying performance of our core P & C and Health business, and the mitigating effect of our reinsurance protections against natural catastrophe losses, we have been able to contain the impact of Hurricane Matthew to an earnings event. This effectively means that we have been able to preserve our capital and operating platform for future growth and development, notwithstanding the enormity of the claims demand created by our largest ever single loss event.

Business Development

The 2016 year has been described by the International Monetary Fund (IMF) as a year of lacklustre outturn in economic terms. This reality, coupled with the recent political developments that have highlighted the unraveling of the global consensus around the benefits of free trade and economic integration, has created challenges that have tended to drag down the level of global economic activity. Within the Caribbean Region, we have seen very little evidence of positive economic growth and, therefore, the pursuit of organic growth opportunities yielded limited results across the region.

In this environment, we expect to generate less genuine new business prospects, and so a significant amount of our focus has been directed at activities that enhance our retention levels for our existing book of business.

As a result of the hurricane loss, we expect some positive rate movement on property business for New Providence and Grand Bahama, in particular, on a going forward basis, but in Cayman the pricing outlook is less positive for the property sector.

During 2016, our Mergers & Acquisitions (M&A) activity yielded far more positive developments, particularly in Cayman, which was the focus of our efforts in this regard. CFI's acquisition of a health portfolio in February 2016, with annual premiums of $1.2 million has both increased their direct writings and reduced the acquisition cost associated with that portfolio.

Effective October 2016, Bahamas First Holdings Limited (BFH), through its wholly-owned subsidiary BFH International acquired 100% of the Brac Insurance Associates, a Cayman registered intermediary with annual premiums of $3.8 million, which will continue to be written through CFI. The transaction provided for the continuation of an important revenue stream, while adding value to our bottom-line both now and in the future. During 2016, our business development initiatives, again in Cayman, resulted in the execution of an Agency Agreement with Health City Cayman Islands (HCCI). To facilitate this transaction, the Group established a separate subsidiary entity, BFH Services (Cayman) Ltd, which is wholly-owned by BFH International, to carry out the duties and obligations as detailed in the executed contract. Under the terms of the Agreement, BFH Services (Cayman) Ltd, will have the exclusive right to refer patients to HCCI from the Bahamian market.

The gross written premium levels for 2016 reduced to $138.7 million, or 3% below the prior year total of $143.4 million. Total net premiums reduced to $57.3 million from the prior year total of $59.2 million, representing a 3% decline as well:

	2016	2015
GWP	$138.7M	$143.4M
NWP	$57.3M	$59.2M

Continued

FIRST WHEN IT MATTERS – DELIVERING ON OUR PROMISE

Continued from page 8

The Net Premium decline was mostly driven by intentional actions which ultimately led to a fall in the amount of premiums we retain for our Net Account with respect to our book of motor and liability business. This initiative relates specifically to a joint project with a leading global reinsurer covering a 24-month period. The reduction in the top line premium level was once again driven by declining property rates in both The Bahamas and Cayman during 2016.

Property

For the majority of 2016, we continued to see the deterioration in pricing levels for catastrophe exposed property covers both in the commercial and private sectors. The fall-off in rates was more acute in Cayman than The Bahamas, but was a feature of both markets. The Group's overall portfolio of property business reduced to a gross premium of $64 million from $71 million recorded in 2015, despite the small growth in exposures in Cayman and a relatively flat result in The Bahamas.

The hurricane related loss to the property account was partially reduced by the underwriting profits derived from the results of our Non-Cat portfolio of property business and from the Cayman based portfolio. Despite the size and level of losses generated by Hurricane Matthew, it was not a market moving event in terms of price changes, and so it will have a much more localized effect on property rates in 2017 and beyond.

Motor/Liability

Once again, despite tough and competitive market conditions, we experienced an increase in our policy count for our motor business in both Cayman and The Bahamas, with good rate stability across the portfolios.

Gross premiums for 2016 increased to $36 million compared to $35 million the prior year. The loss ratio improved by a few percentage points in Cayman, while The Bahamas' claims experience suffered from the impact of Hurricane Matthew, which pushed up the loss ratio. The segment of liability business in both locations continues to perform well.

Going forward, we expect to see some benefit from the introduction of new motor products and enhancements to existing covers, commencing in 2017.

Health

The gross premiums for the Health Account exceeded both our budget and the prior year result, finishing at $24.1 million in 2016. The Loss Ratio for the year was 76.9% which was elevated from the prior year result of 71.5%, but nevertheless sufficient to provide positive returns for yet another year.

Commencing in the last quarter of 2016, a number of specific underwriting and pricing actions were initiated in order to contain the Loss Ratio at or below 75%.

Marine

The gross and net premiums for this class of business remained flat, compared to the prior year, but as a result of Hurricane Matthew losses the underwriting profitability that we have enjoyed for the last few years was not repeated. We anticipate a return to profitable results in 2017 and beyond, subject of course to material claims development.

Engineering

The dearth of construction projects in The Bahamas and the intense competition for new business prospects in Cayman has constrained our ability to grow this line of business. Fortunately, despite some losses related to Hurricane Matthew, we were able to produce a small underwriting profit in 2016 in The Bahamas. The Cayman Account was not impacted by any loss development.

Investments & Asset Management

The Group's total investment portfolio grew to $76.3 million from the prior year total of $67.9 million, primarily as a result of the unrealized gain in the value of our equity investment in Commonwealth Bank, and the additional cash on hand at December 2016.

Total investment returns for 2016 was $2.4 million, just slightly above the prior year result. Going forward, we anticipate that the move by the Central Bank of The Bahamas to reduce the discount rate from 4.5% to 4% will impact both revenue and expense items that are interest rate sensitive in The Bahamas.

During the year, the Directors approved an early redemption of 50% or $3.75 million of the value of our Series 1 Bond Issue, which will ultimately result in an annual savings of $225 thousand in interest expense.

Earlier in the year, CFI declared and paid a dividend of $1.4 million to Ordinary Shareholders and 87.65% of this amount inured to the Group's benefit.

Capital & Risk Management

The occurrence of Hurricane Matthew provided a true "stress test" of our Enterprise Risk Management framework and capital preservation safeguards. The Total Equity for the Group was $60.6 million in 2015, and the 2016 total is $59.7 million following the payment of dividends during the year.

We continue to hold sufficient capital, within BFG and CFI to ensure, at a minimum, the maintenance of the existing A. M. Best ratings, and the satisfaction of regulatory requirements in both Cayman and The Bahamas.

Future Outlook

We benefitted from the very measured and pragmatic response from our panel of Reinsurers, following the Hurricane Matthew loss, as it relates to the terms and conditions agreed for 2017 for both BFG and CFI. The importance of this cannot be overstated, as it relates to our ability to trade successfully in this very competitive market environment.

The Board has given its approval to the new 3-year Strategic and Operational Plan, covering 2016-2018, and we are fully engaged in activities related to the pursuit of the goals and objectives that were outlined in the plan.

Like many other industries and individual enterprises, the insurance sector, and the companies that make up this segment, are going through an increasingly intense period of disruption. Our main objective is to properly assess the opportunities and threats in this new reality and ensure that we are properly positioned to succeed, for our collective benefit. ■

2016 HIGHLIGHTS

2016 GROUP EVENTS, ACTIVITIES & MILESTONES

ENTREPRENEURIAL LEADERSHIP

Entrepreneurial Leadership was introduced to the Bahamas First culture last year starting with a full day session for management facilitated by KNTXT, a London based firm which is focused on developing human potential in individuals and teams, as well as leveraging innovative practices to help companies transform into truly Entrepreneurial Organizations. Patrick Ward, Group President/CEO opened the session and reminded everyone to be open and aware that, "This is a journey, not an event!". The journey continued with sessions for all employees in The Bahamas and Cayman. Richelle Ebanks from the Cayman office called the sessions an, "amazing and inspiring experience!". Her main takeaway was that, in order to move toward an entrepreneurial culture/organization, we must create a shift in our mindset, moving us as the team from KNTXT demonstrated, from "how something is" to "how something could be". Marcia Johnson also shared her experience admitting that, "when she heard the term entrepreneur, the first and only thought that came to her mind was of someone that owned their business, a risk taker or in other words a boss". During the session, she began to see how this related to employees who could, "add value to the Company by taking ownership of their position". ■

COMMUNITY OUTREACH

With the devastation of Hurricane Matthew, Bahamas First Junior Achievers expanded its community outreach to include partnering with the Great Commission Ministries International to provide support to communities hardest hit by the hurricane. The Achievers assisted with reading and playing games with the children during the "Save the Children" club meeting. Support was also there for Bahamas First employees affected by the storm. The Employee Assistance Program was activated to support their efforts in home restoration by providing them with emergency short term interest free loans, quiet zones in the office, stress relief activities and by generally supporting employees through the process of restoration. ■

STAFF SURVEY

A comprehensive Employee Satisfaction and Engagement Survey was undertaken through an affiliate of the Society for Human Resource Management, People Insight. The results were very positive with an employee satisfaction level for the group of 90% representing those who answered very satisfied and somewhat satisfied. The employee engagement level was at a 4 on a 5 point scale, 5 being the highest. The statistics for the group compared favorably with statistics from companies in the US both inside and outside the insurance industry. ■

2016 GROUP EVENTS, ACTIVITIES & MILESTONES

A GOLDEN YEAR FOR N.U.A.

N.U.A. Insurance Agents and Brokers Ltd., an authorized agent of Bahamas First and wholly owned subsidiary of the Group, reached a significant milestone in 2016 as the company celebrated its 50th anniversary. Company executives along with current and former staff members and invited guests marked the golden anniversary occasion, during a special cocktail reception on November 17th, 2016. In addressing the gathering, N.U.A.'s President & Managing Director Warren Rolle commented that while the company celebrates its five decades of existence, it did so at a time when many of its customers suffered loss during the most devastating and expensive hurricane in the history of The Bahamas, Hurricane Matthew, with projected insured losses at $400 million for the entire market.

"If ever there was a time that our customers need us, that time is now," Rolle said. "We will not wilt in the face of this difficult challenge but demonstrate to our loyal customers why N.U.A. is the Agency of choice by the personalized service that we provide." He also took the opportunity to thank the hard working staff along with the various business partners for their contributions to the company's success over the many years.

Chairman of Bahamas First Holdings Limited Ian Fair also addressed the reception. He used the occasion to reflect on the company's genesis and growth. Former Managing Directors Quentin Chisnall and John Dunkley were also recognized and awarded for their years of distinguished leadership and dedicated service to the company. Mr. Chisnall spent 23 years at the helm while Mr. Dunkley served for 13 years. ■

INNOVATION CONTINUES

Since its inception in 2015, the Innovation Center (IC) has been actively involved in many projects and initiatives specific to its charge of operating on the basis of Business Process Management, Change Management, Quality Assurance, and IT Trend monitoring methodologies. One of the larger, more palpable projects that has been completed is the Human Resources (HR) Automation Project that gave way for more streamlined and efficient HR servicing across the entire Group. This project in particular, relied on all four IC pillars for successful implementation of everything from automated employee onboarding/offboarding, leave requests, and performance management to name a few. Other projects included an intensive multi-month training program for our Stewards. IC Stewards are a group of employees from across the organization who work closely with members of the IC on project-specific tasks. This team was immersed into a series of training modules covering topics like Organizational Change Management, Strategic Thinking, Risk Management, Business Process Management, and Project Management. Notably, half of the six person Steward team obtained entry-level certification in Project Management. The idea behind the practical training is two-fold; to ensure proper succession planning and that Stewards have the tools necessary to be effective in this role.

Though the Innovation Center and the mind-set of change and innovation on which the unit operates is still relatively new to the Group (and local business and industry), the unit has been successful in realizing both direct and indirect gains by strategically applying Change and Innovation concepts beyond the barriers of specific projects. For example, the IC has capitalized on the Entrepreneurial Culture introduced to the Group in September 2016, by re-defining the way in which new ideas are managed from fellow employees and customers. Instead of the IC managing all of the steps of a project, the owner of the idea now partially manages the project from start to end. The unit is currently working on two complementary projects that will allow for a greater effect on operational efficiency and will be a major change in the way we do business. This is scheduled to be released in 2017. ■

FUTURE LEADERS DEVELOPMENT PROGRAM

INTRODUCTION OF THE NEW ON-LINE COMPONENT

The Future Leaders Development Program (FLDP) continues to be the premier leadership development program in the Company. The two year program which began in 2008 is now in its 4th cycle. The continuation of this initiative demonstrates the Company's commitment to its core values and in particular, "Employee Development", in promoting opportunities to support employee growth, build leadership capacity and strengthen partnerships with industry stakeholders.

The program offers participants comprehensive development training in leadership, management and the insurance industry.

Program Participants

The program currently has 11 participants, six from Bahamas First, four from Cayman First and one from Professional Insurance Consultants, a member of the Company's network of authorized Agents and Brokers.

"This is critical for us," said Group President & Chief Executive Officer (CEO) Patrick G. Ward. "I say that because when we look out into the next three to five year cycle of our business planning, the one issue that underpins our goals and objectives is the whole question of leadership. This program is our main response to that question".

On-line Component

A new addition is an on-line component which allows the participants from Cayman to interact in the sessions in realtime. The program's management foundation is based on 'Managing for Productivity' by Organizational Dynamics Inc. It will also include lectures, group activities, case studies and presentations using the Company's on-line in-house technology. Participants will also have to conduct research on an individual management thesis, on topics relevant to the industry and the Company.

Internship Program

It is notable that two of the participants are from the Company's Summer Internship Program, which is designed to provide college students with working experience in the wide range of careers within the insurance industry including opportunities in Claims, Underwriting, Information Technology and Finance. The Internship Program accepts six students annually from the University of The Bahamas and universities abroad as well as the Company's Junior Achievement Programme, with a 3.0 average or above.

The Five Levels of Leadership

The FLDP for Cycle 4 was launched in Nassau in October, 2016 with the foundational program, the Five Levels of Leadership by John C. Maxwell. The program was facilitated by Richenda King, Group Human Resources and Training Manager, following an intense John C. Maxwell Train-the-Trainer program in Orlando, Florida. ■

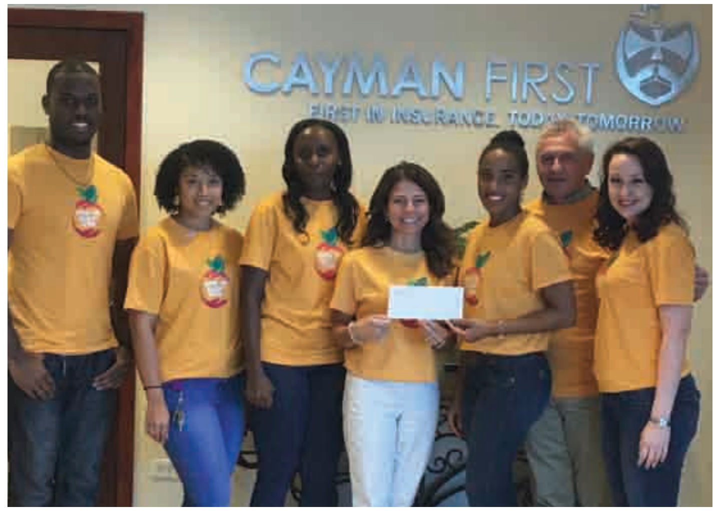
CAYMAN FIRST 2016 HIGHLIGHTS

NEW OFFICE CONSTRUCTION

Construction began on CFI's new office building in early July 2016, and is progressing very well. The construction project is due to be completed in early October 2017, and move-in is slated for November 2017, after final furnishing and equipment fit-out takes place.

CORPORATE CUP

2016 marked the third year of CFI's lead sponsorship of the Corporate Cup, which is a fun one-day sporting event initiated and hosted by one of Cayman's main broadcasting entities, DMS Broadcasting. Eighteen of Cayman's larger companies were represented at the 2016 event. Funds raised were donated to the Special Needs Foundation of Cayman. As well as being lead presenting sponsor, CFI was able to enter a competitive and fun-loving team!



CHARITIES OF FIRST

Employees at CFI formalized a charitable initiative called Charities of FIRST at the beginning of 2016 whereby, each month by way of salary deduction, every member of staff makes a fixed donation of their choosing and to a charity of their choosing which is matched by the company. During 2016, twelve different charities were supported in this way with a combined monthly donation of $1,200. Feed Our Future was the May beneficiary of the scheme.

CAHRE AWARDS

In support of the Cayman Islands Society of Human Resource Professionals (CISHRP), 2016 saw the second year of CFI's lead sponsorship of the Top Employer Gala and the Cayman Awards in Human Resource Excellence.

CAYMAN ISLANDS TRIATHLON

In 2016, CFI took on the title sponsorship of the Cayman Islands Triathlon, in support of the Association of the same name, now in its 20th year of operation. CFI's own Jonathan "Zoom" Webster was one of 180 participants, placing 2nd in the sprint distance event for his age-group. Have A Heart - Cayman Islands benefitted from the charitable aspect of this event. ■

SUPPORTING OUR COMMUNITIES

The Bahamas First Group of Companies and its employees have a long history of community involvement and support for organizations which touch the lives of so many people in The Bahamas and the Cayman Islands. We are proud of the many employees who gave so unselfishly to our communities over the past year.

THE BAHAMAS

The Antique Auto Club of The Bahamas
Bahamas AIDS Foundation
Bahamas Association of Athletic Associations
Bahamas Association for Social Health
Barbadian Bahamian Association
Bahamas Bowling Federation
Bahamas National Spelling Bee
Bahamas Red Cross Society
Big Harvest Community Sunday School
Cancer Society of The Bahamas
Club Monica Athletics
Coach Kevin Johnson
Evangelistic Temple Womens' Ministries
First Touch Soccer 242
Former Hospitality Professionals
Freedom Farm Baseball League
Gentlemen's Club
Governor General Youth Awards
Grace Christian School of Excellence
Grants Town Wesley Methodist Church
Heart Ball Association
International Basketball Academy
Junior Achievement Bahamas
Junior Baseball League of Nassau
Kingdor Parkinson Foundation
National Dance Company of The Bahamas
New Providence Basketball Association
New Vision Outreach and Community Service
Omega Psi Phi Fraternity
Pilot Club
Red Ribbon Ball
Roots Junkanoo Group
Rotary Club
Saxons Superstars Summer Camp
Sherman Smith Sporting Camp
Sister Sister Support Group
Special Olympics Bahamas
Spirit of Excellence Track Club
St. George's Anglican Church
Temple Christian Pre & Elementary School
The Children's Emergency Hostel
The National Panhellenic Council
The Parish Church of The Most Holy Trinity
The Ranfurly Home for Children
Youth Against Violence
Z-Bandits Junkanoo Group

CAYMAN ISLANDS

Alzheimer's & Dementia Association
BRAC - Business And Professional Women's Club
BRAC Harmony Learning Centre
BRAC Lions Public Speaking Contest
BRAC Swim Club
Caring For Life Foundation
Cayman Ark (Acts Of Random Kindness)
Cayman Arts Festival
Cayman Hospice Care
Cayman Islands Cancer Society
Cayman Island Diabetes Asssociation
Cayman Islands National Trust
Ci Amateur Swimming Association
Ci Flag Football Association
Ci Triathlon Association
C.i. Veterans Association
Dream Out Loud Foundation
Feed Our Future
Leadership Cayman (Chamber Of Commerce)
Meals On Wheels
National Council Of Voluntary Organizations
Police Welfare Fund
Special Needs Foundation Cayman
St. Baldricks Foundation
Sunrise Adult Training Centre
The Cayman Islands Red Cross
The Lighthouse School
The Pines Retirement Home

DIRECTORS & OFFICERS

IAN FAIR[1]
Chairman[2]
Director since 1999

Mr. Fair has been the Chairman of the Board and a member of the Board of Directors since 1999. He is also Chairman of Butterfield Trust (Bahamas) Limited. He was the founding Chairman of both The Bahamas Financial Services Board and the Bahamas International Securities Exchange.

PATRICK WARD[1]
President & CEO[2]
Director since 1998

Mr. Ward has been a Director since 1998 and prior to that President & Managing Director of Bahamas First General Insurance Company Ltd. He is President and CEO of Bahamas First Holdings Limited, Bahamas First General Insurance Company Limited and Bahamas First Corporate Services Ltd.

JUDITH WHITEHEAD[1]
Director
since 2005

A Director since 2005, Mrs. Whitehead is the Managing Partner of Graham Thompson & Co, a leading law firm in Nassau, Bahamas. She has served on various other company and civic boards.

ALISON TRECO[1]
Director
since 2012

Ms. Treco was appointed as a Director of the Bahamas First Holdings Limited and several of its subsidiary companies' boards in 2012. She also serves as Chairman of the Audit Committee. She is a Director of FT Consultants Ltd., a firm specializing in accounting advisory services.

GLEN RITCHIE[1]
Group V.P. & CFO[2]
Director since 2012

Mr. Ritchie was appointed as a Director of BFH in May 2012. He is Vice President and CFO of BFH, overseeing all financial, technology and risk management related functions within the Group. Prior to joining BFH, he held a number of senior management and leadership roles in both banking and insurance institutions in The Bahamas.

LINDA GOSS[1]
Director
since 2014

Ms. Goss who was appointed a Director in March 2014 is Senior Vice President and Chief Actuary for Economical Mutual Insurance Company (Economical). She joined Economical in July 2000 as the Assistant Vice President, actuarial services and became Vice President, actuarial services in July 2001.

DR. SAMIR MIKHAEL[1]
Director
since 2015

Dr. Mikhael was appointed to the Bahamas First Holdings Limited board in July 2015. Prior to this he has served on the NUA board since 2004. Dr. Mikhael has been Chair of the Medical Staff at Doctors Hospital since 2003. A practicing Ophthalmic Surgeon, Dr. Mikhael holds several medical posts.

NEIL MCKINNEY[1]
Director
since 2015

Mr. McKinney worked in importing and retail for thirty years at John S. George until the business was sold in 2004. During that time he also served as President of the Bahamas Chamber of Commerce for two years. He is a longtime supporter of the Bahamas National Trust and also served as President of that organization for three years and currently serves there as a Council member.

MICHAEL PADFIELD[1]
Director
since 2016

Mr. Padfield, is Vice President, Legal and Corporate Secretary for the Economical Insurance Group of Companies, where he leads the corporate legal group. He also advises the Board of Directors and senior management on legal risk management, corporate governance, regulatory affairs and strategic transactions.

J. LASHELL ADDERLEY
Secretary[2]

Miss Adderley is the Corporate Secretary of BFH and its subsidiary companies. She also serves as the Group's Legal and Compliance Manager. Prior to joining BFH, Miss Adderley worked as a Civil Litigation Attorney.

[1] BFG Board Director
[2] BFH Officer

CORPORATE GOVERNANCE & KEY CONTACTS

AUDIT COMMITTEE

The Committee assists the Board in fulfilling its oversight responsibilities as they relate to the Group's accounting policies, financial reporting, internal control and the legal and regulatory environment.

MEMBERS:

Alison J. Treco
Chairman

Ian D. Fair
Linda Goss
Neil McKinney
Samir Mikhael

CORPORATE GOVERNANCE CONDUCT REVIEW & NOMINATIONS COMMITTEE

The Committee measures the Group's governance against best practices and makes recommendations for Board appointments and composition.

MEMBERS:

Ian D. Fair
Chairman

Judith A. Whitehead
Michael Padfield

HUMAN RESOURCES & COMPENSATION COMMITTEE

The Committee is responsible for reviewing and approving the Group's compensation plan, and evaluating executive performance.

MEMBERS:

Ian D. Fair
Chairman

Alison J. Treco
Samir Mikhael

FINANCE & INVESTMENT COMMITTEE

The Committee focuses on two objectives: financial risk management and investment policy oversight.

MEMBERS:

Ian D. Fair
Chairman

Alison J. Treco
Glen O. A. Ritchie
Patrick G. W. Ward
Michael Padfield
Neil McKinney

TECHNICAL REVIEW & RISK COMPLIANCE COMMITTEE

The Committee is responsible for ensuring adherence to risk management guidelines as well as reviewing and assessing technical and reinsurance matters.

MEMBERS:

Bryan D. Murphy
Chairman

Linda Goss
Ian D. Fair
Valarie F. Darville
Glen O. A. Ritchie
Pauline P. Ward
V. Keith Rolle
Patrick G. W. Ward
Samir Mikhael
Denise Vaval

THE BFH GROUP RETIREMENT FUND COMMITTEE

Plan Administrator:
Colonial Pension Services (Bahamas) Limited

Trustee/Custodian:
Butterfield Trust (Bahamas) Limited

INVESTMENT COMMITTEE:

Company Representative:
Glen O. A. Ritchie, Chairman

Independent Representative:
Samir Mikhael

Staff Representatives:
Area Wilson-Pratt
(Term: 2016-2018)
Warren T. Rolle
(Term: 2015-2017)

HEAD OFFICE

Bahamas First Centre
32 Collins Avenue
Nassau, Bahamas
T: (242) 302-3900
F: (242) 302-3901

AUDITORS

Deloitte & Touche
Chartered Accountants and Management Consultants
2nd Terrace, Centreville
Nassau, Bahamas

INTERNAL AUDIT

Ernst & Young
One-Montague Place
East Bay Street
Nassau, Bahamas

ATTORNEYS

The Bahamas:

Graham Thompson & Co.
Sassoon House
Shirley St. & Victoria Ave.
Nassau, Bahamas

Cayman Islands:

Maples and Calder
Ugland House
Grand Cayman
Cayman Islands

REGISTRAR & TRANSFER AGENTS

Bahamas Central Securities Depository Limited (BCSD)
Suite 202, Fort Nassau Centre
British Colonial Hilton
Nassau, Bahamas

AUTHORIZED AGENTS & BROKERS

Our extensive network of Agents in The Bahamas stretches from Grand Bahama to Inagua and everywhere in between. In the Cayman Islands, we enjoy the support of a vibrant network of agents and brokers for all of our product lines. They have been the backbone of our Company since we first offered insurance services, and continue to deliver the highest quality of service to our customers.

THE BAHAMAS

New Providence

A. Scott Fitzgerald Insurance Brokers & Agents Ltd.
T: [242] 325-0865

BMG Insurance Agents & Brokers Limited
T: [242] 322-2225

Chandler Gilbert Insurance Associates Ltd.
T: [242] 676-2306

CMA Insurance Brokers & Agents Ltd.
T: [242] 393-6735

Colina General Insurance Agents & Brokers Limited
T: [242] 677-2050

Confidence Insurance Bahamas Agency Ltd.
T: [242] 323-6920

FG Insurance Agents & Brokers Ltd.
T: [242] 396-1300

Freeport Insurance Agents & Brokers Ltd.
T: [242] 322-1910

Nassau Underwriters Agency Insurance Agents & Brokers Ltd.
T: [242] 302-9100

Professional Insurance Consultants Ltd.
T: [242] 327-2143

Response Insurance Agency Ltd.
T: [242] 328-7316/7/8

RMS Insurance Agents and Brokers Limited
T: [242] 698-7233

Safeguard Insurance Brokers Ltd.
T: [242] 676-7521

Shield Insurance Agents & Brokers Ltd.
T: [242] 356-7202

Star General Insurance Agents & Brokers Limited
T: [242] 676-0800

Sunshine Insurance (Agents & Brokers) Limited
T: [242] 394-0011

Tavares Higgs Insurance Agents & Brokers
T: [242] 702-9025

THE BAHAMAS

Grand Bahama

Colina General Insurance Agents & Brokers Limited
T: [242] 352-3223

FG Insurance Agents & Brokers Ltd.
T: [242] 352-7233

Freeport Insurance Agents & Brokers Ltd.
T: [242] 352-8501

Nassau Underwriters Agency Insurance Agents & Brokers Ltd.
T: [242] 352-7891

Star General Insurance Agents & Brokers (Grand Bahama) Ltd.
T: [242] 350-7827

Abaco

Abaco Insurance Agency Limited
T: [242] 367-2549

Colina General Insurance Agents & Brokers Limited
T: [242] 367-3432

Nassau Underwriters Agency Insurance Agents & Brokers Ltd.
T: [242] 367-2222

Andros

Confidence Insurance Bahamas Agency Ltd.
T: [242] 392-4222

Nassau Underwriters Agency Insurance Agents & Brokers Ltd.
T: [242] 368-2036

Eleuthera

Harbour Island:
N.U.A. Insurance Agents & Brokers Ltd.
T: [242] 333-2797

Palmetto Point:
N.U.A. Insurance Agents & Brokers Ltd.
T: [242] 332-0451/2

Spanish Wells:
J.H. (Andy) Higgs Insurance Agents Ltd.
T: [242] 333-4105

Exuma

Colina General Insurance Agents & Brokers Limited
T: [242] 336-2127

CAYMAN ISLANDS

Cayman Brac

Brac Insurance Associates
T: [345] 948-2266

Grand Cayman

AON Risk Solutions (Cayman)
T: [345] 945-1266

Balderamos Insurance Services
T: [345] 945-3450

Bogle Insurance Brokers
T: [345] 949-0579

Caribbean Insurance Practice
T: [345] 943-2475

Cayman Insurance Centre
T: [345] 949-4657

Fidelity Insurance (Cayman)
T: [345] 949-7221

FIS Insurance Brokers
T: [345] 945-5616

Hyperion Risk Solutions (Cayman)
T: [345] 623-6500

International Property Insurance
T: [345] 623-1111

Island Insurance Brokers
T: [345] 949-0883

Marsh Management Services Cayman
T: [345] 949-7988

Pensum Services
T: [345] 945-1830

Premier Group Insurance Brokers
T: [345] 769-0092

Rossborough (Cayman Islands)
T: [345] 945-0030

Saxon Insurance Solutions (Cayman)
T: [345] 947-2966

Scotiabank (Cayman)
T: [345] 949-7666

Willis Management (Cayman)
T: [345] 946-2632

2016 FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Deloitte.

Deloitte & Touche
Chartered Accountants
and Management Consultants
2nd Terrace, Centreville
P. O. Box N-7120
Nassau, Bahamas

Tel: +1 (242) 302-4800
Fax: +1 (242) 322-3101
www.deloitte.com

To the Shareholders of
Bahamas First Holdings Limited:

Opinion

We have audited the consolidated financial statements of Bahamas First Holdings Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016, 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' 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.

Other Information

Management and those charged with governance are responsible for the Other Information. The Other Information comprises all the information in the Bahamas First Holdings Limited 2016 annual report other than the consolidated financial statements and our auditors' report thereon ("the Other Information").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITORS' REPORT

Continued from page 20

Auditors' Responsibilites for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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

April 4, 2017

A member firm of
Deloitte Touche Tohmatsu Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016 - EXPRESSED IN BAHAMIAN DOLLARS

	Notes	2016	2015
ASSETS			
Cash		$ 24,148,392	$ 16,872,221
Term deposits	6	42,664	623,149
Trade accounts receivable, net	4,9,24	24,708,014	24,704,364
Sundry receivables and prepayments	24	4,011,384	3,202,771
Deferred commission costs	10	4,711,217	4,758,007
Deferred reinsurance premiums	10	33,638,521	32,841,003
Unpaid claims recoverable from reinsurers	4,11	69,343,459	25,201,769
Investments	7	51,476,661	49,773,566
Investment in associate	8	659,759	619,151
Property and equipment	4,12	17,335,047	12,945,307
Intangible assets and goodwill	4,15	13,385,092	11,987,097
TOTAL		$ 243,460,210	$ 183,528,405
LIABILITIES AND EQUITY			
LIABILITIES:			
Accrued liabilities		$ 2,336,682	$ 2,925,127
Trade accounts payable		22,813,507	2,709,228
Unearned commission income	10	8,859,442	8,315,072
Unearned premiums	10	47,679,262	47,812,088
Unpaid claims	4,11	89,728,281	44,144,391
Loan payable	13	861,122	1,729,146
Bonds payable	16	11,437,500	15,248,438
Total liabilities		183,715,796	122,883,490
EQUITY:			
Common shares	17	365,116	365,116
Preference shares	17	5,000,000	5,000,000
Contributed surplus	13	14,912,047	14,912,047
General reserve	18	4,000,000	4,000,000
Revaluation reserve	19	4,091,587	2,944,911
Retained earnings		28,231,809	30,335,868
Total equity attributable to owners of the parent		56,600,559	57,557,942
Non-controlling interest		3,143,855	3,086,973
Total equity		59,744,414	60,644,915
TOTAL		$ 243,460,210	$ 183,528,405

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on March 10, 2017 and are signed on its behalf by:

Chairman
Ian D. Fair

Director
Patrick G. W. Ward

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED DECEMBER 31, 2016 - EXPRESSED IN BAHAMIAN DOLLARS

	Notes	2016	2015
UNDERWRITING INCOME:			
Gross premiums written	20,24	$ 138,686,467	$ 143,360,757
Movement in unearned premiums	10	132,826	4,784,801
		138,819,293	148,145,558
Premiums ceded to reinsurers		(81,383,609)	(84,202,283)
Movement in deferred reinsurance premiums	10	(101,726)	(4,071,387)
Net premiums earned		57,333,958	59,871,888
Commission income		21,639,234	23,153,499
Total underwriting income		78,973,192	83,025,387
UNDERWRITING EXPENSES:			
Net claims incurred	11	36,406,653	27,336,131
Commission expense	24	12,821,036	14,145,362
Cost of excess of loss reinsurance		9,522,884	10,344,195
Premium tax		2,623,540	2,699,672
Total underwriting expenses		61,374,113	54,525,360
Net underwriting income		17,599,079	28,500,027
OTHER EXPENSES:			
Salaries, benefits and bonuses	22,23,24	12,324,969	12,271,516
General and administrative expenses		7,694,039	7,825,202
Interest expense		953,808	1,143,090
Depreciation and amortization of intangible assets		915,005	794,621
Total other expenses		21,887,821	22,034,429
UNREALIZED GAIN ON INVESTMENT	7	3,317,387	492,027
OTHER INCOME, NET	21	2,367,929	2,251,675
PROFIT FOR THE YEAR		$ 1,396,574	$ 9,209,300
ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		$ 1,204,549	$ 8,810,514
NON-CONTROLLING INTEREST		192,025	398,786
		$ 1,396,574	$ 9,209,300
BASIC AND DILUTED EARNINGS PER COMMON SHARE	17	$ 0.02	$ 0.23

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2016 - EXPRESSED IN BAHAMIAN DOLLARS

	Notes	2016	2015
PROFIT FOR THE YEAR		$ 1,396,574	$ 9,209,300
OTHER COMPREHENSIVE INCOME (LOSS):			
Item that will not be reclassified subsequently to profit or loss:			
Revaluation of land and buildings	12,19	644,235	-
		644,235	-
Items that may be reclassified subsequently to profit or loss:			
Reclassification adjustment of available-for-sale investment	19,21	-	(91,714)
Unrealized gain (loss) on available-for-sale investments	7,19	502,441	(135,197)
		502,441	(226,911)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		1,146,676	(226,911)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		$ 2,543,250	$ 8,982,389
ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		$ 2,313,444	$ 8,618,453
NON-CONTROLLING INTEREST		229,806	363,936
		$ 2,543,250	$ 8,982,389

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2016 - EXPRESSED IN BAHAMIAN DOLLARS

	Attributable to owners of the parent								
	Common Shares	Preference Shares	Contributed Surplus	Treasury Shares	General Reserve	Revaluation Reserve	Retained Earnings	Non-Controlling Interest	Total
Balance at January 1, 2015	**$ 365,055**	**$ 5,000,000**	**$ 14,885,143**	**$ (497,886)**	**$ 4,000,000**	**$ 3,171,822**	**$ 26,221,895**	**$ 2,972,442**	**$ 56,118,471**
Profit for the year	-	-	-	-	-	-	8,845,364	363,936	9,209,300
Other comprehensive loss (Notes 7,19)	-	-	-	-	-	(226,911)	-	-	(226,911)
Total comprehensive income (loss)	-	-	-	-	-	(226,911)	8,845,364	363,936	8,982,389
Staff share offering (Note 17)	61	-	27,774	497,886	-	-	-	-	525,721
Dividends paid by CFI	-	-	-	-	-	-	-	(247,275)	(247,275)
Purchase of shares in CFI (Note 13)	-	-	-	-	-	-	-	(3,000)	(3,000)
Change in shareholders' interest in CFI (Note 13)	-	-	(870)	-	-	-	-	870	-
Preference shares dividend paid (Note 17)	-	-	-	-	-	-	(350,000)	-	(350,000)
Dividends paid ($0.12 per common share) (Note 17)	-	-	-	-	-	-	(4,381,391)	-	(4,381,391)
Balance at December 31, 2015	**365,116**	**5,000,000**	**14,912,047**	**-**	**4,000,000**	**2,944,911**	**30,335,868**	**3,086,973**	**60,644,915**
Profit for the year	-	-	-	-	-	-	1,166,768	229,806	1,396,574
Other comprehensive income (Note 19)	-	-	-	-	-	1,146,676	-	-	1,146,676
Total comprehensive income	-	-	-	-	-	1,146,676	1,166,768	229,806	2,543,250
Dividends paid by CFI	-	-	-	-	-	-	-	(172,924)	(172,924)
Preference shares dividend paid (Note 17)	-	-	-	-	-	-	(350,000)	-	(350,000)
Dividends paid ($0.08 per common share) (Note 17)	-	-	-	-	-	-	(2,920,827)	-	(2,920,827)
Balance at December 31, 2016	**$ 365,116**	**$ 5,000,000**	**$ 14,912,047**	**$ -**	**$ 4,000,000**	**$ 4,091,587**	**$ 28,231,809**	**$ 3,143,855**	**$ 59,744,414**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016 - EXPRESSED IN BAHAMIAN DOLLARS

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year		$ 1,396,574	$ 9,209,300
Adjustments for:			
Depreciation	12	687,120	661,307
Amortization of intangible assets	15	227,885	133,314
Amortization of premiums and discounts on bonds	7,21	170,065	168,176
Share of net earnings of associate	8,21	(52,608)	(20,204)
Realized gains on sales of investments	7,21	(216,250)	(39,357)
Unrealized gain on investment	7	(3,317,387)	(492,027)
Gain on disposal of property and equipment	21	(5,000)	-
Decrease (increase) in trade accounts receivable, net		(3,650)	(398,020)
Increase in sundry receivables and prepayments		(808,613)	(1,279,698)
Decrease in deferred commission costs	10	46,790	380,358
(Increase) decrease in deferred reinsurance premiums	10	(797,518)	4,071,387
(Decrease) increase in accrued liabilities		(588,445)	260,052
Decrease in accrued interest on bonds	16	(60,938)	-
Increase (decrease) in trade accounts payable		20,104,279	(3,601,270)
Increase (decrease) in unearned commission income	10	544,370	(116,754)
Decrease in unearned premiums	10	(132,826)	(4,784,801)
Increase in net unpaid claims	11	1,442,200	550,539
Net cash from operating activities		**18,636,048**	**4,702,302**

See notes to consolidated financial statements.

(CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016 - EXPRESSED IN BAHAMIAN DOLLARS

CASH FLOWS FROM INVESTING ACTIVITIES:	Notes	2016	2015
Purchase of property and equipment	12	$ (4,432,625)	$ (818,776)
Proceeds from disposal of property and equipment	21	5,000	-
Proceeds from sale and maturity of investments	7	8,720,997	6,333,117
Purchase of investments	7	(6,558,079)	(7,631,268)
Acquisition of general insurance portfolios	15	(1,625,880)	(522,500)
Dividends received from associate	8	12,000	12,000
Decrease in term deposits	6	580,485	1,424,808
Net cash used in investing activities		**(3,298,102)**	**(1,202,619)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Preference shares dividend paid	17	(350,000)	(350,000)
Change in non-controlling interest		(172,924)	(250,275)
Common shares dividend paid	17	(2,920,827)	(4,381,391)
Proceeds from staff share offering	17	-	525,721
Redemption of Series I bonds payable	16	(3,750,000)	-
Repayments of loan payable		(868,024)	(3,079,748)
Net cash used in financing activities		**(8,061,775)**	**(7,535,693)**
NET INCREASE (DECREASE) IN			
CASH AND CASH EQUIVALENTS		7,276,171	(4,036,010)
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR		16,872,221	20,908,231
END OF YEAR		**$ 24,148,392**	**$ 16,872,221**
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Interest received		$ 1,739,219	$ 1,750,878
Dividends received		$ 469,165	$ 470,704
Interest expense paid		$ 953,808	$ 1,143,090

See notes to consolidated financial statements.

(CONCLUDED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016 - EXPRESSED IN BAHAMIAN DOLLARS

1. GENERAL

Bahamas First Holdings Limited ("BFH" or the "Company") and its subsidiaries are incorporated under the laws of the Commonwealth of The Bahamas, except BFH International Limited ("BFHIL"), Cayman First Insurance Company Limited ("CFI"), BRAC Insurance Associates Ltd.("BIA") and BFH Services (Cayman) Limited ("BFHS") which are incorporated under the laws of the Cayman Islands.

These consolidated financial statements include the accounts of BFH and its subsidiaries, which are hereinafter collectively referred to as the "Group". The primary activity of the Group is the carrying on of general insurance business (property and casualty) and health and group life insurance. The subsidiaries are as follows:

Registered insurers:

- Bahamas First General Insurance Company Limited ("BFG")
- Cayman First Insurance Company Limited ("CFI")

Registered insurance intermediaries:

- Nassau Underwriters Agency Insurance Agents & Brokers Ltd. ("NUA")
- BRAC Insurance Associates Ltd.("BIA")
- Carib Insurance Brokers & Agents Limited ("CIA")

Management company:

- Bahamas First Corporate Services Ltd. ("BFCS")

BFCS provides administrative and corporate services to the Group and charges management fees to the various Group companies, which are eliminated on consolidation.

Claims servicing company:

- First Response Limited ("FRL")

FRL provides motor claim roadside assistance and claim adjusting services to BFG.

Health referral agency:

- BFH Services (Cayman) Limited ("BFHS")

Insurance holding company:

- BFH International Limited ("BFHIL")

All of the above subsidiaries are wholly-owned except for CFI, which BFHIL owns 87.65%.

In September 2016, BFHIL acquired all of the issued and outstanding shares of BIA, a company incorporated under the laws of the Cayman Islands, and holding an insurance broker license issued by the Cayman Islands Monetary Authority (see Note 14).

BFHS is an Exempted Company incorporated in September 2016 under the Companies Law (2016 Revision) of the Cayman Islands. BFHS is the appointed exclusive agent in the Bahamas, to refer patients to Health City Cayman Islands ("HCCI"). HCCI operates an international hospital on Grand Cayman providing the highest standards in a state-of-the-art, patient-centred environment, at an affordable cost.

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

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

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 (the "IFRIC") of the IASB effective for annual reporting periods beginning on or after January 1, 2016.

FOR THE YEAR ENDED DECEMBER 31, 2016 - EXPRESSED IN BAHAMIAN DOLLARS

The adoption of these Standards and Interpretations has not led to any significant impact in the Group's accounting policies, operations or financial statements other than certain additional disclosures.

a. Standards and Interpretations effective but not affecting the reported results or financial position

IAS 01	Presentation of Financial Statements (Amendments)
IAS 16	Property, Plant and Equipment (Amendments)
IAS 19	Employee Benefits (Amendments)
IAS 27	Separate Financial Statements (Amendments)
IAS 28	Investments in Associates and Joint Ventures (Amendments)
IAS 34	Interim Financial Reporting (Amendments)
IAS 38	Intangible Assets (Amendments)
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Amendments)
IFRS 7	Financial Instruments: Disclosures (Amendments)
IFRS 10	Consolidated Financial Statements (Amendments)
IFRS 11	Joint Arrangements (Amendments)
IFRS 12	Disclosures of Interests in Other Entities (Amendments)
IFRS 14	Regulatory Deferral Accounts
Various	Amendments to various Standards derived from Annual improvements to IFRSs 2012–2014 Cycle

b. 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. Management has not assessed whether the relevant adoption of these standards, interpretations and amendments in future periods will have a material impact on the financial statements of the Group.

Effective date annual periods beginning on or after January 1, 2017

IAS 07	Statement of Cash Flows (Amendments)
IAS 12	Income Taxes (Amendments)

Effective date annual periods beginning on or after January 1, 2018

IFRS 02	Share-based payments (Amendments)
IFRS 04	Insurance Contracts (Amendments)
IFRS 07	Financial Instruments: Disclosures (Amendments)
IFRS 09	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

Effective date annual periods beginning on or after January 1, 2019

IFRS 16	Leases

Other (*)

IAS 28	Investments in Associates and Joint Ventures (Amendments)
IFRS 10	Consolidated Financial Statements (Amendments)

(*) In December 2015, the IASB decided to defer the effective date of these amendments indefinitely; pending the outcome of its research project on the equity method of accounting. Nevertheless, the amendments are available for earlier adoption.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The preparation of consolidated 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The following is a summary of the significant accounting policies:

***a.* Basis of preparation** - These consolidated financial statements have been prepared on the accrual basis and under the historical cost convention, except for certain investments measured at fair value and land and buildings, which are revalued every three years.

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

b. **Basis of consolidation** - Subsidiaries are those enterprises controlled by BFH. Control exists when the Company is exposed, or has rights, to variable returns from its investment with an entity and has the ability to affect those returns through its power over the entity. In assessing control, the potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

c. **Business combinations** - Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the consideration transferred (measured at acquisition date fair value), and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition cost incurred is expensed.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Changes in the Company's ownership in a subsidiary that do not result in a loss of control are accounted for as equity transactions, and are recognized in contributed surplus in the consolidated statement of changes in equity.

d. **Investment in associates** - An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results, and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially carried at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss of the associate after the date of acquisition. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Company's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Company's share of those changes is recognized in Other Income, net in the consolidated statement of profit or loss.

After application of the equity method, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Losses of associates in excess of the Group's interest in those associates are not recognized.

Where a company within the Group transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

e. **Financial instruments**

Classification and measurement - On initial recognition a financial asset or liability is measured at its fair value plus transaction costs directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition financial assets are classified as either financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; or available-for-sale ("AFS"); and are measured at their fair values without any deduction for transaction costs, except for the following financial assets:

(i) loans and receivables and held-to-maturity financial instruments are measured at amortized cost using the effective interest rate method;

(ii) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the classification at each reporting date.

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.

Term deposits are classified as held-to-maturity financial instruments. They have fixed or determinable payments and fixed maturity dates, and the Group has the intent and ability to hold them to maturity.

Trade accounts receivable, sundry receivables and receivable from reinsurers 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 liabilities are financial liabilities, which are carried at cost.

Investments in Bahamas Government Registered Stock are designated as held-to-maturity and are carried at amortized cost. Preference share and redeemable fixed rate note investments are classified as available-for-sale and are carried at cost, as this is considered to be the fair value at the consolidated statement of financial position date. Investment in fixed income debt securities and mutual funds are classified as available-for-sale and are carried at fair value.

Gains and losses arising from changes in fair value of available-for-sale investments are recognized through the consolidated statement of profit or loss and 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 is included in profit or loss for the period. All other investments are classified as financial assets at fair value through profit or loss. They 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 consolidated statement of profit or loss.

Recognition and derecognition - The Group recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Group recognizes/derecognizes financial assets purchased or sold on the trade date.

Investments held-to-maturity are recognized/derecognized on the day they are transferred to/by the Group. Financial liabilities are derecognized when they are extinguished. For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the consolidated statement of profit or loss when it is derecognized or impaired, as well as through the amortization process.

f. **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 4 (iv).

g. **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 consolidated statement of profit or loss as an expense as incurred.

Depreciation is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives. Land is not depreciated and expenditure incurred in the 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
Computer software	3 - 7 years

Freehold land and buildings are stated at fair market value, based on independent professional appraisals, which are performed every three years. The fair value measurement is categorized in Level 3 in the fair value hierarchy. A revaluation increment is recorded in other comprehensive income 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.

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are recognized in Other Income, net in the consolidated statement of profit or loss.

h. **Intangible assets and goodwill** - On acquisition of an investment in an associate/subsidiary any goodwill arising (i.e. the excess of the cost of the investment over the investor's share of the net fair value of the identifiable assets, liabilities and contingent liabilities) is accounted for as follows:

(i) goodwill is included in the carrying amount of the investment for associate and is neither amortized nor individually tested for impairment. For subsidiaries, it is included as goodwill in the consolidated statement of financial position, and is tested for impairment at least annually.
(ii) other intangible assets identified on acquisition of a subsidiary are recognized only if future economic benefits attributable to the asset will flow to the Group, and if the fair value of the asset can be measured reliably. In addition, for purposes of recognition, the intangible asset must be separable from the business being acquired or must arise from contractual or legal rights. On acquisition, the useful life of the asset is estimated and determined to be either finite or indefinite.
(iii) any excess of the investor's share of the fair value of the net assets over the cost of the investment is included in the consolidated statement of profit or loss in the period in which the investment is acquired.

After initial recognition, an intangible asset with a finite useful life is amortized using the straight-line method over the estimated useful life of 5-20 years, and is included in general and administrative expenses in the consolidated statement of profit or loss. An intangible asset with an indefinite useful life is not amortized, but tested for impairment at least annually. An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the Group.

An intangible asset shall be derecognized on disposal or when no future economic benefit is expected from its use or disposal. The gain or loss arising from the derecognition is recognized in the consolidated statement of profit or loss.

i. **Impairment** - The carrying amounts of the Group's assets, including goodwill and intangible assets are reviewed at each consolidated statement of financial position date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of profit or loss.

An impairment loss in respect of held-to-maturity assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

j. **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 Group 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 Group are as follows:

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

Health and Group Life ("H&L") insurance contracts - Health and Group Life contracts are one year renewable contracts. Health insurance contracts cover insureds for medical expenses incurred. Group Life insurance contracts protect the Group's customers from the consequences of events (such as death or disability). Guaranteed benefits paid on occurrence of the specified insurance event are fixed.

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

The benefits to which the Group 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 due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

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 consolidated 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 unearned premiums and unpaid claims calculated in accordance with the method outlined in the agreement.

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 which relate to periods of insurance subsequent to the consolidated statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

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 consolidated statement of financial position at year end represent the proportion of the premiums ceded which relate to periods of insurance subsequent to the consolidated statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

k. **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 consolidated statement of financial position date.

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 consolidated 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.

l. **Policy acquisition costs**

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 consolidated 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.

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 and non-group insurers, calculated based on past underwriting results, are received from other insurance companies for whom Group agents may act and from the Group's reinsurers. The agency profit commissions and reinsurance profit and override commissions are recorded on an accrual basis.

m. **Dividend and interest income** – Dividends are recognized in profit or loss when the Group's right to receive the dividend income is established. Interest income is accounted for on an accrual basis. Both are recognized in Other Income, net in the consolidated statement of profit or loss.

n. **Investment premiums and discounts** - Premiums and discounts arising on acquisition of fixed income securities are amortized over the period remaining to maturity and are recognized in Other Income, net in the consolidated statement of profit or loss.

o. **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.

p. **Borrowings** - Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statement of profit or loss over the period of borrowing using the effective rate method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan and are capitalized, and included in sundry receivables and prepayments in the consolidated statement of financial position. Capitalized fees are amortized over the period of the facility to which it relates, and are included in general and administrative expenses in the consolidated statement of profit or loss.

q. **Share capital** - Shares are classified as equity when there is no obligation to transfer cash or other assets. Share capital is comprised of common and preference shares. The preference shares are non-voting and redeemable at the option of the Company. 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 Group's Board of Directors.

r. **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 Group operates (functional currency), the Bahamian dollar. The financial statements are presented in Bahamian dollars, which is also the Group'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 rate 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 consolidated statement of profit or loss and other comprehensive income (loss).

s. **Related parties** - Related parties include:

(i) Controlling shareholders;
(ii) Directors;
(iii) Subsidiaries;
(iv) Associates;
(v) Individuals owning, directly or indirectly, an interest in the voting power that gives them significant influence over the enterprise, i.e. normally more than 20% of shares (plus close family members of such individuals);
(vi) Key management personnel (plus close family members of such individuals);
(vii) Enterprises owned by the individuals described in (iv) and (v).

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the Officers and Directors.

Close family members include the spouse of Key and Non-Key Management Personnel and the children and dependents of Key and Non-Key Management Personnel.

t. **Pension benefits** - The Group's employees participate in a defined contribution plan. Under the plan, the Group contributes a fixed percentage of annual salary that is expensed in the year. Once the contributions have been made, the Group has no further obligations. The expensed amount is included in salaries, benefits and bonuses in the consolidated statement of profit or loss.

u. **Share–based payments** - The Company has a share option plan for executives and, on occasion, a share subscription offer for employees. When the options are exercised the Company issues new shares and the proceeds received are credited to common shares and contributed surplus in the consolidated statement of changes in equity.

v. **Earnings per share** - Earnings per share is computed by dividing the profit attributable to the common shareholders by the weighted average number of common shares outstanding during the year. The weighted average number of common shares outstanding during the year is the number of common shares outstanding at the beginning of the period, adjusted by the number of common shares repurchased or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the year. There is no material difference between basic earnings per share and fully diluted earnings per share.

w. **Leases** - Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All of the Group's leases are operating leases. Payments made under operating leases are recognized as an expense on a straight line basis over the term of the lease.

x. **Taxation** - Subsidiaries of the Group operating in The Bahamas are subject to tax on taxable gross premium income at the flat rate of 3% (2015: 3%) for premium tax; and at 7.5%, effective July 1, 2015, for value added tax (VAT). There are no other taxes on corporate income or capital gains levied on the Group in any of the jurisdictions in which the Company operates.

y. **Segment reporting** - In identifying its operating segments, management generally follows the Group's business operating activities by geographic location (Bahamas & Cayman). The Bahamas' segment includes general insurance only and Cayman's segment includes both general insurance and health and group life. General insurance comprises fire, motor, marine, engineering and general accident. The health and life insurance segment includes group life and medical insurance.

z. **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 Group 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 Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group 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.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

i. 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 Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Group 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 consolidated 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, changes in the medical condition of claimants, changes in medical costs 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. Health claims are normally reported within three months of the event and are usually settled within days of being reported.

Information for long-tail claims such as casualty claims for bodily injury, general third party liability, employers' liability, workmen's compensation and long term disability 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.

The Group 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 Group'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 consolidated statement of financial position date of gross claims reported and loss adjustment expenses and claims incurred but not reported was $89,728,281 (2015: $44,144,391). The amount of reinsurance recoveries estimated at the consolidated statement of financial position date is $69,343,459 (2015: $25,201,769).

Refer to Note 11 for further information on the provision for unpaid claims.

ii. Pro-ration of Premiums and Commissions

As described in Note 3j, unearned premiums and deferred reinsurance premiums at year end represent the proportion of the premiums which relate to periods of insurance subsequent to the consolidated statement of financial position date. Similarly as per Note 3l, 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 consolidated 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.

iii. **Impairment of goodwill and intangible assets**

Determining whether goodwill or intangible assets are impaired requires an estimation of (a) the value in use or (b) the fair value less costs to sell of the cash-generating unit or group of units to which the value has been allocated:

a) The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit(s) and a suitable discount rate in order to calculate present value, both of which are material sources of uncertainty.
b) The fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit(s) between knowledgeable willing parties, less the costs of disposal.

The carrying value at the consolidated statement of financial position date for intangible assets and goodwill was $13,385,092 (2015: $11,987,097).

iv. **Provision for bad debts**

As described in Note 3f, 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 (1) amounts receivable from insurance agents that have signed agency agreements with the Group insurers ("insurer trade receivables"); (2) clients of the Group's agency subsidiaries ("policyholders' receivables"); and (3) amounts receivable from reinsurers based on the benefits the Group is entitled to under its reinsurance contracts held ("reinsurers' receivables").

Provisions are recorded for policyholders' receivables as follows:

Over 6 months	10% provision
Over 9 months	20% provision
Over 1 year	100% provision

The carrying value at the consolidated statement of financial position date for trade accounts receivable, net was $24,708,014 (2015: $24,704,364).

v. **Depreciation**

Depreciation is based on management 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.

vi. **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 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 Group 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 revenues, 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, premiums receivable, reinsurance balances receivable, other receivables, reinsurance balances payable and other short term liabilities.

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

5. RISK MANAGEMENT

As an insurance company, the Group 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 Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management structure. The Group has established the Technical Review and Risk Compliance Committee, and the Finance and Investment Committee to ensure that management has a system which details the risk policies, procedures, measurement, reporting and compliance. The Group's Internal Audit 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 Group. The committees report regularly to the Board of Directors on their activities.

The Group has exposures to risks that may develop in each class of business within each operating segment and could have a material impact upon the Group'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 Group insures the risks of entities within The Bahamas and the Cayman Islands. There is a concentration of insurance risk in those territories. Below is a discussion of insurance risks specific to the lines of coverage provided by the operating segments within the Group.

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 Group'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 costs of rebuilding properties, replacement or indemnity for contents are the key factors that influence the level of claims under these policies. The frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. The Group 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 Group 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.

The Group 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 Group's capital and reserves in the event of a series of claims arising out of a single occurrence.

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The Group is exposed to contractual disputes with its reinsurers and the possibility of default by its reinsurers. The Group is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance constraints. The Group's strategy is to select reinsurers with the best combination of financial strength, price and capacity. In the event that the Group's reinsurers were unable to meet their obligations under the reinsurance programs in place, the Group 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.

Health and group life insurance risks

The most significant factors that could increase the overall frequency of claims relating to health and group life insurance contracts are epidemics or widespread changes in lifestyle, resulting in earlier or more claims than expected. The reinsurance program used by the Group is reviewed and approved by the Technical Review and Risk Compliance Committee on an annual basis.

FINANCIAL RISK

The Group is exposed to financial risk through its financial assets and liabilities. The components of financial risk that have an impact on the Group 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 Group is exposed to interest rate risk, foreign currency risk and price risk. Financial risk is a significant risk for the Group'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 Group and regulatory policies and guidelines. The following table reconciles financial assets and financial liabilities to the Group's statement of financial position:

		2016		2015
FINANCIAL ASSETS:				
Cash and term deposits	$	24,191,056	$	17,495,370
Investments:				
Held-to-maturity		8,218,000		8,218,000
At fair value through profit or loss		13,100,506		11,351,119
Available-for-sale		30,158,155		30,204,447
Loans and receivables:				
Trade accounts receivable, net		24,708,014		24,704,364
Other receivables*		3,696,070		2,185,039
Total financial assets		104,071,801		94,158,339
Non - financial assets		139,388,409		89,370,066
Total assets	**$**	**243,460,210**	**$**	**183,528,405**
FINANCIAL LIABILITIES:				
Payables at amortized cost:				
Trade accounts payable, accrued expenses				
and other liabilities	$	25,150,189	$	5,634,355
Bonds and loan payable		12,298,622		16,977,584
Total financial liabilities		37,448,811		22,611,939
Non - financial liabilities		146,266,985		100,271,551
Total liabilities	**$**	**183,715,796**	**$**	**122,883,490**

* excludes prepaid expenses of $315,314 (2015: $1,017,732)

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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 Group is exposed to credit risk are in the cash and cash equivalents, investment portfolios, reinsurance receivables, premiums receivable, and other receivables. The Group's investment policy permits the Group to invest in fixed income securities, equity securities, private placements of financial institutions, term deposits, and to limit exposure to any one issuer. The Group's deposits are placed with well-known high quality financial institutions. Policies and guidelines are in place to limit the exposure faced by the Group.

The Group is exposed to credit risk with respect to the amounts recoverable from its reinsurers. The Group'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 Group 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 Group's exposure to significant losses from reinsurer insolvency.

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

		2016		2015
Held-to-maturity debt securities:				
Bahamas Government Registered Stocks	$	8,218,000	$	8,218,000
Available-for-sale securities:				
Fixed income debt securities		22,790,939		23,308,714
Mutual funds		5,286,716		4,810,233
Preference shares		2,080,500		2,085,500
Loans and receivables:				
Trade accounts receivable		26,407,869		26,338,562
Other receivables		3,696,070		2,185,039
Reinsurers' share of provision for unpaid claims		69,343,459		25,201,769
Cash and term deposits		24,191,056		17,495,370
Total	**$**	**162,014,609**	**$**	**109,643,187**

Debt securities are analyzed in the table below using Standard & Poor's ("S&P") ratings (or an equivalent rating when not available from S&P).

		2016		2015
AA	$	2,082,546	$	3,096,069
A		8,178,644		5,699,627
BBB		14,974,625		16,371,563
Below BBB or Not rated		5,773,124		6,359,455
Total debt securities	**$**	**31,008,939**	**$**	**31,526,714**

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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:

At December 31, 2016	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Held-to-maturity debt securities	$ 8,218,000	$ -	$ -	$ 8,218,000
Available-for-sale debt securities	30,158,155	-	-	30,158,155
Loans and receivables:				
Trade accounts receivable	18,163,906	6,544,108	1,699,855	26,407,869
Other receivables	3,696,070	-	-	3,696,070
Reinsurers' share of provision for				
unpaid claims	69,343,459	-	-	69,343,459
Cash and term deposits	24,191,056	-	-	24,191,056
Total assets exposed to credit risk	**$ 153,770,646**	**$ 6,544,108**	**$ 1,699,855**	**$ 162,014,609**

At December 31, 2015	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Held-to-maturity debt securities	$ 8,218,000	$ -	$ -	$ 8,218,000
Available-for-sale debt securities	30,204,447	-	-	30,204,447
Loans and receivables:				
Trade accounts receivable	18,093,436	6,610,928	1,634,198	26,338,562
Other receivables	2,185,039	-	-	2,185,039
Reinsurers' share of provision for				
unpaid claims	25,201,769	-	-	25,201,769
Cash and term deposits	17,495,370	-	-	17,495,370
Total assets exposed to credit risk	**$ 101,398,061**	**$ 6,610,928**	**$ 1,634,198**	**$ 109,643,187**

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

INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This is primarily a concern with fixed and fluctuating financial instruments, which the Group intends to hold for the long-term.

The Group's investment in fixed income debt securities, money market funds, cash and cash equivalents, and its loan and bonds payables are all subject to interest rate risk. Fluctuations in interest rates impact the level of gains and losses on the Group's interest bearing financial instruments.

The coupon rates associated with the fixed income debt securities held by the Group range from 2.95% to 7.00% (2015: 2.75% to 7.00%). The underlying debt securities of the money market fund may be affected by changes in interest rates. The Group's loan payable is at a rate of 1.50% above U.S. prime rate (effective rate: 5.00%). Interest on the Series I and II bonds payable are at B$ prime rate plus 1.75% and 2.00%, respectively (effective rate 6.50% and 6.75%, respectively).

The average interest yields of investments held during the year are as follows:

Debt securities	4.64% (2015: 4.67%)
Cash, term deposits and money market funds	0.70% (2015: 1.08%)

FOREIGN CURRENCY RISK

Foreign currency risk relates to the Group operating in different currencies and converting non- Bahamian earnings at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Group is not directly exposed to foreign currency risk, as investments are denominated in Bahamian dollars and US dollars.

The Group's investments in The Bahamas are denominated in Bahamian dollars, which is fixed to the US dollar at the following rate: B$1 = US$1. CFI has investments denominated in US dollars. The Cayman Island dollar is fixed to the US$ at the following rate: CI$1 = US$1.20, at the date of the consolidated statement of financial position.

PRICE RISK

The Group is subject to price risk on its equity securities due to changes in market values. One of the primary objectives of the Group's risk management policy is to mitigate potential adverse impacts of market movements.

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LIQUIDITY RISK

Liquidity risk is the risk that the Group 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 Group is exposed to liquidity risk associated with the timing differences between cash flows and expected reinsurance recoveries to meet its insurance liability obligation. Most of the Group'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 Group may not be able to quickly liquidate its investments at an amount close to their fair value in order to meet liquidity requirements. The Group 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 following tables indicate the timing of undiscounted cash flows arising from financial liabilities as at December 31, 2016 and 2015:

		Cash flows		
2016 Financial liabilities	**Total**	**< 1 year**	**1 - 5 years**	**> 5 years**
Accrued expenses and				
other liabilities	$ 2,336,682	$ 2,336,682	$ -	$ -
Trade accounts payable	22,813,507	22,813,507	-	-
Unpaid claims	89,728,281	56,432,776	20,138,459	13,157,046
Less: unpaid claims recoverable from reinsurers	(69,343,459)	(48,585,038)	(12,785,019)	(7,973,402)
Loan payable	861,122	599,300	261,822	-
Bonds payable	11,437,500	187,500	3,750,000	7,500,000
Total undiscounted cash flows	**$ 57,833,633**	**$ 33,784,727**	**$ 11,365,262**	**$ 12,683,644**

		Cash flows		
2015 Financial liabilities	**Total**	**< 1 year**	**1 - 5 years**	**> 5 years**
Accrued expenses and				
other liabilities	$ 2,925,127	$ 2,883,037	$ 42,090	$ -
Trade accounts payable	2,709,228	2,709,228	-	-
Unpaid claims	44,144,391	14,433,282	16,554,940	13,156,169
Less: unpaid claims recoverable from reinsurers	(25,201,769)	(6,801,763)	(9,638,205)	(8,761,801)
Loan payable	1,729,146	554,016	1,175,130	-
Bonds payable	15,248,438	248,438	7,500,000	7,500,000
Total undiscounted cash flows	**$ 41,554,561**	**$ 14,026,238**	**$ 15,633,955**	**$ 11,894,368**

SENSITIVITY ANALYSIS

The Group predominantly funds its net insurance liabilities through its 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 Group's portfolio of investments.

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 Group's experience.

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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	The impact of a change in underwriting expenses by 5%
Loss ratio	The impact of a change in loss ratio by 5%

December 31, 2016	Interest rates		Underwriting expenses		Loss ratio	
In $	**+1%**	**-1%**	**+5%**	**-5%**	**+5%**	**-5%**
Impact on profit	205,103	(205,103)	(1,248,070)	1,248,070	(2,866,698)	2,866,698
Impact on equity	642,469	(642,469)	(1,248,070)	1,248,070	(2,866,698)	2,866,698

December 31, 2015	Interest rates		Underwriting expenses		Loss ratio	
In $	**+1%**	**-1%**	**+5%**	**-5%**	**+5%**	**-5%**
Impact on profit	202,258	(202,258)	(1,359,461)	1,359,461	(2,993,594)	2,993,594
Impact on equity	649,449	(649,449)	(1,359,461)	1,359,461	(2,993,594)	2,993,594

Price risk arises primarily from changes in the value of equity investments that may be bought and sold. The Group is sensitive to price risk on its fair value through profit or loss and available-for-sale securities. These securities are managed according to the benchmarks as specified in the Group's statement of investment policy and guidelines. The effect of a 10% increase (2015:10%) and a 10% decrease (2015:10%) in prices at the date of the statement of financial position are set out below:

At December 31, 2016	Carrying Value	Effect on profit and equity +10%	Effect on profit and equity -10%
Listed on stock exchanges/markets	$ 13,094,949	$ 1,309,495	$ (1,309,495)
Listed/unlisted mutual funds	5,286,716	528,672	(528,672)
Total	**$ 18,381,665**	**$ 1,838,167**	**$ (1,838,167)**
At December 31, 2015			
Listed on stock exchanges/markets	$ 11,345,562	$ 1,134,556	$ (1,134,556)
Listed/unlisted mutual funds	4,810,233	481,023	(481,023)
Total	**$ 16,155,795**	**$ 1,615,579**	**$ (1,615,579)**

CAPITAL MANAGEMENT

The Group's objectives when managing Capital are:

- To safeguard the Group'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 the regulatory capital requirements in the jurisdictions in which the Group operates.

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

6. TERM DEPOSITS

Term deposits are denominated in Bahamian dollars with an average interest rate of 1.95% (2015: 2.36%) per annum at the consolidated statement of financial position date. All term deposits have maturities beyond ninety days.

7. INVESTMENTS

		2016		2015
Held-to-maturity:				
Bahamas Government Registered Stocks - at amortized cost				
Unrestricted	$	7,218,000	$	7,218,000
Restricted		1,000,000		1,000,000
Total held-to-maturity		**8,218,000**		**8,218,000**
At fair value through profit or loss:				
Bahamas International Securities Exchange Limited (BISX)				
12 (2015: 12) common shares - at cost $130,556				
(2015: $130,556) less impairment		5,557		5,557
Commonwealth Bank Limited				
1,247,138 (2015: 1,447,138) common shares				
Cost $1,543,488 (2015: $1,791,013)		13,094,949		11,345,562
Total at fair value through profit or loss		**13,100,506**		**11,351,119**
Available-for-sale:				
Fixed income debt securities, at fair value;				
amortised cost $22,612,182 (2015: $23,435,881)		22,790,939		23,308,714
Mutual funds, at fair value;				
cost less impairment $4,847,310 (2015: $4,567,345)		5,286,716		4,810,233
Preference shares, at fair value		2,080,500		2,085,500
Total available-for-sale		**30,158,155**		**30,204,447**
Total investments	**$**	**51,476,661**	**$**	**49,773,566**

Held-to-maturity investments are recorded at amortized cost based on the effective interest rate method. These investments are variable interest rate instruments tied to Prime, with interest rates ranging from 4.00% to 4.94% per annum (2015: 4.00% to 4.94%) and scheduled maturities between 2017 and 2030 (2015: 2017 and 2030) at the date of the consolidated statement of financial position. The investments are carried at amortized cost as the Group has the intent and ability to hold them to maturity.

In 2011, in accordance with the Insurance Act 2005 (Amended 2009), and regulations 61 and 62 of the Insurance (General) Regulations 2010, the Group 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 Group.

The investment in Commonwealth Bank Limited (the "Bank") was valued at $10.50 (2015: $7.84) per share, which is the listed price at the date of the consolidated statement of financial position on the Bahamas International Securities Exchange ("BISX"). As a result, the Group recorded an unrealized gain of $3,317,387 (2015: $492,027).

The amortized cost and fair value of available-for-sale fixed income debt securities held at December 31, 2016 by contractual maturities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to repay obligations early without repayment penalties. Interest rates range from 2.95% to 7.00% (2015: 2.75% to 7.00%) per annum at the date of the consolidated statement of financial position.

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	2016		2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:				
Due in less than 1 year	$ 1,709,127	$ 1,717,954	$ 3,700,746	$ 3,725,494
Due from 1 through 5 years	9,859,928	10,055,063	8,420,809	8,508,568
Due after 5 years	11,043,127	11,017,922	11,314,326	11,074,652
Total	**$ 22,612,182**	**$ 22,790,939**	**$ 23,435,881**	**$ 23,308,714**

The Group's available-for-sale fixed income debt securities are comprised of the following:

	2016	2015
Corporate debt securities	$ 19,489,585	$ 18,821,158
Government debt securities	3,281,354	4,467,556
Other debt securities	20,000	20,000
Total	**$ 22,790,939**	**$ 23,308,714**

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

	2016	%	2015	%
Bahamas	$ 33,919,596	66%	$ 32,884,250	66%
USA	6,820,103	13%	7,788,121	16%
Asia	2,923,117	6%	1,984,716	4%
Europe	2,629,799	5%	2,119,400	4%
United Kingdom	2,580,170	5%	2,028,987	4%
Australia	1,050,325	2%	1,549,842	3%
Caribbean	540,985	1%	533,040	1%
Canada	513,736	1%	426,780	1%
South Africa	498,830	1%	458,430	1%
Total	**$ 51,476,661**	**100%**	**$ 49,773,566**	**100%**

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

	Held-to-maturity	Fair value through profit or loss	Available-for-sale	Total
At December 31, 2014	**$ 6,459,000**	**$ 12,331,147**	**$ 29,548,971**	**$ 48,339,118**
Cost of investments purchased	1,990,000	-	5,641,268	7,631,268
Proceeds from sales and maturities	(231,000)	(1,487,484)	(4,614,633)	(6,333,117)
Amortization of premiums / discounts on bonds (Note 21)	-	-	(168,176)	(168,176)
Realized gains on sales of investments (Note 21)	-	15,429	23,928	39,357
Net change in fair value of investments	-	492,027	(226,911)	265,116
At December 31, 2015	**8,218,000**	**11,351,119**	**30,204,447**	**49,773,566**
Cost of investments purchased	-	-	6,558,079	6,558,079
Proceeds from sales and maturities	-	(1,750,282)	(6,970,715)	(8,720,997)
Amortization of premiums / discounts on bonds (Note 21)	-	-	(170,065)	(170,065)
Realized gains on sales of investments (Note 21)	-	182,282	33,968	216,250
Net increase in fair value of investments	-	3,317,387	502,441	3,819,828
At December 31, 2016	**$ 8,218,000**	**$ 13,100,506**	**$ 30,158,155**	**$ 51,476,661**

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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.

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, 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.

The following table presents the Group's financial assets measured at fair value at December 31, 2016, by the level in the fair value hierarchy into which the fair value measurement is categorized:

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets designated at fair value through profit or loss:				
Equity securities	$ 13,100,506	$ -	$ -	$ 13,100,506
Total	**13,100,506**	-	-	**13,100,506**
Available-for-sale financial assets:				
Fixed income debt securities	-	22,770,939	20,000	22,790,939
Mutual funds	-	5,286,716	-	5,286,716
Preference shares	-	2,080,500	-	2,080,500
Total	**-**	**30,138,155**	**20,000**	**30,158,155**
Total assets measured at fair value	**$ 13,100,506**	**$ 30,138,155**	**$ 20,000**	**$ 43,258,661**

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

The following table presents the Group's financial assets measured at fair value at December 31, 2015, by the level in the fair value hierarchy into which the fair value measurement is categorized:

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets designated at fair value through profit or loss:				
Equity securities	$ 11,351,119	$ -	$ -	$ 11,351,119
Total	**11,351,119**	-	-	**11,351,119**
Available-for-sale financial assets:				
Fixed income debt securities	-	23,288,714	20,000	23,308,714
Mutual funds	-	4,810,233	-	4,810,233
Preference shares	-	2,085,500	-	2,085,500
Total	**-**	**30,184,447**	**20,000**	**30,204,447**
Total assets measured at fair value	**$ 11,351,119**	**$ 30,184,447**	**$ 20,000**	**$ 41,555,566**

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There were no transfers between the various levels during 2015.

The following table presents the changes in Level 3 instruments during the year:

		2016		2015
Balance at January 1	$	20,000	$	62,870
Proceeds from sale of investments		-		(38,458)
Realized losses on sale of investments		-		(17,150)
Increase in fair value		-		12,738
Balance at December 31	**$**	**20,000**	**$**	**20,000**

8. INVESTMENT IN ASSOCIATE

The Company holds a 20% (2015: 20%) equity interest in Star General Insurance Agents & Brokers (Grand Bahama) Limited ("Star General"). Star General is incorporated under the Companies Act, 1992 of the Commonwealth of the Bahamas. It is licensed under the Insurance Act, 2005, and operates as a general agent and broker for insurance products, writing business for a number of insurers including BFG.

		2016		2015
Balance at January 1	$	619,151	$	610,947
Share of dividends declared and paid during the year		(12,000)		(12,000)
Share of net earnings for the year (Note 21)		52,608		20,204
Balance at December 31	**$**	**659,759**	**$**	**619,151**
Share of associate's unaudited statement of financial position:				
Total assets	$	1,153,334	$	1,135,286
Total liabilities		(601,575)		(624,135)
Net assets		551,759		511,151
Goodwill		108,000		108,000
Carrying value of investment in associate	**$**	**659,759**	**$**	**619,151**
Share of associate's unaudited statement of comprehensive income:				
Revenues	**$**	**523,806**	**$**	**525,969**
Net income	**$**	**52,608**	**$**	**20,204**

Investment in associate includes $108,000 (2015: $108,000) in goodwill. At December 31, 2016 the recoverable amount exceeded the carrying amount of the investment in associate, accordingly no provision for impairment was considered necessary.

9. 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 Group insurers ("insurer trade receivables"),
- clients of the Group's agency subsidiaries ("policyholders' receivables"), and
- amounts receivable from reinsurers based on the benefits the Group is entitled to under its reinsurance contracts held ("reinsurers' receivables").

		2016		2015
Insurer trade receivables	$	14,623,663	$	13,622,623
Policyholders' receivables		11,679,763		11,949,285
Reinsurers' receivables		104,443		766,654
		26,407,869		26,338,562

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Provision for bad debts:		
Balance at January 1	1,634,198	2,566,045
Increase in provision for the year	68,304	462,754
Bad debt written off during the year	(2,647)	(1,394,601)
Balance at December 31	1,699,855	1,634,198
Trade accounts receivable, net	**$ 24,708,014**	**$ 24,704,364**

Ageing of trade accounts receivable, net is as follows:	**2016**	**2015**
Less than 3 months	$ 18,163,906	$ 18,093,436
3 - 6 months	4,170,239	4,017,554
6 months - 1 year	2,373,869	2,593,374
	$ 24,708,014	**$ 24,704,364**

10. DEFERRED/UNEARNED PREMIUMS AND COMMISSION COSTS

	Insurance Assets		**Insurance Liabilities**	
	Deferred Reinsurance Premiums	**Deferred Commission Costs**	**Unearned Premiums**	**Unearned Commission Income**
Balance at January 1, 2015	**$ 36,912,390**	**$ 5,138,365**	**$ (52,596,889)**	**$ (8,431,826)**
Movement during the year	(4,071,387)	(380,358)	4,784,801	116,754
Balance at December 31, 2015	**32,841,003**	**4,758,007**	**(47,812,088)**	**(8,315,072)**
Portfolio transfer out	899,244	-	-	-
Movement during the year	(101,726)	(46,790)	132,826	(544,370)
Balance at December 31, 2016	**$ 33,638,521**	**$ 4,711,217**	**$ (47,679,262)**	**$ (8,859,442)**

11. UNPAID CLAIMS AND CLAIMS INCURRED

	Gross	**Reinsurance**	**Net**
Unpaid claims at December 31, 2014	**$ 43,533,048**	**$ (25,140,965)**	**$ 18,392,083**
Claims incurred	45,360,950	(18,024,819)	27,336,131
Claims paid	(44,749,607)	17,964,015	(26,785,592)
Unpaid claims at December 31, 2015	**44,144,391**	**(25,201,769)**	**18,942,622**
Claims incurred	131,158,189	(94,751,536)	36,406,653
Claims paid	(85,574,299)	50,609,846	(34,964,453)
Unpaid claims at December 31, 2016	**$ 89,728,281**	**$ (69,343,459)**	**$ 20,384,822**

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The tables below show the development of claims over a period of time on a gross basis, and also shows the cumulative incurred claims, including both notified and IBNR claims for each successive accident year.

P&C	2012	2013	2014	2015	2016	Total
Gross claims incurred at end of reporting year	$ 28,308,565	$ 22,711,266	$ 23,695,599	$ 30,382,164	$ 113,514,913	
One year later	33,412,374	27,080,120	23,168,363	29,418,761	-	
Two years later	29,594,947	26,278,441	23,851,734	-	-	
Three years later	29,546,836	26,309,085	-	-	-	
Four years later	30,013,155	-	-	-	-	
Total incurred to date	30,013,155	26,309,085	23,851,734	29,418,761	113,514,913	
Cumulative payments to date	(26,807,918)	(22,532,049)	(17,774,428)	(21,981,816)	(58,541,034)	
Liability included in the consolidated statement of financial position	3,205,237	3,777,036	6,077,306	7,436,945	54,973,879	75,470,403
Reserves for prior years						11,868,278
Total unpaid claims for P&C business including amount recoverable from reinsurer						**$ 87,338,681**

H&L	2012	2013	2014	2015	2016	Total
Gross claims incurred at end of reporting year	$ 16,193,273	$ 17,060,494	$ 16,369,190	$ 17,853,743	$ 18,638,992	
One year later	15,634,408	16,777,220	15,957,295	18,164,801	-	
Total incurred to date	15,634,408	16,777,220	15,957,295	18,164,801	18,638,992	
Cumulative payments to date	(15,634,408)	(16,679,620)	(15,957,295)	(18,152,801)	(16,538,992)	
Liability included in the consolidated statement of financial position	-	97,600	-	12,000	2,100,000	2,209,600
Reserves for prior years						180,000
Total unpaid claims for H&L business including amount recoverable from reinsurer						**$ 2,389,600**
Total unpaid claims including amount recoverable from reinsurer in the consolidated statement of financial position						**$ 89,728,281**

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12. PROPERTY AND EQUIPMENT

2016	Land & Buildings	Construction in Progress	Furniture & Equipment	Leasehold Improvements and Others	Computer Software	Total
COST/VALUATION:						
At January 1, 2016	$ 12,120,761	$ 648,910	$ 3,311,937	$ 1,753,406	$ 3,811,406	$ 21,646,420
Additions	333,717	2,724,345	248,320	11,718	1,114,525	4,432,625
Disposals	-	-	(26,513)	-	-	(26,513)
At December 31, 2016	12,454,478	3,373,255	3,533,744	1,765,124	4,925,931	26,052,532
ACCUMULATED DEPRECIATION:						
At January 1, 2016	$ 975,670	$ -	$ 2,368,090	$ 1,653,413	$ 3,703,940	$ 8,701,113
Revaluation of Land and						
Buildings (Note 19)	(644,235)	-	-	-	-	(644,235)
Charge for the year	248,664	-	343,029	11,089	84,338	687,120
Disposals	-	-	(26,513)	-	-	(26,513)
At December 31, 2016	580,099	-	2,684,606	1,664,502	3,788,278	8,717,485
Carrying amount 2016	**$ 11,874,379**	**$ 3,373,255**	**$ 849,138**	**$ 100,622**	**$ 1,137,653**	**$ 17,335,047**

2015	Land & Buildings	Construction in Progress	Furniture & Equipment	Leasehold Improvements and Others	Computer Software	Total
COST/VALUATION:						
At January 1, 2015	$ 12,120,761	$ 126,419	$ 3,102,306	$ 1,725,075	$ 3,753,083	$ 20,827,644
Additions	-	522,491	209,631	28,331	58,323	818,776
At December 31, 2015	12,120,761	648,910	3,311,937	1,753,406	3,811,406	21,646,420
ACCUMULATED DEPRECIATION:						
At January 1, 2015	$ 738,132	$ -	$ 2,031,816	$ 1,608,468	$ 3,661,390	$ 8,039,806
Charge for the year	237,538	-	336,274	44,945	42,550	661,307
At December 31, 2015	975,670	-	2,368,090	1,653,413	3,703,940	8,701,113
Carrying amount 2015	**$ 11,145,091**	**$ 648,910**	**$ 943,847**	**$ 99,993**	**$ 107,466**	**$ 12,945,307**

During 2014, CFI acquired land to develop its own purpose built corporate headquarters. The development process is well underway, and the costs incurred to December 31, 2016 have been recorded under construction in progress. The development is expected to be completed in the fourth quarter of 2017 and the estimated cost, including the land, is projected to be approximately $10,200,000.

In September 2016, 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 was based on the combined effect of the cost, income and sales comparison approach. There has been no change in the valuation technique during the year. The fair value measurement of the Company's land and buildings is categorized in Level 3 in the fair value hierarchy. There were no transfers between the various levels during the year. The net book value of the land and buildings of the Group, ignoring the effects of previous revaluations, would have been $4,758,816 and $7,275,982 respectively.

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13. LOAN PAYABLE

In May 2014, the Board of Directors of CFI resolved to raise additional share capital by way of a rights issue to its existing shareholders. During June 2014, CFI offered a rights issue of 1 share for every 3 shares held to all holders of its ordinary voting shares for a total offering of 500,000 additional shares. One minority shareholder took up 125 shares at a cost of $1,241. BFHIL acquired 499,875 shares to increase its equity holding from 83.52% to 87.64%.

BFHIL's participation in the rights issue was funded by a non-revolving 10-year demand loan totaling $5,000,000 from The Cayman National Bank at a rate of 1.5% above U.S. prime rate (effective rate – 5.00% (2015: 5.00%)). As a prerequisite of the facility, CFI entered into a Deed of Guarantee guaranteeing the payment of the loan, all interest and all other sums payable in respect of the loan facility. Pursuant to a pledge agreement, CFI has provided to Cayman National Bank, security interest over its investments as collateral for the credit facility. Consequently, CFI's investments have been hypothecated to the extent required to collateralize the credit facility issued to BFHIL. The balance of the demand loan as at December 31, 2016 was $861,122 (2015: $1,729,146).

During 2015, BFHIL acquired 250 shares from minority shareholders at a cost of $3,000, further increasing its holding to 87.65%. The effect of this increase in BFHIL's ownership resulted in a decrease of $870 in contributed surplus and a corresponding change in non-controlling interest, and is reflected in the consolidated statement of changes in equity.

14. BUSINESS COMBINATION

Effective September 1, 2016, BFHIL acquired all the issued and outstanding shares of BRAC Insurance Associates Ltd.("BIA"), a company incorporated under the laws of the Cayman Islands.

As per the Share Purchase Agreement dated September 26, 2016 (defined as the completion date), the aggregate consideration for the shares is determined based on the retention of the number of insurance policies in effect at the end of the warranty period, being one year after the completion date.

The aggregate consideration is paid in two installments as follows:

- $1,350,000 due on the completion date; and
- The balance due upon determination of the post completion retention rate.

If the retention rate equals or exceeds 85%, then the balance due in September 2017 equals $450,000. If the retention rate is less than 64%, no balance is due in September 2017. The fair values of the net assets acquired, the purchase consideration and the goodwill arising on acquisition are set out below.

		Book Value Unaudited August 31, 2016		Fair Value Unaudited September 1, 2016
Assets:				
Cash	$	7,553	$	7,553
Trade accounts receivables, net		95,680		95,680
Sundry receivables and prepayments		17,767		17,767
Total assets		121,000		121,000
Liabilities:				
Accrued liabilities		120,880		120,880
Total liabilities	$	120,880	$	120,880
Net assets acquired		120		120
Purchase consideration				1,350,000
Intangible assets and goodwill (Note 15)			$	1,349,880

The intangible assets and goodwill of $1,349,880 arising from the acquisition consists largely of the synergies and financial benefits expected from combining the operations of BIA with BFH. The acquiree's comprehensive income for the four months ended December 31, 2106 amounted to $76,378.

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15. INTANGIBLE ASSETS AND GOODWILL

			Intangible Assets					
		Goodwill		Finite Life		Indefinite Life		Total
Balance at January 1, 2015	**$**	**7,125,088**	**$**	**1,880,264**	**$**	**2,592,559**	**$**	**11,597,911**
Acquisition of General Insurance Portfolio		-		522,500		-		522,500
Amortization		-		(133,314)		-		(133,314)
Balance at December 31, 2015		**7,125,088**		**2,269,450**		**2,592,559**		**11,987,097**
Acquisition of BIA (Note 14)		618,880		731,000		-		1,349,880
Acquisition of General Insurance Portfolio		-		276,000		-		276,000
Amortization		-		(227,885)		-		(227,885)
Balance at December 31, 2016	**$**	**7,743,968**	**$**	**3,048,565**	**$**	**2,592,559**	**$**	**13,385,092**

In February 2016, CFI acquired the general insurance portfolio of one of its sub-agents for a consideration of $276,000. This acquisition of customer relationships is expected to generate benefits to CFI over a finite period of time, and is therefore amortized using the straight-line method over its estimated useful life of five years.

In December 2015, NUA acquired the general insurance portfolio of one of its exclusive sub-agents for a consideration of $522,500. This acquisition of customer relationships is expected to generate benefits to NUA over a finite period of time, and is therefore amortized using the straight-line method over its estimated useful life of fifteen years.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives, and amortization expense is included in general and administrative expenses in the consolidated statement of profit or loss.

Intangible assets with indefinite lives and goodwill acquired through business combinations have been allocated to two cash-generating units, which are also operating and reportable segments, for impairment testing as follows:

		2016		2015
Bahamas' cash-generating unit	$	7,685,717	$	7,685,717
Cayman's cash-generating unit		2,650,810		2,031,920
	$	**10,336,527**	**$**	**9,717,647**

The Group performed its annual impairment test as at December 31, 2016. The recoverable amounts of both the Bahamas and Cayman's cash-generating units have been determined by the fair value less costs to sell calculation using an earnings approach based on a multiple of historical results. As the recoverable amounts exceeded the carrying amounts, management did not identify any impairment for either cash-generating unit.

16. BONDS PAYABLE

On October 15, 2010, the Group effected a private offering of Series I & II Redeemable Cumulative Variable Rate Corporate Bonds ("the bonds"). The net proceeds were used for general corporate purposes. Interest on the bonds are payable at B$ prime rate plus 1.75% and 2.00% respectively. The bonds rank equally among themselves and with all other existing and future unsubordinated and unsecured debt of the Company. The bonds rank senior to the Company's existing and all future preference and ordinary shares.

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On March 11, 2016, the Board of Directors of BFH, in accordance with the provision for early redemption as stated in the BFH's Private Placement Offering Memorandum dated September 2010, resolved to redeem 50% of the outstanding Series I Corporate Bonds.

		2016		2015
Series I Corporate Bonds				
$3,750,000 (2015: $7,500,000) at B$ prime rate + 1.75% presently 6.50% (2015: 6.50%) per annum - Due 2020	$	3,750,000	$	7,500,000
Series II Corporate Bonds				
$7,500,000 at B$ prime rate + 2.00%, presently 6.75% (2015: 6.75%) per annum - Due 2025		7,500,000		7,500,000
Accrued interest		187,500		248,438
Total	**$**	**11,437,500**	**$**	**15,248,438**

17. SHARE CAPITAL

The Group's share capital is comprised as follows:

		2016		2015
Common shares				
Authorized: 45,000,000 (2015: 45,000,000) at $0.01 each				
Issued and fully paid: 36,511,589 (2015: 36,511,589) par value $0.01 per share	$	365,116	$	365,116
Preference shares				
Authorized: 5,000,000 (2015: 5,000,000) at $1.00 each				
Issued and fully paid: 5,000,000 (2015: 5,000,000) par value $1.00 per share	$	5,000,000	$	5,000,000

The calculation of basic earnings per share is as follows:

		2016		2015
Profit for the year attributable to owners of the parent	$	1,204,549	$	8,810,514
Preference shares dividend paid		(350,000)		(350,000)
Profit for the year attributable to common shareholders		854,549		8,460,514
Weighted average number of common shares outstanding		36,511,589		36,511,589
Basic and diluted earnings per common share	**$**	**0.02**	**$**	**0.23**

There were no transactions that would dilute earnings per share.

Dividends are accounted for in the period in which they are declared by the Group's Board of Directors. During the year, dividends of $0.08 (2015: $0.12) per common share (total dividends $2,920,827 (2015: $4,381,391)) were declared and subsequently paid. The Preference Shares are non-convertible, non-voting, cumulative, redeemable "A" with a dividend rate of 7% per annum. These shares are redeemable at the option of the Company.

On November 15, 2014, the Board of Directors resolved to approve a staff share subscription offer to all full-time employees to acquire common shares of the Company. Since the Company's shares are not derived from quoted prices, the fair value applied to the shares issued was based on a recent independent valuation. On January 1, 2015, 350,481 shares were issued for total proceeds of $525,721. The shares issued included all 344,363 of the treasury shares of the Company that existed as at December 31, 2014.

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18. GENERAL RESERVE

The Group has established a general reserve from retained earnings in the amount of $4,000,000 (2015: $4,000,000), which the Board of Directors have determined is not available for distribution.

19. REVALUATION RESERVE

	Land & Buildings	AFS Investments	Total
Balance at January 1, 2015	**$ 2,870,508**	**$ 301,314**	**$ 3,171,822**
Reclassification adjustment of AFS Investment			
disposed of during the year (Note 21)	-	(91,714)	(91,714)
Net decrease in fair value of AFS investments	-	(135,197)	(135,197)
Other comprehensive loss	-	(226,911)	(226,911)
Balance at December 31, 2015	**2,870,508**	**74,403**	**2,944,911**
Revaluation of Land & Buildings (Note 12)	644,235	-	644,235
Net increase in fair value of AFS investments	-	502,441	502,441
Other comprehensive income	644,235	502,441	1,146,676
Balance at December 31, 2016	**$ 3,514,743**	**$ 576,844**	**$ 4,091,587**

In accordance with the Group'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 at September 13, 2016. The next appraisal is due in 2019.

20. GROSS PREMIUMS WRITTEN

	2016	2015
Group agents and insurers	$ 90,648,821	$ 94,850,539
Non-Group agents	46,500,561	46,745,430
Associate	1,537,085	1,764,788
Total	**$ 138,686,467**	**$ 143,360,757**

21. OTHER INCOME, NET

	2016	2015
Interest income	$ 1,738,936	$ 1,771,911
Dividend income	469,165	470,704
Realized gains on sales of investments (Note 7)	216,250	39,357
Share of net earnings from associate (Note 8)	52,608	20,204
Write-back of provision for accrued liabilities	42,664	-
Other income	13,371	25,961
Gain on disposal of property and equipment	5,000	-
Reclassification adjustment of AFS Investment		
disposed of during the year (Note 19)	-	91,714
Amortization of premiums and discounts on bonds (Note 7)	(170,065)	(168,176)
Total	**$ 2,367,929**	**$ 2,251,675**

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22. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a bonus payable to management and staff amounting to $640,202 (2015: $885,834). This amount was determined and approved by the Board of Directors.

23. PENSION PLAN

Employees of the Group participate in defined contribution plans registered in The Bahamas and in the Cayman Islands. These plans are administered by independent administrators and trustees and membership is mandatory for all eligible employees. Under these plans, the Group paid contributions of 3% - 5% per annum of base salary. Contributions under these plans totalled $394,114 (2015: $372,722) and are included in "Salaries, benefits and bonuses" in the consolidated statement of profit or loss.

24. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances are as follows:

		2016		2015
Gross premiums written - associate	$	1,537,085	$	1,764,788
Commission expense - associate	$	280,901	$	322,502
Trade accounts receivable - associate	$	260,118	$	312,459
Directors' fees paid	$	369,627	$	364,293

The trade accounts receivable - associate is secured by a guarantee. The receivable balance will be settled in cash. No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Key management personnel include members of the Group's management team having authority and responsibility for planning, directing and controlling the activities of the Group's operation. Compensation to key management personnel is included in salaries, benefits and bonuses in the consolidated statement of profit or loss and receivables from key management personnel is included in sundry receivables and prepayments in the consolidated statement of financial position and are as follows:

		2016		2015
Salaries and other benefits	$	1,424,771	$	1,534,127
Post employment benefits		59,700		58,450
Total	**$**	**1,484,471**	**$**	**1,592,577**
Receivables from key management personnel	$	32,798	$	80,546

As part of its reinsurance program, the Group purchases reinsurance from Economical Mutual Insurance Company ("Economical") for motor and liability quota share. Economical holds a 20% ownership in the Group. During 2016, the ceded motor and liability quota share was 50.5% and Economical's reinsurance participation was 10%.

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25. COMMITMENTS AND CONTINGENCIES

Commitments

The Group has commitments relating to leased premises. The Group has leased office space with expiration terms and renewal terms extending up to five years. Lease terms vary with the last lease term expiring in 2020. The Group also has a sublease on one of the locations which expires in 2017. Rent expense for the year ended December 31, 2016 totaled $829,008 (2015: $768,588). The related sublease payments were $33,600 (2015: $34,524).

Future lease payments under the operating leases and the sublease income are as follows:

2016		**< 1 year**		**1 - 5 years**		**Total**
Operating lease agreements and rental payments	$	239,256	$	1,196,280	$	1,435,536
Sublease payments receivable		(33,600)		(168,000)		(201,600)
Total	**$**	**205,656**	**$**	**1,028,280**	**$**	**1,233,936**

2015		**< 1 year**		**1 - 5 years**		**Total**
Operating lease agreements and rental payments	$	224,272	$	688,384	$	912,656
Sublease payments receivable		(46,960)		(46,960)		(93,920)
Total	**$**	**177,312**	**$**	**641,424**	**$**	**818,736**

Contingencies

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

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26. SEGMENTED INFORMATION

In accordance with IFRS 8 *Operating Segments,* the Group has identified the Chief Operating Decision Maker as the Board of Directors. Key decisions on assessing performance and allocation of resources are reviewed by the Board or its sub-committees.

The Group's operations are segmented into the following business segments by geographic location:

- General Insurance / Property and Casualty (P&C)
- Health and Life (H&L)

The segment results for the years ended December 31, 2016 and 2015 are as follows:

	Bahamas	Cayman		
	P&C	P&C	H&L	Total
2016	$	$	$	$
Net underwriting income	9,099,149	4,661,703	3,838,227	17,599,079
Depreciation of property				
& equipment	626,373	31,892	28,855	687,120
Amortization of intangible assets	174,619	17,846	35,420	227,885
Segment Profit for the Year	(158,283)	818,184	736,673	1,396,574
Total segment assets	193,700,070	33,293,004	16,467,136	243,460,210
Total segment liabilities	159,412,175	21,407,003	2,896,618	183,715,796
Capital expenditure	1,320,133	1,571,958	1,540,534	4,432,625
2015				
Net underwriting income	18,333,753	5,155,926	5,010,348	28,500,027
Depreciation of property				
& equipment	606,948	32,172	22,187	661,307
Amortization of intangible assets	133,314	1,333	1,625	136,272
Segment Profit for the Year	5,980,266	1,536,536	1,692,498	9,209,300
Total segment assets	132,844,025	34,321,106	16,363,274	183,528,405
Total segment liabilities	97,194,845	22,560,004	3,128,641	122,883,490
Capital expenditure	275,864	288,829	254,083	818,776

BAHAMAS FIRST

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BAHAMAS FIRST CENTRE
32 COLLINS AVENUE
NASSAU, THE BAHAMAS

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