

Cayman First Insurance Company Limited

Financial Statements

2016

Cayman First Insurance Company Limited

Financial Statements

2016

Contents

Independent Auditors' Report	1 - 2
Statement of Financial Position	3
Statement of Income and Comprehensive Income	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 41

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Cayman First Insurance Company Limited:

Opinion

We have audited the financial statements of Cayman First Insurance Company Limited (the Company), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, (all expressed in Cayman Islands dollars), and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 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 Financial Statements section of our report. We are independent of the Company 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 Matter

This report is made solely to the board of directors in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the directors those matters we are required to state to them in an auditors' report and for no other purpose. We do not accept or assume responsibility to anyone other than the directors for our audit work, for this report, or for the opinions we have formed.

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

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

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

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

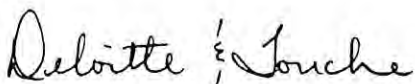
Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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



April 7, 2017

Cayman First Insurance Company Limited

Statement of Financial Position As At December 31, 2016 (expressed in Cayman Islands dollars)

	Note	2016	2015
Assets			
Cash and cash equivalents	6	\$ 6,149,205	\$ 8,390,862
Investments	7	14,819,670	14,276,887
Premiums receivable	8	4,073,127	4,536,812
Reinsurance balances receivable		87,036	607,907
Prepaid expenses and other receivables		258,500	203,227
Deferred policy acquisition commissions	9	874,277	910,036
Reinsurers' share of unearned premiums	14	6,869,030	6,946,284
Reinsurers' share of provision for unpaid claims	12	3,342,146	3,869,908
Intangible assets	10	191,168	5,557
Property and equipment	11	4,802,624	2,489,504
Total assets		\$ 41,466,783	\$ 42,236,984
Liabilities			
Accrued expenses and other liabilities		\$ 378,016	\$ 499,960
Reinsurance balances payable		1,621,307	1,959,078
Unearned reinsurance commissions	9	1,974,099	1,795,519
Unearned premiums	14	8,930,342	9,202,225
Provision for unpaid claims	12	7,349,253	7,950,422
Total liabilities		20,253,017	21,407,204
Equity			
Share capital	15	2,000,000	2,000,000
Share premium	15	6,300,092	6,300,092
General reserve	15	3,000,000	3,000,000
Investment fair value reserve		148,963	(105,973)
Retained earnings		9,764,711	9,635,661
Total equity		21,213,766	20,829,780
Total liabilities and equity		\$ 41,466,783	\$ 42,236,984

Approved on behalf of the Board:

Director: 	Director: 
Date: March 8, 2017	Date: March 8, 2017

The accompanying notes form an integral part of these financial statements.

Cayman First Insurance Company Limited

Statement of Income and Comprehensive Income For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

	Note	2016	2015
Underwriting income			
Gross premiums written	13	\$ 40,509,652	\$ 42,226,694
Movement in unearned premiums	14	271,883	635,024
		40,781,535	42,861,718
Premiums ceded to reinsurers		(16,230,152)	(17,874,320)
Movement in deferred reinsurance premiums	14	(77,254)	(631,258)
Net premiums earned		24,474,129	24,356,140
Commission income		4,370,145	4,851,269
Total underwriting income		28,844,274	29,207,409
Underwriting expenses			
Net claims incurred	12	16,664,433	15,230,194
Commission expense		2,668,822	2,831,371
Cost of excess of loss reinsurance		2,427,743	2,673,949
Total underwriting expenses		21,760,998	20,735,514
Net underwriting income		7,083,276	8,471,895
Other operating expenses			
Salaries, benefits and bonuses	18	3,426,973	3,368,603
General and administrative expenses		2,520,486	2,529,449
Management fees	18	332,378	328,078
Total other operating expenses		6,279,837	6,226,130
Net technical results		803,439	2,245,765
Other income			
Investment income	16	492,278	445,096
Total other income		492,278	445,096
Net income		1,295,717	2,690,861
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to net income:			
Change in investment fair value reserve	7	254,936	(235,153)
		254,936	(235,153)
Comprehensive income		\$ 1,550,653	\$ 2,455,708

The accompanying notes form an integral part of these financial statements.

Cayman First Insurance Company Limited

Statement of Changes in Equity For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

	Share Capital	Share Premium	General Reserve	Investment Fair Value Reserve	Retained Earnings	Total
Year-ended December 31, 2016						
Balance, beginning of year	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ (105,973)	\$ 9,635,661	\$ 20,829,780
Comprehensive income:						
Net income for the year	-	-	-	-	1,295,717	1,295,717
Change in investment fair value reserve (Note 7)	-	-	-	254,936	-	254,936
	-	-	-	<u>254,936</u>	<u>1,295,717</u>	<u>1,550,653</u>
Transactions with owners						
Dividends paid (\$0.58 per share)	-	-	-	-	(1,166,667)	(1,166,667)
	-	-	-	-	<u>(1,166,667)</u>	<u>(1,166,667)</u>
Balance, end of year	<u><u>\$ 2,000,000</u></u>	<u><u>\$ 6,300,092</u></u>	<u><u>\$ 3,000,000</u></u>	<u><u>\$ 148,963</u></u>	<u><u>\$ 9,764,711</u></u>	<u><u>\$ 21,213,766</u></u>
Year-ended December 31, 2015						
Balance, beginning of year	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ 129,180	\$ 8,611,467	\$ 20,040,739
Comprehensive income:						
Net income for the year	-	-	-	-	2,690,861	2,690,861
Change in investment fair value reserve (Note 7)	-	-	-	(235,153)	-	(235,153)
	-	-	-	<u>(235,153)</u>	<u>2,690,861</u>	<u>2,455,708</u>
Transactions with owners						
Dividends paid (\$0.83 per share)	-	-	-	-	(1,666,667)	(1,666,667)
	-	-	-	-	<u>(1,666,667)</u>	<u>(1,666,667)</u>
Balance, end of year	<u><u>\$ 2,000,000</u></u>	<u><u>\$ 6,300,092</u></u>	<u><u>\$ 3,000,000</u></u>	<u><u>\$ (105,973)</u></u>	<u><u>\$ 9,635,661</u></u>	<u><u>\$ 20,829,780</u></u>

The accompanying notes form an integral part of these financial statements.

Cayman First Insurance Company Limited

Statement of Cash Flows For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

	Note	2016	2015
Operating activities			
Net income for the year		\$ 1,295,717	\$ 2,690,861
Reconciliation of net income to net cash provided by operating activities		637,970	1,102,768
Net cash provided by operating activities	17	1,933,687	3,793,629
Investing activities			
Cost of investments purchased	7	(3,867,144)	(2,575,064)
Proceeds from sale and maturity of investments	7	3,452,210	2,658,561
Cost of intangible assets purchased	10	(230,000)	(6,667)
Cost of property and equipment purchased	11	(2,363,743)	(445,760)
Net cash used in investing activities		(3,008,677)	(368,930)
Financing activities			
Dividends paid		(1,166,667)	(1,666,667)
Net cash used in financing activities		(1,166,667)	(1,666,667)
(Decrease) / increase in cash and cash equivalents		(2,241,657)	1,758,032
Cash and cash equivalents at beginning of year		8,390,862	6,632,830
Cash and cash equivalents at end of year	6	\$ 6,149,205	\$ 8,390,862

The accompanying notes form an integral part of these financial statements.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

1. Organisation

Cayman First Insurance Company Limited (the "Company") was incorporated as an ordinary resident company under the Companies Law of the Cayman Islands on February 20, 1984 as Cayman General Insurance Co. Ltd. The Company changed its name on August 31, 2006 to Sagicor General Insurance (Cayman) Ltd and then to Cayman First Insurance Company Limited on August 4, 2010.

The Company is principally engaged in writing general insurance (property & casualty) and health insurance in the Cayman Islands, for which it holds a Class "A" Insurer's License under the Insurance Law of the Cayman Islands. The Company has an A.M. Best rating of A-.

The Company is 87.65% owned by BFH International Limited ("BFHI"), a company incorporated in the Cayman Islands, which is in turn wholly-owned by Bahamas First Holdings Limited ("BFH"), a company incorporated in the Commonwealth of The Bahamas. The Government of the Cayman Islands owns 12% of the Company and the remaining 0.35% is held by 32 minority shareholders.

The Company's registered office is located at the office of Cayman National Trust Co. Ltd., Cayman National Building, 200 Elgin Avenue, PO Box 1790, KY1-1105, George Town, Grand Cayman, Cayman Islands.

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.

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

IAS 1	Presentation of Financial Statements (Amendments)
IAS 16	Property, Plant and Equipment (Amendments)
IAS 19	Employee Benefits (Amendments)
IAS 38	Intangible Assets (Amendments)
IFRS 7	Financial Instruments: Disclosures (Amendments)
Various	Amendments to various Standards derived from Annual improvements to IFRSs 2012–2014 Cycle

b) Standards and Interpretations in issue but not yet effective

IAS 7	Statement of Cash Flows (Amendments)
IFRS 4	Insurance Contracts (Amendments)
IFRS 7	Financial Instruments: Disclosures (Amendments)
IFRS 9	Financial Instruments

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

2. Adoption of new and amended International Financial Reporting Standards (“IFRS”) and International Accounting Standards (“IAS”) (continued)

b) Standards and Interpretations in issue but not yet effective (Continued)

IFRS 16 Leases

Management does not anticipate that the relevant adoption of these standards and interpretations in future periods will have a material impact on the financial statements of the Company.

3. Significant Accounting Policies

Basis of preparation

These financial statements have been prepared on the historical cost basis, except as modified by the revaluation of available for sale investments, and in accordance with IFRS and IFRIC interpretations.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

All amounts in these financial statements are shown in Cayman Islands dollars, unless otherwise stated.

The following policies have been applied consistently in dealing with items which are considered material to the Company’s financial statements.

Recognition and derecognition of financial instruments

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

Financial liabilities are derecognized when they are extinguished. For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in the statement of income and comprehensive income when it is derecognized or impaired, as well as through the amortisation process.

Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. The Company defines insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur. Any insurance contracts not meeting the definition of an insurance contract under IFRS 4 Insurance Contracts are classified as investment contracts. The main insurance contracts issued by the Company are as follows:

Property and casualty insurance contracts: Property and casualty insurance contracts are generally one year renewable contracts covering insured entities for damage suffered to their properties or for the value of property lost or for the risk of causing harm to third parties as a result of their legitimate activities.

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2016** (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Insurance contracts (Continued)

Health and Group Life insurance contracts: Health and Group Life insurance contracts are one year renewable contracts. Health insurance contracts cover insureds for medical expenses incurred. Group Life insurance contracts protect the Company'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 entered into by the Company with reinsurers under which the Company is compensated for losses on one or more insurance contracts issued by the Company are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised 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.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense over the period of the 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 recognises that impairment loss in the statement of income and comprehensive income.

Premiums and commissions

Premiums written and reinsurance premiums ceded are accounted for on a pro-rata basis over the periods covered by the underlying policies, and any unearned or unamortised portions at the financial period end are carried forward as unearned premiums and reinsurers' share of unearned premiums, respectively, on the statement of financial position.

The Company earns commission based on reinsurance premiums ceded as determined in the contract with the reinsurer. Commissions relating to reinsurance contracts are also treated on a pro-rata basis, and unearned portions at the financial period end are similarly carried forward on the statement of financial position.

The Company pays policy acquisition commissions to intermediaries based on premiums written as determined in the contract with the insured. Commissions relating to insurance contracts are also treated on a pro-rata basis, and unamortised portions at the financial period end are similarly carried forward on the statement of financial position.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Claims

The provision for unpaid claims, and reinsurers' share thereof, are based on the estimated ultimate cost of all claims incurred but not settled at the date of the statement of financial position, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the date of the statement of financial position.

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, IAO Actuarial Consulting Services Inc. ("IAO"), a subsidiary of AON, to assist in performing the liability adequacy tests at year end.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from brokers and insurance contracts holders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the statement of income and comprehensive income.

Management fees

The Company pays an annual management fee to Bahamas First Corporate Services Ltd. ("BFCS"), a Bahamas registered company within the BFH Group, for executive management oversight and general administrative support provided to the Company. The fee is expensed evenly over the year.

Investments

All investments are initially recognised at fair value, on a trade date basis. At initial recognition, investments are designated as available for sale and are carried at fair value, with unrealised gains and losses being recorded in the investment fair value reserve within equity. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

The fair value of debt securities is based on either current bid prices reported on recognised exchanges or pricing data provided by internationally recognised pricing services. In the absence of readily available pricing data, fair value is determined based on dealer quotes or pricing models which are based on observable market-based inputs when available.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Investments (Continued)

IFRS 7 requires disclosure of fair value measurements by level of the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

Level 3: Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

Investment income

Interest on fixed income securities is recorded on the accrual basis using the effective yield method and dividends on equities are recorded on the ex-dividend date.

Premiums and discounts arising on acquisition of fixed income securities are amortised or accreted over the period remaining to maturity and are recognised through the statement of income. Realised gains and losses on available-for-sale investments are recognised through income when the securities are sold or mature. Any impairment in the value of investments, is charged against income in the year such determination is made. A financial asset is impaired if there is objective evidence of impairment.

Property and equipment

Property and equipment are carried at cost less depreciation. Depreciation is calculated using the straight-line method, estimated to write off the cost of the assets over their expected useful lives, as follows:

Leasehold improvements and furnishings	3 to 6 years
Motor vehicles	5 years
Computer and office equipment	3 years

The assets' useful lives are reviewed at each date of the statement of financial position and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of income and comprehensive income in other income or other operating expenses.

Freehold land acquired during 2014 is stated at cost plus all other expenses incurred in connection with the land acquisition.

Expenditure incurred in relation to the development of the Company's corporate headquarters has been capitalized and recorded under construction in progress.

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2016** (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Intangible assets

Intangible assets comprise of;

Acquired computer software licences. The software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life of the specific software, estimates of which range between 5 and 7 years.

Acquired customer relationships. This is recognized on acquisition of an insurance portfolio and represents future economic benefits to the Company arising out of the customer relationships acquired. On acquisition, the useful life of the asset is estimated and the asset is amortised over its expected useful life using the straight-line method.

An intangible asset is 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 included in the statement of income and comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise all bank current and short-term interest bearing accounts.

Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the 'functional currency'). The financial statements are presented in Cayman Islands dollars, which is the Company's presentation and functional currency. Revenue and expense transactions denominated in currencies other than the Cayman Islands dollar have been translated using exchange rates ruling at the dates of those transactions. Assets and liabilities denominated in currencies other than the Cayman Islands dollar have been translated using period end foreign exchange rates. Gains or losses on foreign currency transactions are included in other income.

Taxes

Under current laws of the Cayman Islands, there is no income, estate, transfer, sales or other Cayman Islands taxes payable by the Company and management believes the Company is not liable for tax in any other jurisdiction. Accordingly, no tax charges or tax liabilities are reflected in the financial statements.

Stamp duty

Based on the provisions of the Stamp Duty Law (2013 Revision), the Company charges policy holders a stamp duty of \$12 on each new or renewed insurance policy. Additionally, for property policies, as prescribed by the law, the Company also charges stamp duty of 2% of the premium relating to immovable property. The Company, as required by the law, submits the stamp duty charged to the Cayman Islands Government each month. The stamp duty charges are not included on the statement of income and comprehensive income. They are recorded as a receivable from the policyholders and a payable to the Cayman Islands Government in the month in which they are processed.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Health insurance surcharges

Based on the provisions of the Health Insurance Regulations (2013 Revision), the Company charges health policy holders, every month, \$10 for each insured person with no dependants and \$20 for each insured person with dependants. The Company, as required by the law, then submits the health insurance surcharges to the Health Insurance Commission each month to cover medical cost for indigent persons. The monthly surcharges are not included on the statement of income and comprehensive income. They are recorded as a receivable from the policyholders and a payable to the Health Insurance Commission in the month in which they are processed.

Pension obligations

The Company employees participate in a defined contribution plan. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no further payment obligations once the contributions have been paid. Payments to defined contribution retirement plans are charged as an expense as they fall due.

Provisions

Provisions for legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Leases

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

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

4. Critical Accounting Estimates and Judgments

The development of estimates and the exercise of judgment in applying accounting policies may have a material impact on the Company's reported assets, liabilities, revenues and expenses. The items which may have a material effect on the Company's financial statements are set out below.

(a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. The Company establishes its liabilities by product line, type and extent of coverage and the year of occurrence of the claim. These liabilities are divided into two categories – provision for notified claims and the provision for claims that are incurred but not yet reported ("IBNR"). Provisions are also made for adverse development and unallocated loss adjustment expenses.

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2016** (expressed in Cayman Islands dollars)

4. Critical Accounting Estimates and Judgments (continued)

(a) The ultimate liability arising from claims made under insurance contracts (Continued)

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The provision for unpaid claims is necessarily based on estimates due to the fact that ultimate disposition of claims incurred prior to the date of the statement of financial position, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include, inter alia, jury decisions, court interpretations, legislative changes, 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. Management has also engaged independent actuaries, IAO Actuarial Consulting Services Inc., to assist them in making such estimates, based on the Company's own loss history and relevant industry data.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within two 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 Company does not establish provisions for catastrophes (such as natural disasters) in advance of the occurrence of such events. These events can cause significant volatility in the Company's level of incurred losses and the provision for unpaid claims.

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

Refer to Notes 5 and 12 for further information on the provision for unpaid claims.

(b) Fair value of financial assets and liabilities

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. If prices are not readily available, the fair value is estimated using either dealer quotes or pricing models or discounted cash flow models or management's estimate of amounts that could be realized under current market conditions and which are based on observable market-based inputs when available.

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

4. Critical Accounting Estimates and Judgments (continued)

b) Fair value of financial assets and liabilities (Continued)

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.

(b) Impairment of financial assets

The Company determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

Available for sale debt securities and receivables are considered impaired when there is objective evidence of impairment as a result of a loss event that has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Refer to Notes 5 and 8 for further information on neither past due nor impaired, past due but not impaired, and impaired financial assets.

5. Management of Insurance and Financial Risk

5.1 Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs, the uncertainty of the amount of the resulting claim and the timing of the settlement. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities.

This could occur because the frequency and/or severity of claims are greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Company only insures the risks of entities within the Cayman Islands, and so there is a concentration of insurance risk within this territory.

Below is a discussion of insurance risks specific to the lines of coverage provided by the Company.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.1 Insurance Risk (continued)

(a) Property and casualty insurance risks

Property risks are comprised principally of physical damage to property, contractors all risk and auto physical damage. Property policies are underwritten by reference to the commercial replacement value of the properties and contents insured.

Claim payment limits are always included to cap the amount payable on occurrence of the insured event. The costs of rebuilding properties, of replacement or indemnity for contents are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from windstorm or sea inundation damage. For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events, such as hurricanes, which may result in motor and property claims.

Casualty risks are comprised of personal injury from motor claims, public liability, employers' liability, workmen's compensation and personal liability coverage. The Company manages these risks by way of a conservative underwriting strategy, adequate reinsurance arrangements and proactive claims management. Underwriting limits are in place to enforce appropriate risk selection criteria. For example the Company has the right not to renew individual policies and it has the right to reject the payment of a fraudulent claim.

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

The Company has a dedicated in-house claims department and uses third party loss adjusters as necessary. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments. 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. However, the severity of claims can be affected by increasing level of court awards and inflation. See Note 12 for further discussion of the Company's claims exposures and reserving techniques.

The Company cedes reinsurance to other companies to minimise its exposures arising from large risks or from hazards of an unusual or catastrophic nature.

In the event that the Company's reinsurers are unable to meet their obligations under the reinsurance agreements in place, the Company would still be liable 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 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.

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2016** (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.1 Insurance Risk (continued)

(b) 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 Company is reviewed and approved by the Technical Review and Risk Compliance Committee on an annual basis.

5.2 Financial Risk

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The most important components of this financial risk are interest rate risk, price risk, foreign currency risk, credit risk and liquidity risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016

(expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (Continued)

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

	2016	2015
Financial assets		
Cash and cash equivalents	\$ 6,149,205	\$ 8,390,862
Available for sale investments (Note 7)	14,819,670	14,276,887
Loans and receivables:		
- Premiums receivable (Note 8)	4,073,127	4,536,812
- Reinsurance balances receivable	87,036	607,907
Reinsurers' share of provision for unpaid claims	3,342,146	3,869,908
Total financial assets	\$28,471,184	\$31,682,376
Non-financial assets	12,995,599	10,554,608
Total assets	\$41,466,783	\$42,236,984
Financial liabilities		
Payables at amortised cost:		
- Accrued expenses and other liabilities	\$ 378,016	\$ 499,960
- Reinsurance balances payable	1,621,307	1,959,078
Short term insurance contracts:		
- Provision for unpaid claims	7,349,253	7,950,422
Total financial liabilities	\$ 9,348,576	\$10,409,460
Non-financial liabilities	10,904,441	10,997,744
Total liabilities	\$20,253,017	\$21,407,204

(a) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

Key areas where the Company is exposed to credit risk are:

- cash and cash equivalents;
- investments in debt securities;
- reinsurers' share of insurance liabilities (reinsurers' share of provision for unpaid claims);
- amounts due from reinsurers in respect of claims paid (reinsurance balances receivable);
- amounts due from insurance contract holders (premiums receivable);

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (continued)

(a) Credit risk (continued)

All cash and cash equivalents are held with large financial institutions in the Cayman Islands and Canada. Investments in debt securities expose the Company to the risk that the issuer will default on payment of interest, the principal or both. The Company seeks to mitigate credit risk on debt securities by adhering to investment guidelines established by the Board of Directors. The minimum credit requirement on debt securities at the time of purchase is BBB by Standard & Poor's.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis by reviewing their financial strength and credit ratings. The Technical Review and Risk Compliance Committee, which directs the Company's reinsurance placement policy, assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. 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 exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company.

Information reported to management includes details of any uncertain or long outstanding amounts due. Where necessary, management will institute legal proceedings against debtors with long outstanding amounts due to the Company.

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

	<u>2016</u>	<u>2015</u>
Available for sale debt securities (Note 7)	\$ 14,819,670	\$ 14,276,887
Loans and receivables:		
- Premiums receivable (Note 8)*	4,629,661	5,080,443
- Reinsurance balances receivable	87,036	607,907
Cash and cash equivalents	6,149,205	8,390,862
Reinsurers' share of provision for unpaid claims	<u>3,342,146</u>	<u>3,869,908</u>
Total	<u>\$29,027,718</u>	<u>\$32,226,007</u>

*The Premium receivable balance is on a gross basis. The balance shown on the statement of financial position is net of provision for bad debts.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (continued)

(a) Credit risk (continued)

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

	<u>2016</u>	<u>2015</u>
AA	1,747,997	2,602,554
A	6,896,948	4,812,502
BBB	5,719,313	6,064,685
Below BBB or not rated	455,412	797,146
Cash and cash equivalents held with financial institution – not rated	<u>6,149,205</u>	<u>8,390,862</u>
Total debt securities and cash and cash equivalents bearing credit risk	<u>\$20,968,875</u>	<u>\$22,667,749</u>

Financial assets neither past due nor impaired, past due but not impaired and those that are impaired are analysed in the tables below.

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
At December 31, 2016:				
Available for sale debt securities	\$14,819,670	\$ -	\$ -	\$14,819,670
Loans and receivables:				
- Premiums receivable	3,908,704	164,423	556,534	4,629,661
- Reinsurance balances receivable	87,036	-	-	87,036
Reinsurers' share of provision for unpaid claims	3,342,146	-	-	3,342,146
Cash and cash equivalents	6,149,205	-	-	6,149,205
Total assets exposed to credit risk	<u>\$28,306,761</u>	<u>\$ 164,423</u>	<u>\$ 556,534</u>	<u>\$29,027,718</u>

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (continued)

(a) Credit risk (continued)

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
At December 31, 2015:				
Available for sale debt securities	\$ 14,276,887	\$ -	\$ -	\$14,276,887
Loans and receivables:				
- Premiums receivable	3,899,029	637,783	543,631	5,080,443
- Reinsurance balances receivable	607,907	-	-	607,907
Reinsurers' share of provision for unpaid claims	3,869,908	-	-	3,869,908
Cash and cash equivalents	8,390,862	-	-	8,390,862
Total assets exposed to credit risk	\$ 31,044,593	\$ 637,783	\$ 543,631	\$32,226,007

A further analysis of premiums receivable is given in Note 8.

(b) Interest rate risk

The Company's investment in fixed income debt securities and cash and cash equivalents are all subject to interest rate risk. The coupon rates associated with the fixed interest debt securities held by the Company range from 2.95% to 6.75% (2015: 2.95% to 6.75%)

The average interest yield of investments held during the year is as follows:

Debt securities	4.45% (2015: 4.24%)
Cash and cash equivalents and term deposits	0.01% (2015: 0.01%)

(c) Foreign currency risk

The Company is not directly exposed to foreign currency risk, as all investments are denominated in US dollars, which is fixed to the Cayman Islands dollar at the following rate: CI\$1=US\$1.20. All other assets and liabilities are denominated in either Cayman Islands dollars or US dollars.

(d) Price risk

The Company is subject to price risk on its securities due to changes in market values. One of the primary objectives of the Company's risk management policy is to mitigate potential adverse impacts of market movements. A diversified portfolio of assets is held in order to reduce exposure to individual securities.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (continued)

(e) Liquidity risk

The Company's liquidity risk primarily relates to its insurance liabilities (provision for unpaid claims), which mostly fall due within one year. The Company mitigates this risk by reinsuring a substantial portion of insurance liabilities and by maintaining significant holdings of cash and cash equivalents and investments that mature in the near future or are highly liquid.

The following tables indicate the timing of undiscounted cash flows arising from financial liabilities as of December 31, 2016 and 2015:

2016	Cash flows (undiscounted)			
	Undiscounted amount	< 1 year	1- 5 years	> 5 years
Financial liabilities				
Accrued expenses and other liabilities	\$ 378,016	\$ 378,016	\$ -	\$ -
Reinsurance balances payable	1,621,307	1,621,307	-	-
Provision for unpaid claims (undiscounted)	7,349,253	4,311,064	2,502,397	535,792
Less: reinsurers' share of provision for unpaid claims (undiscounted)	(3,342,146)	(1,584,865)	(1,449,534)	(307,747)
Total undiscounted cash flows	\$ 6,006,430	\$ 4,725,522	\$ 1,052,863	\$ 228,045

2015	Cash flows (undiscounted)			
	Undiscounted amount	< 1 year	1- 5 years	> 5 years
Financial liabilities				
Accrued expenses and other liabilities	\$ 499,960	\$ 499,960	\$ -	\$ -
Reinsurance balances payable	1,959,078	1,959,078	-	-
Provision for unpaid claims (undiscounted)	7,950,422	4,648,356	2,721,157	580,909
Less: reinsurers' share of provision for unpaid claims (undiscounted)	(3,869,908)	(1,942,027)	(1,577,357)	(350,524)
Total undiscounted cash flows	\$ 6,539,552	\$ 5,165,367	\$ 1,143,800	\$ 230,385

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.3 Sensitivity Analysis

The following factors are likely to affect the sensitivity of the Company's reserves:

- changes to the loss ratios for the underlying business
- changes to the reporting pattern of losses
- changes to the severity of losses

The Company predominantly funds its net insurance liabilities (net of reinsurance recoveries) through its cash and cash equivalents generated in the normal course of its operations. In the event of a catastrophe, the net insurance liabilities may be required to be funded through the Company's portfolio of debt securities.

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from insurance contracts in force at the date of the statement of financial position (both incurred claims and future claims arising from the unexpired risks at the date of the statement of financial position). The mean durations are:

	<u>2016</u>	<u>2015</u>
Net insurance liabilities – property risk	3 months	3 months
Net insurance liabilities – casualty risk	2.5 years	2.5 years
Net insurance liabilities – health contracts	1 month	1 month
Investments	4.20 years	4.27 years

Fixed income securities are marketable and will be able to be sold when required. Cash and cash equivalents are available on demand.

The provision for insurance liabilities is estimated by management based on the Company's claims experience, circumstances at hand and/or advice from legal counsel. In most cases, no explicit assumptions are made as projections/estimates are based on assumptions implicit in the Company's historic claims development and relevant circumstances. As such, the sensitivity of insurance liabilities is based on the financial impact of changes to the reported loss ratio.

The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of the assumptions may be correlated.

Sensitivity factor	Description of sensitivity factor applied
Interest rate – cash and cash equivalents	The impact of an increase in market interest rates by 3% (2015: 3%) and decrease in rates by 0.1% (2015: 0.1%)
Interest rate – debt securities	The impact of a change in market interest rates by 3% (2015: 3%)
Commission expense	The impact of a change in commission expense by 5% (2015: 5%)
Loss ratios	The impact of an absolute change in loss ratios by 10% (2015: 10%)

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.3. Sensitivity Analysis (continued)

	Interest rates +3%	Interest rates -0.01%	Commission expense +5%	Commission expense -5%	Loss ratios +10%	Loss ratios -10%
December 31, 2016						
Impact on profit* (1)	\$ 184,476	\$ (235)	\$ (133,441)	\$ 133,441	\$(2,204,639)	\$ 2,204,639
Impact on equity *(2)	\$(1,524,563)	\$1,796,908	\$ (133,441)	\$ 133,441	\$(2,204,639)	\$ 2,204,639
	Interest rates +3%	Interest rates -0.1%	Commission expense +5%	Commission expense -5%	Loss ratios +10%	Loss ratios -10%
December 31, 2015						
Impact on profit* (1)	\$ 251,726	\$ (209)	\$ (141,569)	\$ 141,569	\$(2,168,219)	\$ 2,168,219
Impact on equity *(2)	\$(1,441,805)	\$1,724,399	\$ (141,569)	\$ 141,569	\$(2,168,219)	\$ 2,168,219

* Net of reinsurance

- (1) The impact on profit for a change in interest rates is based on interest received on cash and cash equivalents.
- (2) The impact on equity for a change in interest rates is based on the estimated fair value of fixed income debt securities included in available for sale investments.

5.4 Capital Management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements stipulated within the Cayman Islands Insurance Law (Revised) and with the Insurance (Capital and Solvency) (Class A Insurers) Regulations, 2012 mandated by the Cayman Islands Monetary Authority ("CIMA");
- 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 safeguard the Company's ability to continue as a going concern through prudent and sustainable growth, so that it can continue to provide returns for shareholders and benefits for other stakeholders and maintain optimum capital structure.

The Company considers as capital, the total equity as presented on the Statement of Financial Position.

The Company actively monitors its capital requirements and is in compliance with all relevant laws, rules and regulations. There were no changes to the Company's capital management objectives, capital requirements or what the Company considers as capital.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.5 Fair Value Estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example corporate bonds) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to fair value financial instruments include:

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

The following table presents the Company's assets that are measured at fair value.

At December 31, 2016	Level 1	Level 2	Level 3	Total Balance
Available for sale financial assets				
Debt securities				
- Debt securities issued by U.S Government Agencies	\$ -	\$ 442,877	\$ -	\$ 442,877
- Debt securities issued by foreign governments	-	442,513	-	442,513
- Corporate bonds	-	13,916,607	-	13,916,607
- Other debt securities	-	-	17,673	17,673
Total assets measured at fair value	\$ -	\$ 14,801,997	\$ 17,673	\$ 14,819,670

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.5 Fair Value Estimation (continued)

At December 31, 2015	Level 1	Level 2	Level 3	Total Balance
Available for sale financial assets				
Debt securities				
- Debt securities issued by U.S Government Agencies	\$ -	\$ 450,064	\$ -	\$ 450,064
- Debt securities issued by foreign governments	-	435,892	-	435,892
- Corporate bonds	-	13,373,633	-	13,373,633
- Other debt securities	-	-	17,298	17,298
Total assets measured at fair value	\$ -	\$ 14,259,589	\$ 17,298	\$ 14,276,887

The following table presents the changes in Level 3 instruments:

	2016	2015
Opening balance	\$ 17,298	\$ 53,023
Increase in interest receivable	375	-
Change in investment fair value reserve	-	10,615
Proceeds from sale of investments	-	(32,049)
Realised losses on sale of investments	-	(13,641)
Impairment charge	-	(650)
Closing balance	\$ 17,673	\$ 17,298
Change in investment fair value reserve included in other Comprehensive loss	\$ -	\$ 10,615

There were no transfers into and out of level 3 instruments.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

6. Cash and Cash Equivalents

	2016	2015
Bank balances	\$ 5,121,445	\$ 5,222,143
Cash at broker	1,027,760	3,168,719
Total cash and cash equivalents	\$ 6,149,205	\$ 8,390,862

See also Note 5.2 (b) for the average interest yield for the year.

7. Investments

	2016	2015
Available for sale:		
Fixed income debt securities, at fair value (amortised cost \$14,481,924; 2015: \$14,180,403)	\$ 14,630,888	\$ 14,074,431
Interest receivable	188,782	202,456
Total investments	\$ 14,819,670	\$ 14,276,887

Management believes that there is no objective evidence of impairment of the investment in fixed income debt securities. The issuers of the debt securities are not in significant financial difficulty and have not defaulted on any interest or principal payments. There is also no observable data indicating that there is a measurable decrease in the estimated future cash flows from these debt securities.

The amortised cost and fair value of fixed income debt securities held at December 31, 2016 and 2015 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to repay obligations early without repayment penalties.

Refer to Note 5.2 (b) for coupon and average interest yields on these securities.

	2016		2015	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
Available for sale: Fixed income debt securities				
Due in less than one year	\$ 1,269,671	\$ 1,277,027	\$ 2,097,238	\$ 2,117,862
Due after one year through five years	7,183,182	7,345,794	6,042,091	6,115,223
Due after five years	6,029,071	6,008,067	6,041,074	5,841,346
	\$14,481,924	\$14,630,888	\$14,180,403	\$14,074,431

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

7. Investments (continued)

	2016	2015
Available for sale debt securities comprise:		
Government debt securities	\$ 872,900	\$ 873,466
Corporate debt securities	13,741,321	13,184,298
Other debt securities	16,667	16,667
Total	\$14,630,888	\$14,074,431

The geographical location of the Company's investments is as follows:

	2016	%	2015	%
USA	\$ 5,683,419	38%	\$ 6,490,101	45%
Asia	2,435,931	16%	1,653,930	12%
Europe	2,191,499	15%	1,766,167	12%
UK	2,150,142	15%	1,690,822	12%
Australia	875,271	6%	1,291,535	9%
Caribbean	450,821	3%	444,200	3%
Canada	428,113	3%	355,651	3%
South Africa	415,692	3%	382,025	3%
	14,630,888	99%	14,074,431	99%
Add: interest receivable	188,782	1%	202,456	1%
Total	\$ 14,819,670	100%	\$ 14,276,887	100%

Reconciliations of movements in the balance of available for sale investments is provided below:

	2016	2015
Available for sale investments		
At the beginning of the year	\$14,276,887	\$14,726,408
Cost of investments purchased	3,867,144	2,575,064
Proceeds from sale and maturity of investments	(3,452,210)	(2,658,561)
Amortisation / accretion of premiums / discounts on bonds	(141,720)	(140,147)
Realised gains on sale of investments	28,307	13,684
Fair value net gains / (losses)	254,936	(235,153)
Decrease in interest receivable	(13,674)	(3,758)
Impairment charge	-	(650)
At the end of the year	\$ 14,819,670	\$ 14,276,887

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

7. Investments (continued)

To finance the construction of the Company's corporate headquarters, the Company, in June 2014, offered a rights issue to all holders of its ordinary voting shares. BFHI obtained a non-revolving 10-year demand loan from Cayman National Bank Ltd ("Bank") to finance its acquisition of shares in the Company. As a prerequisite of the loan facility, the Company entered into a Deed of Guarantee dated June 23, 2014 guaranteeing the payment of the loan, all interest and all other sums payable under or in respect of the loan facility. Pursuant to a pledge agreement dated June 23, 2014, the Company has provided to the Bank security interest over its investments, held with or through BMO Nesbitt Burns Inc. in its capacity as securities intermediary, as collateral for the credit facility. Consequently, the Company's investments have been hypothecated to the extent required to collateralise the loan issued to BFHI. The outstanding loan balance at December 31, 2016 was \$717,602 (2015: \$1,440,955).

8. Premiums Receivable

Premiums receivable, which is shown net of provision for bad debts, is comprised of:

	2016	2015
Agents and brokers receivables	\$ 3,359,690	\$ 3,674,138
Policyholders receivables	1,269,971	1,406,305
	<u>4,629,661</u>	<u>5,080,443</u>
Provision for bad debts:		
Balance at beginning of year	543,631	356,414
Provision for impairment of receivables	15,109	211,182
Bad debts write off	(2,206)	(23,965)
Balance at end of year	<u>556,534</u>	<u>543,631</u>
Premium receivable, net	\$ 4,073,127	\$ 4,536,812

Aging of premiums receivable, net is as follows:

	2016	2015
Less than 3 months	\$ 2,571,052	\$ 2,881,206
3-6 months	1,161,823	1,247,823
6 months -1 year	340,252	407,783
	\$ 4,073,127	\$ 4,536,812

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

9. Deferred and Unearned Commissions

Deferred policy acquisition commissions and unearned reinsurance commissions arise on property and casualty insurance contracts only. The movement in deferred policy acquisition commissions and unearned reinsurance commissions for the year is as follows:

	2016		2015	
	Deferred policy acquisition commissions	Unearned reinsurance commissions	Deferred policy acquisition commissions	Unearned reinsurance commissions
Beginning of year	\$ 910,036	\$ 1,795,519	\$ 894,141	\$ 1,822,906
Commissions written*	1,966,853	4,548,725	2,187,317	4,784,759
Commission incurred/earned*	(2,002,612)	(4,370,145)	(2,171,422)	(4,812,146)
Movement during the year	(35,759)	178,580	15,895	(27,387)
 End of the year	 \$ 874,277	 \$ 1,974,099	 \$ 910,036	 \$ 1,795,519

*Excludes acquisition costs and reinsurance commission relating to health and life insurance contracts.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

10. Intangible Assets

	Computer Software Licences	Other Intangible asset (Finite Life)	Total
Cost/Valuation			
At January 1, 2016	\$ 493,822	\$ -	\$ 493,822
Additions	-	230,000	230,000
At December 31, 2016	<u>\$ 493,822</u>	<u>\$ 230,000</u>	<u>\$ 723,822</u>
Accumulated amortisation			
At January 1, 2016	\$ 488,265	\$ -	\$ 488,265
Amortisation charge through income	2,222	42,167	44,389
At December 31, 2016	<u>\$ 490,487</u>	<u>\$ 42,167</u>	<u>\$ 532,654</u>
Net Book Value at December 31, 2016	<u>\$ 3,335</u>	<u>\$ 187,833</u>	<u>\$ 191,168</u>
Cost/Valuation			
At January 1, 2015	\$ 487,155	\$ -	\$ 487,155
Additions	6,667	-	6,667
At December 31, 2015	<u>\$ 493,822</u>	<u>\$ -</u>	<u>\$ 493,822</u>
Accumulated amortisation			
At January 1, 2015	\$ 485,800	\$ -	\$ 485,800
Amortisation charge through income	2,465	-	2,465
At December 31, 2015	<u>\$ 488,265</u>	<u>\$ -</u>	<u>\$ 488,265</u>
Net Book Value at December 31, 2015	<u>\$ 5,557</u>	<u>\$ -</u>	<u>\$ 5,557</u>

In February 2016, the Company acquired the insurance portfolio of one of its brokers for a consideration of \$230,000. This acquisition of customer relations is expected to generate future economic benefits to the Company over a finite period of time, and is therefore amortised using the straight line method over its estimated useful life of five years. The amortisation expense is included in general and administrative expenses in the statement of income and comprehensive income.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

11. Property and Equipment

	Land	Construction in Progress	Leasehold improvements & Furnishings	Computer & Office Equipment	Motor Vehicles	Total
Cost						
At January 1, 2016	\$ 1,887,555	\$ 540,758	\$ 1,809,953	\$ 461,526	\$ 107,483	\$ 4,807,275
Additions	-	2,270,287	2,382	91,074	-	\$ 2,363,743
At December 31, 2016	<u>\$ 1,887,555</u>	<u>\$ 2,811,045</u>	<u>\$ 1,812,335</u>	<u>\$ 552,600</u>	<u>\$ 107,483</u>	<u>\$ 7,171,018</u>
Accumulated depreciation						
At January 1, 2016	\$ -	\$ -	\$ (1,801,419)	\$ (435,480)	\$ (80,872)	\$ (2,317,771)
Charge for the year	-	-	(4,933)	(34,273)	(11,417)	\$ (50,623)
At December 31, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,806,352)</u>	<u>\$ (469,753)</u>	<u>\$ (92,289)</u>	<u>\$ (2,368,394)</u>
Net Book Value at December 31, 2016	<u>\$ 1,887,555</u>	<u>\$ 2,811,045</u>	<u>\$ 5,983</u>	<u>\$ 82,847</u>	<u>\$ 15,194</u>	<u>\$ 4,802,624</u>
Cost						
At January 1, 2015	\$ 1,887,555	\$ 105,349	\$ 1,806,555	\$ 454,573	\$ 107,483	\$ 4,361,515
Additions	-	435,409	3,398	6,953	-	\$ 445,760
At December 31, 2015	<u>\$ 1,887,555</u>	<u>\$ 540,758</u>	<u>\$ 1,809,953</u>	<u>\$ 461,526</u>	<u>\$ 107,483</u>	<u>\$ 4,807,275</u>
Accumulated depreciation						
At January 1, 2015	\$ -	\$ -	\$ (1,795,771)	\$ (407,246)	\$ (69,455)	\$ (2,272,472)
Charge for the year	-	-	(5,648)	(28,234)	(11,417)	\$ (45,299)
At December 31, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,801,419)</u>	<u>\$ (435,480)</u>	<u>\$ (80,872)</u>	<u>\$ (2,317,771)</u>
Net Book Value at December 31, 2015	<u>\$ 1,887,555</u>	<u>\$ 540,758</u>	<u>\$ 8,534</u>	<u>\$ 26,046</u>	<u>\$ 26,611</u>	<u>\$ 2,489,504</u>

As noted in Note 7, the Company made a decision to buy land and develop its own purpose built corporate headquarters. In this regard, a land deal was closed in March 2014. The value of the land is stated at cost plus all other expenses incurred in connection with the acquisition.

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 \$8,500,000.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

12. Provision for Unpaid Claims and Reinsurers' Share of Provision for Unpaid Claims

The movement in the provision for unpaid claims comprises:

	Gross	Reinsurers' Share	Net
2016			
Provision at beginning of year	\$ 7,950,422	\$ 3,869,908	\$ 4,080,514
Claims incurred	19,135,158	2,470,725	16,664,433
Claims incurred - current year	18,769,768	2,247,805	16,521,963
Claims incurred - prior years	365,390	222,920	142,470
Claims paid	(19,736,327)	(2,998,487)	(16,737,840)
Claims paid - current year	(15,591,027)	(1,194,839)	(14,396,188)
Claims paid - prior year	(4,145,300)	(1,803,648)	(2,341,652)
Provision at end of year	\$ 7,349,253	\$ 3,342,146	\$ 4,007,107
<u>Breakdown of the provision:</u>			
Notified claims	\$ 4,674,253	\$ 2,917,146	\$ 1,757,107
Incurred but not reported	2,675,000	425,000	2,250,000
Provision at end of year	\$ 7,349,253	\$ 3,342,146	\$ 4,007,107
2015			
Provision at beginning of year	\$ 6,838,836	\$ 3,149,082	\$ 3,689,754
Claims incurred	18,154,624	2,924,430	15,230,194
Claims incurred - current year	18,354,923	2,641,088	15,713,835
Claims incurred - prior years	(200,299)	283,342	(483,641)
Claims paid	(17,043,038)	(2,203,604)	(14,839,434)
Claims paid - current year	(14,327,569)	(1,213,930)	(13,113,639)
Claims paid - prior year	(2,715,469)	(989,674)	(1,725,795)
Provision at end of year	\$ 7,950,422	\$ 3,869,908	\$ 4,080,514
<u>Breakdown of the provision:</u>			
Notified claims	\$ 5,125,422	\$ 3,344,908	\$ 1,780,514
Incurred but not reported	2,825,000	525,000	2,300,000
Provision at end of year	\$ 7,950,422	\$ 3,869,908	\$ 4,080,514

Management has elected to record the provision for outstanding claims on an undiscounted basis to be in conformity with the reserving policy of BFH, the Company's ultimate parent.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

12. Provision for Unpaid Claims and Reinsurers' Share of Provision for Unpaid Claims (continued)

Gross undiscounted reserves at December 31, 2016 are \$7,349,253 (2015: \$7,950,422). Losses incurred but not reported include a provision for unallocated loss adjustment expenses ("ULAE").

Movements in liabilities related to insured events in prior periods changed primarily because of adjustments, based on advice received from the Company's independent legal counsel, to certain liability claims reported in various underwriting periods. The net impact of this adverse development to the Company is minimal as all losses were heavily reinsured.

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Company's estimate of total claims incurred for each year has changed at successive year ends. The bottom half of each table reconciles the cumulative claims incurred to the liability included in the current statement of financial position. Health and Life ("H&L") claims development is shown on a calendar underwriting year basis, whilst Property and Casualty ("P&C") claims development is shown on a financial reporting year basis.

H&L (\$)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Gross											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	6,709,248	9,868,384	14,344,710	14,855,678	15,566,981	13,494,394	14,217,078	13,640,992	14,878,119	15,532,493	133,108,077
One year later	6,476,636	10,290,940	14,358,866	15,302,739	15,325,489	13,028,673	13,981,016	13,297,746	15,137,334	-	-
Current estimate of ultimate claims incurred	6,476,636	10,290,940	14,358,866	15,302,739	15,325,489	13,028,673	13,981,016	13,297,746	15,137,334	15,532,493	132,731,932
Cumulative payments to date	(6,476,636)	(10,290,940)	(14,358,866)	(15,302,739)	(15,325,489)	(13,028,673)	(13,899,683)	(13,297,746)	(15,127,334)	(13,782,493)	(130,890,599)
Liability recognised in the statement of financial position	-	-	-	-	-	-	81,333	-	10,000	1,750,000	1,841,333
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	150,000
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	1,991,333
Reinsurance											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	202,643	941,154	1,017,669	478,420	269,902	282,817	504,002	434,483	761,794	243,153	5,136,037
One year later	180,320	1,110,581	961,385	433,028	230,786	310,426	501,891	330,154	849,326	-	-
Current estimate of ultimate claims incurred	180,320	1,110,581	961,385	433,028	230,786	310,426	501,891	330,154	849,326	243,153	5,151,050
Cumulative payments to date	(180,320)	(1,110,581)	(961,385)	(433,028)	(230,786)	(310,426)	(437,221)	(330,154)	(849,326)	(43,152)	(4,886,379)
Liability recognised in the statement of financial position	-	-	-	-	-	-	64,670	-	-	200,001	264,671
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	-
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	264,671
Net											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	6,506,605	8,927,230	13,327,041	14,377,258	15,297,079	13,211,577	13,713,076	13,206,509	14,116,325	15,289,340	127,972,040
One year later	6,296,316	9,180,359	13,397,481	14,869,711	15,094,703	12,718,247	13,479,125	12,967,592	14,288,008	-	-
Current estimate of ultimate claims incurred	6,296,316	9,180,359	13,397,481	14,869,711	15,094,703	12,718,247	13,479,125	12,967,592	14,288,008	15,289,340	127,580,882
Cumulative payments to date	(6,296,316)	(9,180,359)	(13,397,481)	(14,869,711)	(15,094,703)	(12,718,247)	(13,462,462)	(12,967,592)	(14,278,008)	(13,739,341)	(126,004,220)
Liability recognised in the statement of financial position	-	-	-	-	-	-	16,663	-	10,000	1,549,999	1,576,662
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	150,000
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	1,726,662

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

12. Provision for Unpaid Claims and Reinsurers' Share of Provision for Unpaid Claims (continued)

	P&C (\$)										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Gross											
Estimate of ultimate claims incurred:											
At end of financial reporting year	2,092,763	21,991,580	2,178,428	2,905,048	1,837,242	2,195,941	1,799,901	2,675,499	3,476,804	3,237,275	44,390,481
One year later	1,779,036	22,216,231	2,031,769	2,628,210	1,745,398	2,072,621	1,527,507	2,863,739	3,362,977	-	-
Two years later	2,129,378	22,360,368	2,321,613	2,583,388	1,664,370	1,979,168	1,428,152	2,828,490	-	-	-
Three years later	1,254,550	22,498,219	2,495,499	2,590,311	1,657,485	1,874,295	1,445,770	-	-	-	-
Four years later	1,264,438	22,433,726	2,798,724	2,595,310	1,657,031	1,906,609	-	-	-	-	-
Five years later	1,264,438	22,545,822	2,870,211	2,609,174	1,739,977	-	-	-	-	-	-
Six years later	1,264,438	22,495,254	3,176,896	2,804,490	-	-	-	-	-	-	-
Seven years later	1,264,438	22,559,611	3,182,643	-	-	-	-	-	-	-	-
Eight years later	1,264,438	22,557,183	-	-	-	-	-	-	-	-	-
Nine years later	1,264,438	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	1,264,438	22,557,183	3,182,643	2,804,490	1,739,977	1,906,609	1,445,770	2,828,490	3,362,977	3,237,275	44,329,852
Cumulative payments to date	(1,264,438)	(22,410,649)	(2,663,626)	(2,661,595)	(1,637,097)	(1,842,777)	(1,319,669)	(1,967,682)	(1,695,865)	(1,808,534)	(39,271,932)
Liability recognised in the statement of financial position	-	146,534	519,017	142,895	102,880	63,832	126,101	860,808	1,667,112	1,428,741	5,057,920
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	300,000
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	5,357,920
Reinsurance											
Estimate of ultimate claims incurred:											
At end of financial reporting year	1,234,340	19,966,673	1,355,516	1,787,159	1,034,564	1,274,092	997,883	1,480,930	1,879,294	2,004,652	33,015,103
One year later	1,086,990	20,389,491	1,287,558	1,621,322	981,949	1,150,755	841,822	1,760,469	1,852,586	-	-
Two years later	1,277,850	20,466,158	1,446,906	1,599,688	942,185	1,112,605	790,123	1,752,851	-	-	-
Three years later	752,753	20,539,224	1,549,729	1,606,182	938,149	1,052,427	799,025	-	-	-	-
Four years later	758,685	20,503,291	1,731,493	1,609,138	938,930	1,068,593	-	-	-	-	-
Five years later	758,685	20,570,935	1,775,884	1,616,260	980,076	-	-	-	-	-	-
Six years later	758,685	20,545,513	1,956,868	1,714,192	-	-	-	-	-	-	-
Seven years later	758,685	20,583,179	1,966,754	-	-	-	-	-	-	-	-
Eight years later	758,685	20,581,846	-	-	-	-	-	-	-	-	-
Nine years later	758,685	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	758,685	20,581,846	1,966,754	1,714,192	980,076	1,068,593	799,025	1,752,851	1,852,586	2,004,652	33,479,260
Cumulative payments to date	(758,685)	(20,495,897)	(1,660,314)	(1,643,650)	(929,288)	(1,037,081)	(728,976)	(1,050,309)	(945,898)	(1,151,687)	(30,401,785)
Liability recognised in the statement of financial position	-	85,949	306,440	70,542	50,788	31,512	70,049	702,542	906,688	852,965	3,077,475
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	-
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	3,077,475
Net											
Estimate of ultimate claims incurred:											
At end of financial reporting year	858,423	2,024,907	822,912	1,117,889	802,678	921,849	802,018	1,194,569	1,597,510	1,232,623	11,375,378
One year later	692,046	1,826,740	744,211	1,006,888	763,449	921,866	685,685	1,103,270	1,510,391	-	-
Two years later	851,528	1,894,210	874,707	983,720	722,185	866,563	638,029	1,075,639	-	-	-
Three years later	501,797	1,958,995	945,770	984,129	718,336	821,868	646,745	-	-	-	-
Four years later	505,753	1,930,435	1,067,231	986,172	718,101	838,016	-	-	-	-	-
Five years later	505,753	1,974,887	1,094,327	992,914	759,901	-	-	-	-	-	-
Six years later	505,753	1,949,741	1,220,028	1,090,298	-	-	-	-	-	-	-
Seven years later	505,753	1,976,432	1,215,889	-	-	-	-	-	-	-	-
Eight years later	505,753	1,975,337	-	-	-	-	-	-	-	-	-
Nine years later	505,753	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	505,753	1,975,337	1,215,889	1,090,298	759,901	838,016	646,745	1,075,639	1,510,391	1,232,623	10,850,592
Cumulative payments to date	(505,753)	(1,914,752)	(1,003,312)	(1,017,945)	(707,809)	(805,696)	(580,693)	(917,373)	(749,967)	(656,847)	(8,870,147)
Liability recognised in the statement of financial position	-	60,585	212,577	72,353	52,092	32,320	56,052	158,266	760,424	575,776	1,980,445
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	300,000
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	2,280,445

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

13. Gross Premiums Written

Based on the provision of the Stamp Duty Law (2013 Revision) and the Health Insurance Regulations (2013 Revision) the gross amounts billed to clients include stamp duties and health insurance surcharges, which the Company then submits to the Cayman Islands Government and the Health Insurance Commission respectively.

Below is a reconciliation of the gross premiums written on the income statement to the gross amounts billed to clients.

	2016	2015
Gross amounts billed to clients	\$ 41,569,640	\$ 43,287,353
Less: government stamp duties / health insurance surcharges	(1,059,988)	(1,060,659)
Gross premiums written	\$ 40,509,652	\$ 42,226,694

14. Unearned Premiums and Reinsurers' Share of Unearned Premiums

Unearned premiums arise on P&C insurance contracts only. The movement in unearned premiums for the year is as follows:

	2016		2015	
	Gross	Reinsured	Gross	Reinsured
Beginning of year	\$ 9,202,225	\$ 6,946,284	\$ 9,837,249	\$ 7,577,542
Premiums written*	20,321,482	16,190,453	22,701,588	17,823,103
Premium revenue*	(20,593,365)	(16,267,707)	(23,336,612)	(18,454,361)
Movement during the year	(271,883)	(77,254)	(635,024)	(631,258)
End of the year	\$ 8,930,342	\$ 6,869,030	\$ 9,202,225	\$ 6,946,284

* Excludes premiums relating to health and life insurance contracts.

15. Share Capital

a) Share Capital

	2016	2015
Authorised Share Capital:		
4,000,000 (2015: 4,000,000) ordinary shares of \$1 each	\$ 4,000,000	\$ 4,000,000
1,000,000 (2015: 1,000,000) preference shares of \$1 each	1,000,000	1,000,000
	\$ 5,000,000	\$ 5,000,000
Issued and fully paid:		
2,000,000 (2015: 2,000,000) ordinary shares of \$1 each	\$ 2,000,000	\$ 2,000,000

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

15. Share Capital (continued)

b) Share Premium

The Company has completed two rights issues of 500,000 ordinary shares each. The share premium of \$6,300,092 (2015: \$6,300,092) represents the value by which the rights issue price exceeded the par value of shares issued.

c) General Reserve

The general reserve of \$3,000,000 (2015: \$3,000,000) represents amounts appropriated by the directors from retained earnings, and is considered to be non-distributable.

16. Investment Income

<u>Available for sale:</u>	<u>2016</u>	<u>2015</u>
Fixed income securities		
Interest income	\$ 647,689	\$ 614,351
Amortisation/accretion of premiums/discounts	(141,720)	(140,147)
Realised gains on sale of investments	28,307	13,684
Investment fees	(42,233)	(42,351)
Impairment charge	-	(650)
Total for available for sale investments	492,043	444,887
 <u>Cash and cash equivalents:</u>		
Interest income	235	209
Total for cash and cash equivalents	235	209
 Total investment income	\$ 492,278	\$ 445,096

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

17. Reconciliation of Net Income to Net Cash Provided by Operating Activities

	2016	2015
Net income for the year	\$ 1,295,717	\$ 2,690,861
Adjustment for non-cash items, interest and dividends:		
Investment income on available for sale investments	(492,043)	(444,887)
Net interest income on cash and cash equivalents	(235)	(209)
Interest received	701,936	647,428
Interest paid on purchases of investments	(40,338)	(29,110)
Investment fees paid	(42,233)	(42,351)
Depreciation of property and equipment	50,623	45,299
Amortisation of intangible assets	44,389	2,465
Movement in provision for impairment of receivables	15,109	211,182
Movement in deferred policy acquisition commissions	35,759	(15,895)
Movement in reinsurers' share of unearned premiums	77,254	631,258
Movement in reinsurers' share of provision for unpaid claims	527,762	(720,826)
Movement in unearned reinsurance commissions	178,580	(27,387)
Movement in unearned premiums	(271,883)	(635,024)
Movement in provision for unpaid claims	(601,169)	1,111,586
Changes in other assets and liabilities relating to operations:		
Premiums receivable	448,576	193,381
Reinsurance balances receivable	520,871	(176,105)
Prepaid expenses and other receivables	(55,273)	62,730
Accrued expenses and other liabilities	(121,944)	88,913
Reinsurance balances payable	(337,771)	200,320
Net cash provided by operating activities	\$ 1,933,687	\$ 3,793,629

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

18. Related Party Balances and Transactions

In the normal course of business the Company writes insurance for some of its directors, employees and minority shareholders. The Company grants reduced insurance rates to directors and employees.

Effective January 1, 2010, the Company purchased quota share reinsurance for motor and liability from Economical Mutual Insurance Company ("Economical"). Economical holds a 20% ownership in the Company's ultimate parent, BFH. The ceded motor and liability quota share is 57% (2015: 50.5%) and Economical's reinsurance participation is 8.5% (2015: 10%).

The Company pays an annual management fee to BFCS for executive management oversight and general administrative support provided to the Company. The management fee for the year ended December 31, 2016 was \$332,378 (2015:\$ 328,078).

Salaries and other short-term employee benefits for key management (being those executives with the authority to direct the Company's operating policies) included in personnel expenses are as follows:

	<u>2016</u>	<u>2015</u>
Salaries and other benefits	\$ 728,234	\$ 748,726
Post-employment benefits	29,188	28,729
Total remuneration for key management	<u>\$ 757,422</u>	<u>\$ 777,455</u>
Receivables from key management personnel	<u>\$ 3,433</u>	<u>\$ 2,386</u>

During the year ended December 31, 2016, the Company had a total of 9 directors (2015: 9), of whom 1 (2015: 1) is an executive officer of the Company and 2 (2015: 2) are executive officers of BFH. For the year ended December 31, 2016, the aggregate compensation for directors' services was \$76,736 (2015: \$78,472).

19. Pension Fund

The Company participates in The Cayman National Pension Fund, a defined contribution plan approved under the National Pensions Law of the Cayman Islands and administered by a previously affiliated Company. Membership is mandatory for all employees between the ages of 18 and 60 with contributions from both employer and employees. Included in personnel expense is an amount of \$135,317 (2015: \$130,383) representing the Company's portion of contributions required under the plan. The Company employed 50 employees at year-end (2015: 45 employees).

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

20. Commitments and Contingencies

a) Commitments

Construction in progress

As noted in Note 7 and 11, the Company made a decision to develop its own purpose built corporate headquarters. The development process is well underway and is expected to be completed in the fourth quarter of 2017. At December 31, 2016, the outstanding costs to complete the development are projected to be approximately \$3,600,000.

Leases

The Company has leased two premises from unrelated parties under normal commercial terms.

From May 1, 2001, the Company entered in to a renewable five-year operating lease for its head office operations. The most recent five-year lease expired on April 30, 2014 and the Company is now on a month to month lease given the plans in place to develop the Company's corporate headquarters.

The Company also had a renewable two-year operating lease that expired on August 31, 2016 for its branch, but this is also now on a month to month basis.

Below is the Company's total lease commitments at December 31, 2015 (December 31, 2016 is \$nil).

2015	Cash flows (undiscounted)			
	Total	< 1 year	1- 5 years	> 5 years
Operating lease agreements and rental payments	\$ 21,667	\$ 21,667	\$ -	\$ -
Total	\$ 21,667	\$ 21,667	\$ -	\$ -

b) Other legal proceedings

In the normal course of business, the Company is party to litigation (both as plaintiff and defendant) relating to coverage provided under its insurance policies. Where appropriate, management establishes provisions after taking into consideration the advice of attorneys and other specialists. It is management's policy to rigorously assert its position in such cases. Management does not believe that any current litigation will have a material adverse effect on the Company's financial position.

21. Segmented Information

The Company's operations are segmented into the following two business segments:

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2016 (expressed in Cayman Islands dollars)

21. Segmented Information (continued)

The Company conducts business in the Cayman Islands only and as a result there is no disclosure required by geographical segment.

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

	P&C	H&L	Total
2016			
Total segment revenue*	\$ 7,041,852	\$ 19,374,679	\$ 26,416,531
Depreciation of property and equipment	26,577	24,046	50,623
Amortisation of intangible assets	14,872	29,517	44,389
Total segment result	810,868	484,849	1,295,717

	P&C	H&L	Total
2015			
Total segment revenue*	\$ 7,767,304	\$ 18,766,156	\$ 26,533,460
Depreciation of property and equipment	26,810	18,489	45,299
Amortisation of intangible assets	1,111	1,354	2,465
Total segment result	1,396,260	1,294,601	2,690,861

*Net premium and reinsurance commissions

Management have pro-rated the Company's expenses at 52.5% (2015: 52.5%) for the P&C segment and 47.5% (2015: 47.5%) for the H&L segment, based on the estimated amount of resources utilized by each segment.

The segment assets and liabilities and capital expenditure at December 31, 2016 and 2015 are as follows:

	P&C	H&L	Total
2016			
Total segment assets	\$ 27,744,170	\$ 13,722,613	\$ 41,466,783
Total segment liabilities	17,839,169	2,413,848	20,253,017
Capital expenditure	1,309,965	1,283,778	2,593,743
2015			
Total segment assets	\$ 28,600,922	\$ 13,636,062	\$ 42,236,984
Total segment liabilities	18,800,003	2,607,201	21,407,204
Capital expenditure	240,691	211,736	452,427