

**Cayman First Insurance Company Limited**

**Financial Statements**

**2018**

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## **Financial Statements**

**2018**

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## **Independent Auditors' Report to the Directors**

### *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, 2018, the statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Cayman Islands and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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*

The financial statements of the Company as at and for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on April 6, 2018.

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

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

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

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



## **Independent Auditors' Report to the Directors (continued)**

### *Auditors' Responsibilities for the Audit of the Financial Statements (continued)*

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.

KPMG

March 22, 2019

# Cayman First Insurance Company Limited

## Statement of Financial Position

**As at December 31, 2018**

(expressed in Cayman Islands dollars)

	Note	2018	2017
<b>Assets</b>			
Cash and cash equivalents	6	\$ 6,564,471	\$ 6,514,340
Investments	7	14,859,264	13,870,853
Premiums receivable	8	5,183,835	4,605,028
Reinsurance balances receivable		556,199	559,997
Prepaid expenses and other receivables		276,721	281,506
Deferred policy acquisition commissions	9	911,515	818,145
Reinsurers' share of unearned premiums	14	7,564,039	6,509,169
Reinsurers' share of provision for unpaid claims	12	4,160,538	3,145,263
Intangible assets	10	95,833	142,946
Property and equipment	11	11,208,756	8,472,818
<b>Total assets</b>		<b>\$ 51,381,171</b>	<b>\$ 44,920,065</b>
<b>Liabilities</b>			
Accrued expenses and other liabilities		\$ 1,000,288	\$ 406,803
Reinsurance balances payable		2,120,845	1,803,027
Unearned reinsurance commissions	9	2,042,029	1,908,127
Unearned premiums	14	9,909,524	8,732,584
Provision for unpaid claims	12	8,473,147	7,682,076
<b>Total liabilities</b>		<b>23,545,833</b>	<b>20,532,617</b>
<b>Equity</b>			
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		(222,886)	198,268
Retained earnings		16,758,132	12,889,088
<b>Total equity</b>		<b>27,835,338</b>	<b>24,387,448</b>
<b>Total liabilities and equity</b>		<b>\$ 51,381,171</b>	<b>\$ 44,920,065</b>

Approved on behalf of the Board:

<b>Director: ALISON TRECO</b>	<b>Director: GORDON PHILIP</b>
<b>Date: MARCH 4, 2019</b>	<b>Date: MARCH 4, 2019</b>

*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, 2018

(expressed in Cayman Islands dollars)

	Note	2018	2017
<b>Underwriting income</b>			
Gross premiums written	13	\$ 48,905,917	\$ 41,891,772
Movement in unearned premiums	14	(1,176,940)	197,758
		47,728,977	42,089,530
Premiums ceded to reinsurers		(19,145,742)	(14,432,465)
Movement in deferred reinsurance premiums	14	1,054,870	(359,861)
Net premiums earned		29,638,105	27,297,204
Commission income		5,454,333	4,748,668
<b>Total underwriting income</b>		<b>35,092,438</b>	<b>32,045,872</b>
<b>Underwriting expenses</b>			
Net claims incurred	12	17,174,969	17,091,147
Commission expense		2,981,932	2,575,169
Cost of excess of loss reinsurance		2,666,898	2,486,662
<b>Total underwriting expenses</b>		22,823,799	22,152,978
<b>Net underwriting income</b>		<b>12,268,639</b>	<b>9,892,894</b>
<b>Other operating expenses</b>			
Salaries, benefits and bonuses	18	3,805,181	3,627,915
General and administrative expenses	18	3,020,349	2,678,413
Management fees	18	377,980	366,616
<b>Total other operating expenses</b>		<b>7,203,510</b>	<b>6,672,944</b>
<b>Net technical results</b>		<b>5,065,129</b>	<b>3,219,950</b>
<b>Other income</b>			
Investment income	16	469,282	487,760
Other income		1,300	-
<b>Total other income</b>		<b>470,582</b>	<b>487,760</b>
<b>Net income</b>		<b>5,535,711</b>	<b>3,707,710</b>
<b>Other comprehensive (loss) / income</b>			
<b>Items that may be reclassified subsequently to net income:</b>			
Change in investment fair value reserve	7	(421,154)	49,305
		<b>(421,154)</b>	<b>49,305</b>
<b>Comprehensive income</b>		<b>\$ 5,114,557</b>	<b>\$ 3,757,015</b>

*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, 2018

(expressed in Cayman Islands dollars)

	Share Capital	Share Premium	General Reserve	Investment Fair Value Reserve	Retained Earnings	Total
<b>Year-ended December 31, 2018</b>						
<b>Balance, beginning of year</b>	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ 198,268	\$ 12,889,088	\$ 24,387,448
<b>Comprehensive income:</b>						
Net income for the year	-	-	-	-	5,535,711	5,535,711
Change in investment fair value reserve (Note 7)	-	-	-	(421,154)	-	(421,154)
	-	-	-	(421,154)	5,535,711	5,114,557
<b>Transactions with owners</b>						
Dividends paid (\$0.83 per share)	-	-	-	-	(1,666,667)	(1,666,667)
	-	-	-	-	(1,666,667)	(1,666,667)
<b>Balance, end of year</b>	<b>\$ 2,000,000</b>	<b>\$ 6,300,092</b>	<b>\$ 3,000,000</b>	<b>\$ (222,886)</b>	<b>\$ 16,758,132</b>	<b>\$ 27,835,338</b>
	Share Capital	Share Premium	General Reserve	Investment Fair Value Reserve	Retained Earnings	Total
<b>Year-ended December 31, 2017</b>						
<b>Balance, beginning of year</b>	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ 148,963	\$ 9,764,711	\$ 21,213,766
<b>Comprehensive income:</b>						
Net income for the year	-	-	-	-	3,707,710	3,707,710
Change in investment fair value reserve (Note 7)	-	-	-	49,305	-	49,305
	-	-	-	49,305	3,707,710	3,757,015
<b>Transactions with owners</b>						
Dividends paid (\$0.29 per share)	-	-	-	-	(583,333)	(583,333)
	-	-	-	-	(583,333)	(583,333)
<b>Balance, end of year</b>	<b>\$ 2,000,000</b>	<b>\$ 6,300,092</b>	<b>\$ 3,000,000</b>	<b>\$ 198,268</b>	<b>\$ 12,889,088</b>	<b>\$ 24,387,448</b>

*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, 2018 (expressed in Cayman Islands dollars)

	Note	2018	2017
<b>Operating activities</b>			
Net income for the year		\$ 5,535,711	\$ 3,707,710
Reconciliation of net income to net cash provided by operating activities		655,858	75,381
<b>Net cash provided by operating activities</b>	<b>17</b>	<b>6,191,569</b>	<b>3,783,091</b>
<b>Investing activities</b>			
Cost of investments purchased	7	(2,880,500)	(917,504)
Proceeds from sale and maturity of investments	7	1,366,144	1,812,692
Cost of property and equipment purchased	11	(2,965,770)	(3,729,811)
Proceeds from sale of property and equipment		5,355	-
<b>Net cash used in investing activities</b>		<b>(4,474,771)</b>	<b>(2,834,623)</b>
<b>Financing activities</b>			
Dividends paid		(1,666,667)	(583,333)
<b>Net cash used in financing activities</b>		<b>(1,666,667)</b>	<b>(583,333)</b>
<b>Increase in cash and cash equivalents</b>		<b>50,131</b>	<b>365,135</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>6,514,340</b>	<b>6,149,205</b>
<b>Cash and cash equivalents at end of year</b>	<b>6</b>	<b>\$ 6,564,471</b>	<b>\$ 6,514,340</b>

*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, 2018 (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 87.70% (2017: 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 0.30% (2017: 0.35%) is held by 31 (2017: 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, 2018.

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

IFRS 9	Financial Instruments
	The IASB issued a temporary exemption for the effective date of implementation of IFRS 9 for insurance companies which meet certain qualifying criteria. This exemption allows the application of IFRS 9 to be deferred until January 1, 2022. At December 31, 2018, the Company meets these qualifying criteria and has therefore deferred implementation of IFRS 9.

#### b) Standards and Interpretations in issue but not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the aforementioned date. Management has not assessed whether the relevant adoption of these standards, interpretations and amendments in future periods will have a material impact on the financial statements of the Company.

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (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)

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

IFRS 16      Leases

Effective for annual periods beginning on or after January 1, 2022

IFRS 17      Insurance contracts

### 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 at fair value, 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.

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 3. Significant Accounting Policies (continued)

#### 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.

**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.

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 3. Significant Accounting Policies (continued)

#### Premiums and commissions (continued)

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.

#### 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, Aon Global Risk Consulting ("AGRC"), an AON business unit, 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.

The Company also charges an annual management fee to Brac Insurance Associates ("BIA") for executive management oversight and general administrative support provided to the Company. BIA is a company incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of BFHI. The fee is recognized as income evenly over the year.

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 3. Significant Accounting Policies (continued)

#### 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 the value within the bid-ask spread which is most representative of fair value 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.

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

The Company made a decision to buy land and develop its own purpose-built corporate headquarters. The land was acquired in 2014 and the development process begun in 2016. The building was completed in June 2018. The land is stated at cost plus all other expenses incurred in connection with the land acquisition. The building is carried at the expenditure incurred to develop the Company's corporate headquarters.

Property and equipment, other than land which is not depreciated, are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives, as follows:

Building	40 years
Leasehold improvements and furnishings	4 to 10 years
Motor vehicles	5 years
Computer and office equipment	3 to 5 years

# **Cayman First Insurance Company Limited**

## **Notes to Financial Statements** **For the year ended December 31, 2018** (expressed in Cayman Islands dollars)

### **3. Significant Accounting Policies (continued)**

#### **Property and equipment (continued)**

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.

#### **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 3 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.

# **Cayman First Insurance Company Limited**

## **Notes to Financial Statements** **For the year ended December 31, 2018** (expressed in Cayman Islands dollars)

### **3. Significant Accounting Policies (continued)**

#### **Stamp duty- Property and Casualty insurance contracts**

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.

#### **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.

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 4. Critical Accounting Estimates and Judgments (continued)

#### (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.

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, Aon Global Risk Consulting, 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.



# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 4. Critical Accounting Estimates and Judgments (continued)

#### (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.

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.

#### (c) 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.

# **Cayman First Insurance Company Limited**

## **Notes to Financial Statements** **For the year ended December 31, 2018** (expressed in Cayman Islands dollars)

### **5. Management of Insurance and Financial Risk (continued)**

#### **5.1 Insurance Risk (continued)**

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.

##### **(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.

# **Cayman First Insurance Company Limited**

## **Notes to Financial Statements** **For the year ended December 31, 2018** (expressed in Cayman Islands dollars)

### **5. Management of Insurance and Financial Risk (continued)**

#### **5.1 Insurance Risk (continued)**

##### **(a) Property and Casualty insurance risks (continued)**

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.

##### **(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, 2018 (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:

	2018	2017
<b>Financial assets</b>		
Cash and cash equivalents	\$ 6,564,471	\$ 6,514,340
Available for sale investments (Note 7)	14,859,264	13,870,853
Loans and receivables:		
- Premiums receivable (Note 8)	5,183,835	4,605,028
- Reinsurance balances receivable	556,199	559,997
<b>Total financial assets</b>	<b>\$ 27,163,769</b>	<b>\$ 25,550,218</b>
Non-financial assets	20,056,864	16,224,584
Reinsurers' share of provision for unpaid claims	4,160,538	3,145,263
<b>Total assets</b>	<b>\$ 51,381,171</b>	<b>\$ 44,920,065</b>
<b>Financial liabilities</b>		
Payables at amortised cost:		
- Accrued expenses and other liabilities	\$ 1,000,288	\$ 406,803
- Reinsurance balances payable	2,120,845	1,803,027
<b>Total financial liabilities</b>	<b>\$ 3,121,133</b>	<b>\$ 2,209,830</b>
Non-financial liabilities	11,951,553	10,640,711
Provision for unpaid claims	8,473,147	7,682,076
<b>Total liabilities</b>	<b>\$ 23,545,833</b>	<b>\$ 20,532,617</b>

#### (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, 2018 (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 which management considers to be creditworthy. 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>2018</u>	<u>2017</u>
Available for sale debt securities (Note 7)	\$14,859,264	\$13,870,853
Loans and receivables:		
- Premiums receivable (Note 8)*	5,477,206	4,856,297
- Reinsurance balances receivable	556,199	559,997
Cash and cash equivalents	6,564,471	6,514,340
Reinsurers' share of provision for unpaid claims	<u>4,160,538</u>	<u>3,145,263</u>
<b>Total</b>	<b><u>\$31,617,678</u></b>	<b><u>\$28,946,750</u></b>

\*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, 2018 (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>2018</u>	<u>2017</u>
AA	\$ 1,262,005	\$ 856,102
A	7,258,738	7,234,555
BBB	6,320,848	4,912,147
Below BBB or not rated	17,673	868,049
Cash and cash equivalents held with financial institution – not rated	<u>6,564,471</u>	<u>6,514,340</u>
<b>Total debt securities and cash and cash equivalents bearing credit risk</b>	<b><u>\$21,423,735</u></b>	<b><u>\$20,385,193</u></b>

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

	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>	<b>Impaired</b>	<b>Total</b>
<b>At December 31, 2018:</b>				
Available for sale debt securities	\$14,859,264	\$ -	\$ -	\$14,859,264
Loans and receivables:				
- Premiums receivable	4,666,372	517,463	293,371	5,477,206
- Reinsurance balances receivable	556,199	-	-	556,199
Reinsurers' share of provision for unpaid claims	4,160,538	-	-	4,160,538
Cash and cash equivalents	6,564,471	-	-	6,564,471
<b>Total assets exposed to credit risk</b>	<b><u>\$30,806,844</u></b>	<b><u>\$ 517,463</u></b>	<b><u>\$ 293,371</u></b>	<b><u>\$31,617,678</u></b>

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (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
<b>At December 31, 2017:</b>				
Available for sale debt securities	\$13,870,853	\$ -	\$ -	\$13,870,853
Loans and receivables:				
- Premiums receivable	4,414,826	190,202	251,269	4,856,297
- Reinsurance balances receivable	559,997	-	-	559,997
Reinsurers' share of provision for unpaid claims	3,145,263	-	-	3,145,263
Cash and cash equivalents	6,514,340	-	-	6,514,340
<b>Total assets exposed to credit risk</b>	<b>\$28,505,279</b>	<b>\$ 190,202</b>	<b>\$ 251,269</b>	<b>\$28,946,750</b>

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 6.50% (2017: 2.95% to 6.75%)

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

Debt securities	3.53% (2017: 3.51%)
Cash and cash equivalents and term deposits	0.02% (2017: 0.02%)

##### (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, 2018 (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, 2018 and 2017:

2018	Cash flows (undiscounted)			
	Undiscounted amount	< 1 year	1- 5 years	> 5 years
<b>Financial liabilities</b>				
Accrued expenses and other liabilities	\$ 1,000,288	\$ 1,000,288	\$ -	\$ -
Reinsurance balances payable	2,120,845	2,120,845	-	-
Provision for unpaid claims (undiscounted)	8,473,147	4,857,066	2,973,399	642,682
Less: reinsurers' share of provision for unpaid claims (undiscounted)	(4,160,538)	(1,898,141)	(1,862,811)	(399,586)
<b>Total undiscounted cash flows</b>	<b>\$ 7,433,742</b>	<b>\$ 6,080,058</b>	<b>\$ 1,110,588</b>	<b>\$ 243,096</b>

2017	Cash flows (undiscounted)			
	Undiscounted amount	< 1 year	1- 5 years	> 5 years
<b>Financial liabilities</b>				
Accrued expenses and other liabilities	\$ 406,803	\$ 406,803	\$ -	\$ -
Reinsurance balances payable	1,803,027	1,803,027	-	-
Provision for unpaid claims (undiscounted)	7,682,076	4,708,335	2,449,667	524,074
Less: reinsurers' share of provision for unpaid claims (undiscounted)	(3,145,263)	(1,496,267)	(1,360,937)	(288,059)
<b>Total undiscounted cash flows</b>	<b>\$ 6,746,643</b>	<b>\$ 5,421,898</b>	<b>\$ 1,088,730</b>	<b>\$ 236,015</b>



# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (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>2018</u>	<u>2017</u>
Net insurance liabilities – property risk	3 months	3 months
Net insurance liabilities – casualty risk	3.5 years	3.5 years
Net insurance liabilities – health contracts	1 month	1 month
Investments	3.27 years	3.66 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.

<b>Sensitivity factor</b>	<b>Description of sensitivity factor applied</b>
Interest rate – cash and cash equivalents	The impact of an increase in market interest rates by 3% (2017: 3%) and decrease in rates by 0.02% (2017: 0.02%)
Interest rate – debt securities	The impact of a change in market interest rates by 3% (2017: 3%)
Commission expense	The impact of a change in commission expense by 5% (2017: 5%)
Loss ratios	The impact of an absolute change in loss ratios by 10% (2017: 10%)

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 5. Management of Insurance and Financial Risk (continued)

#### 5.3. Sensitivity Analysis (continued)

	Interest rates +3%	Interest rates -0.02%	Commission expense +5%	Commission expense -5%	Loss ratios +10%	Loss ratios -10%
<b>December 31, 2018</b>	+3%	-3%	+5%	-5%	+10%	-10%
Impact on profit* (1)	\$ 198,606	\$ (1,212)	\$ (149,097)	\$ 149,097	\$(2,697,121)	\$ 2,697,121
Impact on equity *(2)	\$(1,250,032)	\$1,426,603	\$ (149,097)	\$ 149,097	\$(2,697,121)	\$ 2,697,121
	Interest rates +3%	Interest rates -0.02%	Commission expense +5%	Commission expense -5%	Loss ratios +10%	Loss ratios -10%
<b>December 31, 2017</b>	+3%	-3%	+5%	-5%	+10%	-10%
Impact on profit* (1)	\$ 195,430	\$ (1,019)	\$ (128,758)	\$ 128,758	\$(2,481,054)	\$ 2,481,054
Impact on equity *(2)	\$(1,286,190)	\$1,489,673	\$ (128,758)	\$ 128,758	\$(2,481,054)	\$ 2,481,054

\* 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, 2018 (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.

<b>At December 31, 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Balance</b>
<b>Available for sale financial assets</b>				
<b>Debt securities</b>				
- Debt securities issued by U.S Government Agencies	\$ -	\$ 422,060	\$ -	\$ 422,060
- Debt securities issued by foreign governments	-	442,438	-	442,438
- Corporate bonds	-	13,977,093	-	13,977,093
- Other debt securities	-	-	17,673	17,673
<b>Total assets measured at fair value</b>	<b>\$ -</b>	<b>\$ 14,841,591</b>	<b>\$ 17,673</b>	<b>\$ 14,859,264</b>

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 5. Management of Insurance and Financial Risk (continued)

#### 5.5 Fair Value Estimation (continued)

At December 31, 2017	Level 1	Level 2	Level 3	Total Balance
<b>Available for sale financial assets</b>				
<b>Debt securities</b>				
- Debt securities issued by U.S Government Agencies	\$ -	\$ 429,923	\$ -	\$ 429,923
- Debt securities issued by foreign governments	-	461,542	-	461,542
- Corporate bonds	-	12,961,715	-	12,961,715
- Other debt securities	-	-	17,673	17,673
<b>Total assets measured at fair value</b>	<b>\$ -</b>	<b>\$ 13,853,180</b>	<b>\$ 17,673</b>	<b>\$ 13,870,853</b>

There were no changes to Level 3 instruments and there were no transfers into and out of level 3 instruments. In addition, there were no transfers into and out of Level 1 and Level 2 instruments.

### 6. Cash and Cash Equivalents

	2018	2017
Bank balances	\$ 5,587,717	\$ 5,254,355
Cash at broker	976,754	1,259,985
<b>Total cash and cash equivalents</b>	<b>\$ 6,564,471</b>	<b>\$ 6,514,340</b>

Refer to Note 5.2 (b) for the average interest yield for the year.

### 7. Investments

	2018	2017
<b>Available for sale:</b>		
Fixed income debt securities, at fair value (amortised cost \$14,899,858; 2017: \$13,485,428)	\$ 14,676,972	\$ 13,683,696
Interest receivable	182,292	187,157
<b>Total investments</b>	<b>\$ 14,859,264</b>	<b>\$ 13,870,853</b>

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 7. Investments (continued)

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, 2018 and 2017 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.

	<b>2018</b>		<b>2017</b>	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
<b>Available for sale: Fixed income debt securities</b>				
Due in less than one year	\$ 1,322,674	\$ 1,321,258	\$ 1,258,218	\$ 1,261,766
Due after one year through five years	10,568,512	10,444,301	7,894,440	8,018,575
Due after five years	3,008,672	2,911,413	4,332,770	4,403,355
	<b>\$14,899,858</b>	<b>\$14,676,972</b>	<b>\$13,485,428</b>	<b>\$13,683,696</b>

	<b>2018</b>	<b>2017</b>
Available for sale debt securities comprise:		
Government debt securities	\$ 852,008	\$ 878,975
Corporate debt securities	13,808,297	12,788,054
Other debt securities	16,667	16,667
<b>Total</b>	<b>\$14,676,972</b>	<b>\$13,683,696</b>

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

	<b>2018</b>	<b>%</b>	<b>2017</b>	<b>%</b>
USA	\$ 6,257,478	42%	\$ 5,603,580	41%
Asia	2,553,687	17%	2,330,462	17%
Europe	2,484,154	17%	2,226,873	16%
UK	1,684,917	11%	1,749,263	13%
Australia	841,290	6%	880,243	6%
Caribbean	450,746	3%	469,850	3%
South Africa	404,700	3%	423,425	3%
	14,676,972	99%	13,683,696	99%
Add: interest receivable	182,292	1%	187,157	1%
<b>Total</b>	<b>\$ 14,859,264</b>	<b>100%</b>	<b>\$ 13,870,853</b>	<b>100%</b>

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 7. Investments (continued)

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

<u>Available for sale investments</u>	<b>2018</b>	<b>2017</b>
<b>At the beginning of the year</b>	\$ 13,870,853	\$ 14,819,670
Cost of investments purchased	2,880,500	917,504
Proceeds from sale and maturity of investments	(1,366,144)	(1,812,692)
Amortisation / accretion of premiums / discounts on bonds	(99,926)	(141,949)
Realised gains on sale of investments	-	40,640
Fair value net (losses) / gains	(421,154)	49,305
Decrease in interest receivable	(4,865)	(1,625)
<b>At the end of the year</b>	<b>\$ 14,859,264</b>	<b>\$ 13,870,853</b>

### 8. Premiums Receivable

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

	<b>2018</b>	<b>2017</b>
Agents and brokers receivables	\$ 3,979,948	\$ 3,486,196
Policyholders receivables	1,497,258	1,370,101
	<u>5,477,206</u>	<u>4,856,297</u>
Provision for bad debts:		
Balance at beginning of year	251,269	556,534
Provision for impairment of receivables	55,228	23,591
Bad debts write off	(13,126)	(328,856)
Balance at end of year	<u>293,371</u>	<u>251,269</u>
<b>Premium receivable, net</b>	<b>\$ 5,183,835</b>	<b>\$ 4,605,028</b>

Aging of premiums receivable, net is as follows:

	<b>2018</b>	<b>2017</b>
Less than 3 months	\$ 3,646,305	\$ 3,281,208
3-6 months	1,128,930	946,086
6 months -1 year	408,600	377,734
	<b>\$ 5,183,835</b>	<b>\$ 4,605,028</b>

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (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:

	<b>2018</b>		<b>2017</b>	
	Deferred policy acquisition commissions	Unearned reinsurance commissions	Deferred policy acquisition commissions	Unearned reinsurance commissions
<b>Beginning of year</b>	\$ 818,145	\$ 1,908,127	\$ 874,277	\$ 1,974,099
Commissions written*	2,216,792	5,263,085	1,729,047	4,384,877
Commission incurred/earned*	(2,123,422)	(5,129,183)	(1,785,179)	(4,450,849)
Movement during the year	93,370	133,902	(56,132)	(65,972)
<b>End of the year</b>	<b>\$ 911,515</b>	<b>\$ 2,042,029</b>	<b>\$ 818,145</b>	<b>\$ 1,908,127</b>

\*Excludes acquisition costs and reinsurance commission relating to Health and Life insurance contracts of \$858,510 and \$325,150 (2017: \$789,990 and \$297,819) respectively.

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 10. Intangible Assets

	<b>Computer Software Licences</b>	<b>Other Intangible asset (Finite Life)</b>	<b>Total</b>
<b>Cost/Valuation</b>			
At January 1, 2018	\$ 493,822	\$ 230,000	\$ 723,822
Additions	-	-	-
At December 31, 2018	<u>\$ 493,822</u>	<u>\$ 230,000</u>	<u>\$ 723,822</u>
<b>Accumulated amortisation</b>			
At January 1, 2018	\$ 492,709	\$ 88,167	\$ 580,876
Amortisation charge through income	1,113	46,000	47,113
At December 31, 2018	<u>\$ 493,822</u>	<u>\$ 134,167</u>	<u>\$ 627,989</u>
<b>Net Book Value at December 31, 2018</b>	<b><u>\$ -</u></b>	<b><u>\$ 95,833</u></b>	<b><u>\$ 95,833</u></b>
<b>Cost/Valuation</b>			
At January 1, 2017	\$ 493,822	\$ 230,000	\$ 723,822
Additions	-	-	-
At December 31, 2017	<u>\$ 493,822</u>	<u>\$ 230,000</u>	<u>\$ 723,822</u>
<b>Accumulated amortisation</b>			
At January 1, 2017	\$ 490,487	\$ 42,167	\$ 532,654
Amortisation charge through income	2,222	46,000	48,222
At December 31, 2017	<u>\$ 492,709</u>	<u>\$ 88,167</u>	<u>\$ 580,876</u>
<b>Net Book Value at December 31, 2017</b>	<b><u>\$ 1,113</u></b>	<b><u>\$ 141,833</u></b>	<b><u>\$ 142,946</u></b>

During 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, 2018 (expressed in Cayman Islands dollars)

### 11. Property and Equipment

	Land	Building	Leasehold improvements & Furnishings	Computer & Office Equipment	Motor Vehicles	Total
<b>Cost</b>						
At January 1, 2018	\$ 1,887,555	\$ 6,494,230	\$ 1,815,419	\$ 596,142	\$ 107,483	\$ 10,900,829
Additions	-	2,045,050	645,813	250,297	24,610	\$ 2,965,770
Disposals	-	-	(1,784,442)	(337,865)	(37,900)	(2,160,207)
At December 31, 2018	<u>\$ 1,887,555</u>	<u>\$ 8,539,280</u>	<u>\$ 676,790</u>	<u>\$ 508,574</u>	<u>\$ 94,193</u>	<u>\$ 11,706,392</u>
<b>Accumulated depreciation</b>						
At January 1, 2018	\$ -	\$ -	\$ (1,809,996)	\$ (514,309)	\$ (103,706)	\$ (2,428,011)
Charge for the year	-	(113,638)	(33,621)	(72,276)	(6,242)	\$ (225,777)
Disposals	-	-	1,780,387	337,865	37,900	\$ 2,156,152
At December 31, 2018	<u>\$ -</u>	<u>\$ (113,638)</u>	<u>\$ (63,230)</u>	<u>\$ (248,720)</u>	<u>\$ (72,048)</u>	<u>\$ (497,636)</u>
<b>Net Book Value at December 31, 2018</b>	<u><b>\$ 1,887,555</b></u>	<u><b>\$ 8,425,642</b></u>	<u><b>\$ 613,560</b></u>	<u><b>\$ 259,854</b></u>	<u><b>\$ 22,145</b></u>	<u><b>\$ 11,208,756</b></u>

	Land	Construction in Progress	Leasehold improvements & Furnishings	Computer & Office Equipment	Motor Vehicles	Total
<b>Cost</b>						
At January 1, 2017	\$ 1,887,555	\$ 2,811,045	\$ 1,812,335	\$ 552,600	\$ 107,483	\$ 7,171,018
Additions	-	3,683,185	3,084	43,542	-	\$ 3,729,811
At December 31, 2017	<u>\$ 1,887,555</u>	<u>\$ 6,494,230</u>	<u>\$ 1,815,419</u>	<u>\$ 596,142</u>	<u>\$ 107,483</u>	<u>\$ 10,900,829</u>
<b>Accumulated depreciation</b>						
At January 1, 2017	\$ -	\$ -	\$ (1,806,352)	\$ (469,753)	\$ (92,289)	\$ (2,368,394)
Charge for the year	-	-	(3,644)	(44,556)	(11,417)	\$ (59,617)
At December 31, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,809,996)</u>	<u>\$ (514,309)</u>	<u>\$ (103,706)</u>	<u>\$ (2,428,011)</u>
<b>Net Book Value at December 31, 2017</b>	<u><b>\$ 1,887,555</b></u>	<u><b>\$ 6,494,230</b></u>	<u><b>\$ 5,423</b></u>	<u><b>\$ 81,833</b></u>	<u><b>\$ 3,777</b></u>	<u><b>\$ 8,472,818</b></u>

As noted in Note 3, the Company made a decision to buy land and develop its own purpose-built corporate headquarters. The land was acquired in 2014 and the development process begun in 2016. The building was completed in June 2018. The land is stated at cost plus all other expenses incurred in connection with the land acquisition. The building is carried at the total expenditure incurred to develop the Company's corporate headquarters.

At December 2017, the construction in progress represented expenditure incurred in relation to the development from 2016 to December 2017 which amounted to \$6,494,230. Following the completion of the development, these costs were reclassified from "Construction in Progress" to "Building".

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (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:

<b>2018</b>	<b>Gross</b>	<b>Reinsurers' Share</b>	<b>Net</b>
Provision at beginning of year	\$ 7,682,076	\$ 3,145,263	\$ 4,536,813
Claims incurred	20,156,600	2,981,631	17,174,969
Claims incurred - current year	20,260,275	2,398,907	17,861,368
Claims incurred - prior years	(103,675)	582,724	(686,399)
Claims paid	(19,365,529)	(1,966,356)	(17,399,173)
Claims paid - current year	(16,653,910)	(1,149,649)	(15,504,261)
Claims paid - prior year	(2,711,619)	(816,707)	(1,894,912)
<b>Provision at end of year</b>	<b>\$ 8,473,147</b>	<b>\$ 4,160,538</b>	<b>\$ 4,312,609</b>
<u>Breakdown of the provision:</u>			
Notified claims	\$ 5,178,147	\$ 3,363,038	\$ 1,815,109
Incurred but not reported	3,295,000	797,500	2,497,500
<b>Provision at end of year</b>	<b>\$ 8,473,147</b>	<b>\$ 4,160,538</b>	<b>\$ 4,312,609</b>

<b>2017</b>	<b>Gross</b>	<b>Reinsurers' Share</b>	<b>Net</b>
Provision at beginning of year	\$ 7,349,253	\$ 3,342,146	\$ 4,007,107
Claims incurred	19,332,291	2,241,144	17,091,147
Claims incurred - current year	19,095,224	1,854,234	17,240,990
Claims incurred - prior years	237,067	386,910	(149,843)
Claims paid	(18,999,468)	(2,438,027)	(16,561,441)
Claims paid - current year	(15,739,641)	(923,013)	(14,816,628)
Claims paid - prior year	(3,259,827)	(1,515,014)	(1,744,813)
<b>Provision at end of year</b>	<b>\$ 7,682,076</b>	<b>\$ 3,145,263</b>	<b>\$ 4,536,813</b>
<u>Breakdown of the provision:</u>			
Notified claims	\$ 4,557,076	\$ 2,720,263	\$ 1,836,813
Incurred but not reported	3,125,000	425,000	2,700,000
<b>Provision at end of year</b>	<b>\$ 7,682,076</b>	<b>\$ 3,145,263</b>	<b>\$ 4,536,813</b>

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, 2018 (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, 2018 are \$8,473,147 (2017: \$7,682,076). 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 favourable development on the Health claims and adjustments, based on advice received from the Company's independent legal counsel, to certain P&C liability claims reported in various underwriting periods.

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.

	<b>H&amp;L (\$)</b>										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
<b>Gross</b>											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	14,344,710	14,855,678	15,566,981	13,494,394	14,217,078	13,640,992	14,878,119	15,532,493	16,371,438	16,455,880	149,357,763
One year later	14,358,866	15,302,739	15,325,489	13,028,673	13,981,016	13,297,746	15,137,334	14,979,130	15,441,213		
Current estimate of ultimate claims incurred	14,358,866	15,302,739	15,325,489	13,028,673	13,981,016	13,297,746	15,137,334	14,979,130	15,441,213	16,455,880	147,308,086
Cumulative payments to date	(14,358,866)	(15,302,739)	(15,325,489)	(13,028,673)	(13,899,683)	(13,297,746)	(15,137,334)	(14,979,130)	(15,441,213)	(14,655,880)	(145,426,753)
Liability recognised in the statement of financial position	-	-	-	-	81,333	-	-	-	-	1,800,000	1,881,333
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	165,000
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	<u>2,046,333</u>
<b>Reinsurance</b>											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	1,017,669	478,420	269,902	282,817	504,002	434,483	761,794	243,153	215,598	100,000	4,307,838
One year later	961,385	433,028	230,786	310,426	501,891	330,154	849,326	60,455	15,688		
Current estimate of ultimate claims incurred	961,385	433,028	230,786	310,426	501,891	330,154	849,326	60,455	15,688	100,000	3,793,139
Cumulative payments to date	(961,385)	(433,028)	(230,786)	(310,426)	(437,221)	(330,154)	(849,326)	(60,455)	(15,688)	-	(3,628,469)
Liability recognised in the statement of financial position	-	-	-	-	64,670	-	-	-	-	100,000	164,670
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	-
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	<u>164,670</u>
<b>Net</b>											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	13,327,041	14,377,258	15,297,079	13,211,577	13,713,076	13,206,509	14,116,325	15,289,340	16,155,840	16,355,880	145,049,925
One year later	13,397,481	14,869,711	15,094,703	12,718,247	13,479,125	12,967,592	14,288,008	14,918,675	15,425,525	-	-
Current estimate of ultimate claims incurred	13,397,481	14,869,711	15,094,703	12,718,247	13,479,125	12,967,592	14,288,008	14,918,675	15,425,525	16,355,880	143,514,947
Cumulative payments to date	(13,397,481)	(14,869,711)	(15,094,703)	(12,718,247)	(13,462,462)	(12,967,592)	(14,288,008)	(14,918,675)	(15,425,525)	(14,655,880)	(141,798,284)
Liability recognised in the statement of financial position	-	-	-	-	16,663	-	-	-	-	1,700,000	1,716,663
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	165,000
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	<u>1,881,663</u>

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

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

	P&C (\$)										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
<b>Gross</b>											
Estimate of ultimate claims incurred:											
At end of financial reporting year	2,178,428	2,905,048	1,837,242	2,195,941	1,799,901	2,675,499	3,476,804	3,237,275	2,723,786	3,804,395	26,834,319
One year later	2,031,769	2,628,210	1,745,398	2,072,621	1,527,507	2,863,739	3,362,977	3,119,237	2,538,340	-	-
Two years later	2,321,613	2,583,388	1,664,370	1,979,168	1,428,152	2,828,490	3,443,803	3,175,178	-	-	-
Three years later	2,495,499	2,590,311	1,657,485	1,874,295	1,445,770	3,144,794	3,217,854	-	-	-	-
Four years later	2,798,724	2,595,310	1,657,031	1,906,609	1,483,313	3,218,718	-	-	-	-	-
Five years later	2,870,211	2,609,174	1,739,977	1,916,538	1,530,926	-	-	-	-	-	-
Six years later	3,176,896	2,804,490	1,734,741	2,045,777	-	-	-	-	-	-	-
Seven years later	3,182,643	2,868,901	1,887,138	-	-	-	-	-	-	-	-
Eight years later	3,587,057	3,736,018	-	-	-	-	-	-	-	-	-
Nine years later	3,588,233	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	3,588,233	3,736,018	1,887,138	2,045,777	1,530,926	3,218,718	3,217,854	3,175,178	2,538,340	3,804,395	28,742,577
Cumulative payments to date	(3,177,149)	(2,736,867)	(1,807,412)	(1,903,014)	(1,392,189)	(2,826,858)	(2,170,041)	(2,327,181)	(2,307,022)	(1,998,030)	(22,645,763)
Liability recognised in the statement of financial position	411,084	999,151	79,726	142,763	138,737	391,860	1,047,813	847,997	231,318	1,806,365	6,096,814
Liability in respect of ULAE											330,000
Total liability included in the statement of financial position											6,426,814
<b>Reinsurance</b>											
Estimate of ultimate claims incurred:											
At end of financial reporting year	1,355,516	1,787,159	1,034,564	1,274,092	997,883	1,480,930	1,879,294	2,004,652	1,638,636	2,298,907	15,751,633
One year later	1,287,558	1,621,322	981,949	1,150,755	841,822	1,760,469	1,852,586	1,951,378	1,515,449	-	-
Two years later	1,446,906	1,599,668	942,185	1,112,605	790,123	1,752,851	1,894,018	2,013,394	-	-	-
Three years later	1,549,729	1,606,182	939,149	1,052,427	799,025	1,999,533	1,795,573	-	-	-	-
Four years later	1,731,493	1,609,138	938,930	1,068,593	818,111	2,052,955	-	-	-	-	-
Five years later	1,775,884	1,616,260	980,076	1,073,714	845,200	-	-	-	-	-	-
Six years later	1,956,868	1,714,192	978,144	1,141,976	-	-	-	-	-	-	-
Seven years later	1,966,754	1,746,897	1,056,889	-	-	-	-	-	-	-	-
Eight years later	2,246,120	2,533,552	-	-	-	-	-	-	-	-	-
Nine years later	2,253,160	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	2,253,160	2,533,552	1,056,889	1,141,976	845,200	2,052,955	1,795,573	2,013,394	1,515,449	2,298,907	17,507,055
Cumulative payments to date	(1,990,829)	(1,681,662)	(1,015,297)	(1,067,501)	(772,825)	(1,809,204)	(1,185,415)	(1,480,323)	(1,358,482)	(1,149,649)	(13,511,187)
Liability recognised in the statement of financial position	262,331	851,890	41,592	74,475	72,375	243,751	610,158	533,071	156,967	1,149,258	3,995,868
Liability in respect of ULAE											-
Total liability included in the statement of financial position											3,995,868
<b>Net</b>											
Estimate of ultimate claims incurred:											
At end of financial reporting year	822,912	1,117,889	802,678	921,849	802,018	1,194,569	1,597,510	1,232,623	1,085,150	1,505,488	11,082,686
One year later	744,211	1,006,888	763,449	921,866	685,685	1,103,270	1,510,391	1,167,859	1,022,891	-	-
Two years later	874,707	983,720	722,185	866,563	638,029	1,075,639	1,549,785	1,161,784	-	-	-
Three years later	945,770	984,129	718,336	821,868	646,745	1,145,261	1,422,281	-	-	-	-
Four years later	1,067,231	986,172	718,101	838,016	665,202	1,165,763	-	-	-	-	-
Five years later	1,094,327	992,914	759,901	842,824	685,726	-	-	-	-	-	-
Six years later	1,220,028	1,090,298	756,597	903,801	-	-	-	-	-	-	-
Seven years later	1,215,889	1,122,004	830,249	-	-	-	-	-	-	-	-
Eight years later	1,340,937	1,202,466	-	-	-	-	-	-	-	-	-
Nine years later	1,335,073	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	1,335,073	1,202,466	830,249	903,801	685,726	1,165,763	1,422,281	1,161,784	1,022,891	1,505,488	11,235,522
Cumulative payments to date	(1,186,320)	(1,055,205)	(792,115)	(835,513)	(619,364)	(1,017,654)	(984,626)	(846,858)	(948,540)	(848,381)	(9,134,576)
Liability recognised in the statement of financial position	148,753	147,261	38,134	68,288	66,362	148,109	437,655	314,926	74,351	657,107	2,100,946
Liability in respect of ULAE											330,000
Total liability included in the statement of financial position											2,430,946

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (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.

	<b>2018</b>	<b>2017</b>
Gross amounts billed to clients	\$ 50,187,197	\$ 43,021,797
Less: government stamp duties / health insurance surcharges	(1,281,280)	(1,130,025)
Gross premiums written	<b>\$ 48,905,917</b>	<b>\$ 41,891,772</b>

### 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:

	<b>2018</b>		<b>2017</b>	
	Gross	Reinsured	Gross	Reinsured
Beginning of year	\$ 8,732,584	\$ 6,509,169	\$ 8,930,342	\$ 6,869,030
Premiums written*	23,921,938	19,109,152	18,993,675	14,396,242
Premium earned revenue*	(22,744,998)	(18,054,282)	(19,191,433)	(14,756,103)
Movement during the year	1,176,940	1,054,870	(197,758)	(359,861)
End of the year	<b>\$ 9,909,524</b>	<b>\$ 7,564,039</b>	<b>\$ 8,732,584</b>	<b>\$ 6,509,169</b>

\* Excludes premiums relating to Health and Life insurance contracts.

### 15. Share Capital

#### a) Share Capital

	<b>2018</b>	<b>2017</b>
Authorised Share Capital:		
4,000,000 (2017: 4,000,000) ordinary shares of \$1 each	\$ 4,000,000	\$ 4,000,000
1,000,000 (2017: 1,000,000) preference shares of \$1 each	1,000,000	1,000,000
	<b>\$ 5,000,000</b>	<b>\$ 5,000,000</b>
Issued and fully paid:		
2,000,000 (2017: 2,000,000) ordinary shares of \$1 each	<b>\$ 2,000,000</b>	<b>\$ 2,000,000</b>

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (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 (2017: \$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 (2017: \$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>2018</u>	<u>2017</u>
<b>Fixed income securities</b>		
Interest income	\$ 603,275	\$ 628,644
Amortisation/accretion of premiums/discounts	(99,926)	(141,949)
Realised gains on sale of investments	-	40,640
Investment fees	(35,279)	(40,594)
<b>Total for available for sale investments</b>	<b>468,070</b>	<b>486,741</b>
 <u>Cash and cash equivalents:</u>		
Interest income	1,212	1,019
<b>Total for cash and cash equivalents</b>	<b>1,212</b>	<b>1,019</b>
 <b>Total investment income</b>	<b>\$ 469,282</b>	<b>\$ 487,760</b>

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

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

	<b>2018</b>	<b>2017</b>
<b>Net income for the year</b>	<b>\$ 5,535,711</b>	<b>\$ 3,707,710</b>
Adjustment for non-cash items, interest and dividends:		
Investment income on available for sale investments	(468,070)	(486,741)
Net interest income on cash and cash equivalents	(1,212)	(1,019)
Interest received	632,119	643,669
Interest paid on purchases of investments	(22,767)	(12,381)
Investment fees paid	(35,279)	(40,594)
Depreciation of property and equipment	225,777	59,617
Amortisation of intangible assets	47,113	48,222
Realised gains on sale of property and equipment	(1,300)	
Movement in provision for impairment of receivables	55,228	23,591
Movement in deferred policy acquisition commissions	(93,370)	56,132
Movement in reinsurers' share of unearned premiums	(1,054,870)	359,861
Movement in reinsurers' share of provision for unpaid claims	(1,015,275)	196,883
Movement in unearned reinsurance commissions	133,902	(65,972)
Movement in unearned premiums	1,176,940	(197,758)
Movement in provision for unpaid claims	791,071	332,823
Changes in other assets and liabilities relating to operations:		
Premiums receivable	(634,035)	(555,492)
Reinsurance balances receivable	3,798	(472,961)
Prepaid expenses and other receivables	4,785	(23,006)
Accrued expenses and other liabilities	593,485	28,787
Reinsurance balances payable	317,818	181,720
<b>Net cash provided by operating activities</b>	<b>\$ 6,191,569</b>	<b>\$ 3,783,091</b>

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (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.

For the period from January 1, 2010 to December 31, 2016, 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 for the year ended December 31, 2016 was 57% and Economical’s reinsurance participation was 8.5%.

Included in the statement of income and comprehensive income is a net of the management fee paid to BFCS and management fee received from BIA for executive management oversight and general administrative support. The breakdown of the management fees are as follows;

	<u>2018</u>	<u>2017</u>
Management fee expense to BFCS	\$ 389,980	\$ 378,616
Management fee income from BIA	(12,000)	(12,000)
	<u>\$ 377,980</u>	<u>\$ 366,616</u>

Although BIA is licenced as an insurance broker, it solicits and produces non-life business exclusively on behalf of the Company under an agency agreement. Below is a summary of transactions and balances between BIA and the Company.

### Statement of Financial Position

	<u>2018</u>	<u>2017</u>
Prepaid expenses and other receivables	\$ 4,642	\$ 12,000
Accrued expenses and other liabilities	-	10,015

### Statement of Income and Comprehensive Income

	<u>2018</u>	<u>2017</u>
Gross premiums written	\$ 2,815,477	\$ 2,915,217
Commission expense	348,586	359,297
General and administrative expenses (Development/expenses allowance)	30,000	30,000
Management fees	12,000	12,000



# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 18. Related Party Balances and Transactions (continued)

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>2018</u>	<u>2017</u>
Salaries and other benefits	\$ 787,695	\$ 768,104
Post-employment benefits	29,813	29,479
<b>Total remuneration for key management</b>	<b>\$ 817,508</b>	<b>\$ 797,583</b>
<b>Receivables from key management personnel</b>	<b>\$ 1,904</b>	<b>3,725</b>

During the year ended December 31, 2018, the Company had a total of 8 directors (2017: 8), of whom 1 (2017: 1) is an executive officer of the Company and 1 (2017: 1) is an executive officer of BFH. For the year ended December 31, 2018, the aggregate compensation for directors' services was \$85,417 (2017: \$85,417).

### 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 \$152,927 (2017: \$142,293) representing the Company's portion of contributions required under the plan. The Company employed 54 employees at year-end (2017: 49 employees).

### 20. Commitments and Contingencies

#### a) Commitments

##### Leases

The Company has a renewable three-year operating lease expiring on August 31, 2020 for its branch. The lease is under normal commercial terms with an unrelated party. Below is the Company's total commitments in respect this lease contract.

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 20. Commitments and Contingencies (continued)

#### a) Commitments (continued)

##### Leases (continued)

	Cash flows (undiscounted)			
	Total	< 1 year	1- 5 years	> 5 years
<b>2018</b>				
Operating lease agreements and rental payments	\$ 58,871	\$ 35,322	\$ 23,549	\$ -
<b>Total</b>	<b>\$ 58,871</b>	<b>\$ 35,322</b>	<b>\$ 23,549</b>	<b>\$ -</b>
<b>2017</b>				
Operating lease agreements and rental payments	\$ 94,193	\$ 35,322	\$ 58,871	\$ -
<b>Total</b>	<b>\$ 94,193</b>	<b>\$ 35,322</b>	<b>\$ 58,871</b>	<b>\$ -</b>

#### 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)

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, 2018 and 2017 are as follows:

	P&C	H&L	Total
<b>2018</b>			
Total segment revenue*	\$ 8,111,947	\$ 24,313,593	\$ 32,425,540
Depreciation of property, plant and equipment	118,533	107,244	225,777
Amortisation of intangible assets	14,913	32,200	47,113
Total segment result	948,852	4,586,859	5,535,711

# Cayman First Insurance Company Limited

## Notes to Financial Statements For the year ended December 31, 2018 (expressed in Cayman Islands dollars)

### 21. Segmented Information (continued)

	P&C	H&L	Total
<b>2017</b>			
Total segment revenue*	\$ 7,278,321	\$ 22,280,889	\$ 29,559,210
Depreciation of property and equipment	31,298	28,319	59,617
Amortisation of intangible assets	16,022	32,200	48,222
Total segment result	969,678	2,738,032	3,707,710

*\*Net premium and reinsurance commissions*

Management have pro-rated the Company's expenses at 52.5% (2017: 52.5%) for the P&C segment and 47.5% (2017: 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, 2018 and 2017 are as follows:

	P&C	H&L	Total
<b>2018</b>			
Total segment assets	\$33,590,202	\$ 17,790,969	\$ 51,381,171
Total segment liabilities	20,549,908	2,995,925	23,545,833
Capital expenditure	1,557,029	1,408,741	2,965,770
<b>2017</b>			
Total segment assets	\$ 29,508,996	\$ 15,411,069	\$ 44,920,065
Total segment liabilities	17,540,327	2,992,290	20,532,617
Capital expenditure	1,958,151	1,771,660	3,729,811