

Cayman First Insurance Company Limited

Financial Statements

2019

Cayman First Insurance Company Limited

Financial Statements

2019

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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, 2019, 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, 2019 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.

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 scepticism 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

May 27, 2020

Cayman First Insurance Company Limited

Statement of Financial Position

As at December 31, 2019

(expressed in Cayman Islands dollars)

	Note	2019	2018
Assets			
Cash and cash equivalents	6	\$ 11,867,367	\$ 6,564,471
Investments	7	14,045,752	14,859,264
Premiums receivable	8	4,888,717	5,183,835
Reinsurance balances receivable		577,417	556,199
Prepaid expenses and other receivables		306,711	276,721
Deferred policy acquisition commissions	9	950,027	911,515
Reinsurers' share of unearned premiums	15	7,795,128	7,564,039
Reinsurers' share of provision for unpaid claims	13	3,907,478	4,160,538
Intangible assets	10	49,833	95,833
Right-of-use asset	12	24,318	-
Property and equipment	11	10,030,029	11,208,756
Total assets		\$ 54,442,777	\$ 51,381,171
Liabilities			
Accrued expenses and other liabilities		\$ 433,504	\$ 1,000,288
Lease liabilities	12	25,138	-
Reinsurance balances payable		3,220,227	2,120,845
Unearned reinsurance commissions	9	2,065,413	2,042,029
Unearned premiums	15	10,326,149	9,909,524
Provision for unpaid claims	13	8,854,701	8,473,147
Total liabilities		24,925,132	23,545,833
Equity			
Share capital	16	2,000,000	2,000,000
Share premium	16	6,300,092	6,300,092
General reserve	16	3,000,000	3,000,000
Revaluation reserve	17	778,736	(222,886)
Retained earnings		17,438,817	16,758,132
Total equity		29,517,645	27,835,338
Total liabilities and equity		\$ 54,442,777	\$ 51,381,171

Approved on behalf of the Board:

Director: ALISON TRECO	Director: WARREN ROLLE
Date: MAY 27, 2020	Date: MAY 27, 2020

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, 2019
(expressed in Cayman Islands dollars)

	Note	2019	2018
Underwriting income			
Gross premiums written	14	\$ 48,322,307	\$ 48,905,917
Movement in unearned premiums	15	(416,625)	(1,176,940)
		47,905,682	47,728,977
Premiums ceded to reinsurers		(17,482,182)	(19,145,742)
Movement in deferred reinsurance premiums	15	231,089	1,054,870
Net premiums earned		30,654,589	29,638,105
Commission income		4,891,344	5,454,333
Total underwriting income		35,545,933	35,092,438
Underwriting expenses			
Net claims incurred	13	18,840,121	17,174,969
Commission expense		2,890,543	2,981,932
Cost of excess of loss reinsurance		2,681,003	2,666,898
Total underwriting expenses		24,411,667	22,823,799
		11,134,266	12,268,639
Other operating expenses			
Salaries, benefits and bonuses	20	3,865,209	3,805,181
General and administrative expenses	20	2,953,557	3,020,349
Management fees	20	417,688	377,980
Total other operating expenses		7,236,454	7,203,510
		3,897,812	5,065,129
Net technical results			
		3,897,812	5,065,129
Other (loss) / income			
Investment income	18	457,100	469,282
Other income		2,120	1,300
Building revaluation	11	(1,174,780)	
Finance costs	12	(1,567)	-
Total other (loss) / income		(717,127)	470,582
		3,180,685	5,535,711
Net income		3,180,685	5,535,711

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, 2019
(expressed in Cayman Islands dollars)

	Note	2019	2018
Net income		3,180,685	5,535,711
Other comprehensive income / (loss)			
Items that will not be reclassified subsequently to net income:			
Land revaluation	11,17	398,780	-
		398,780	-
Items that may be reclassified subsequently to net income:			
Change in investment fair value reserve	7	602,842	(421,154)
		602,842	(421,154)
Other comprehensive income / (loss)		1,001,622	(421,154)
Comprehensive income		\$ 4,182,307	\$ 5,114,557

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, 2019

(expressed in Cayman Islands dollars)

	Share Capital	Share Premium	General Reserve	Revaluation Reserve	Retained Earnings	Total
Year-ended December 31, 2019						
Balance, beginning of year	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ (222,886)	\$ 16,758,132	\$ 27,835,338
Comprehensive income:						
Net income for the year	-	-	-	-	3,180,685	3,180,685
Other comprehensive income	-	-	-	1,001,622	-	1,001,622
	-	-	-	1,001,622	3,180,685	4,182,307
Transactions with owners						
Dividends paid (\$1.25 per share)	-	-	-	-	(2,500,000)	(2,500,000)
	-	-	-	-	(2,500,000)	(2,500,000)
Balance, end of year	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ 778,736	\$17,438,817	\$ 29,517,645

	Share Capital	Share Premium	General Reserve	Revaluation Reserve	Retained Earnings	Total
Year-ended December 31, 2018						
Balance, beginning of year	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ 198,268	\$ 12,889,088	\$ 24,387,448
Comprehensive income:						
Net income for the year	-	-	-	-	5,535,711	5,535,711
Other comprehensive income	-	-	-	(421,154)	-	(421,154)
	-	-	-	(421,154)	5,535,711	5,114,557
Transactions with owners						
Dividends paid (\$0.83 per share)	-	-	-	-	(1,666,667)	(1,666,667)
	-	-	-	-	(1,666,667)	(1,666,667)
Balance, end of year	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ (222,886)	\$ 16,758,132	\$ 27,835,338

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, 2019 (expressed in Cayman Islands dollars)

	Note	2019	2018
Operating activities			
Net income for the year		\$ 3,180,685	\$ 5,535,711
Reconciliation of net income to net cash provided by operating activities		3,312,041	655,858
Net cash provided by operating activities	19	6,492,726	6,191,569
Investing activities			
Cost of investments purchased	7	-	(2,880,500)
Proceeds from sale and maturity of investments	7	1,319,180	1,366,144
Cost of property and equipment purchased	11	(123,905)	(2,965,770)
Property and equipment/ building contract sum adjustment	11	150,000	-
Proceeds from sale of property and equipment		2,120	5,355
Net cash provided by / used in investing activities		1,347,395	(4,474,771)
Financing activities			
Dividends paid		(2,500,000)	(1,666,667)
Lease liability cash payments	12	(37,225)	-
Net cash used in financing activities		(2,537,225)	(1,666,667)
Increase in cash and cash equivalents		5,302,896	50,131
Cash and cash equivalents at beginning of year		6,564,471	6,514,340
Cash and cash equivalents at end of year	6	\$ 11,867,367	\$ 6,564,471

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, 2019** (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 and 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% (2018: 87.70%) 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% (2018: 0.30%) is held by 31 (2018: 31) minority shareholders.

The Company's registered office is located at the office of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

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

The Company adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach. Accordingly, the comparative information presented for the year ending December 31, 2018 has not been restated – it is presented, as previously reported, under IAS 17 and related interpretations. The details of changes in the accounting policy are disclosed in Notes 2 and 12.

There were other several new and amended standards and interpretations effective for annual reporting periods beginning on or after January 1, 2019, but they did not have a material impact on the Company's financial statements.

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.

Effective for annual periods beginning on or after January 1, 2020

- Definition of Material (Amendments to IAS 1 and IAS 8)

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

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

Standards and Interpretations in issue but not yet effective (continued)

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

- IFRS 17 *Insurance Contracts*
On May 18, 2017 the IASB issued IFRS 17 *Insurance Contracts*. The new standard is effective for annual periods beginning on or after January 1, 2021, however, at its March 2020 meeting, the IASB decided to propose deferring the effective date to January 1, 2023. IFRS 17 will replace IFRS 4, *Insurance Contracts*. This standard introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognise profits as it delivers insurance services, rather than when it receives premiums.

The Company intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2023, subject to the proposed deferral noted above. The extent of the impact of adoption of the standard has not yet been determined.

- 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, 2023. At December 31, 2019, the Company meets these qualifying criteria and has therefore deferred implementation of IFRS 9.

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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Basis of preparation (continued)

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

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

Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. The Company defines insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

Any insurance contracts not meeting the definition of an insurance contract under IFRS 4 Insurance Contracts are classified as investment contracts. The main insurance contracts issued by the Company are as follows:

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

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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Reinsurance contracts (continued)

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

Premiums and commissions

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

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

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

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 recognises that impairment loss in the statement of income and comprehensive income.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

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 recognised as income evenly over the year.

Investments

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

The fair value of debt securities is based on either 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); and

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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Property and equipment

Property and equipment, other than land and buildings, are carried at cost less accumulated depreciation.

At December 31, 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.

At December 31, 2019, in alignment with the BFH Group policy, land and buildings are stated at fair market value, based on an independent professional appraisal. Going forward and in accordance with the Group policy, land and buildings will be revalued at least once every three years. At the end of each reporting period, management will update its fair value assessment, considering current information available and the most recent independent valuation. The fair value measurement is categorized in Level 3 in the fair value hierarchy.

A revaluation increment is recorded in other comprehensive income / (loss), unless it reverses a revaluation decrease of the same asset previously recognized as an expense. Any revaluation decrease is recognized as an expense unless it reverses a revaluation increase that was previously recognized in other comprehensive income / (loss). Any depreciation accumulated on an asset at the date of revaluation is eliminated against the gross carrying amount of the asset and the resulting net amount restated to the revalued amount of the asset.

Except for land, which is not depreciated, depreciation is calculated using the straight-line method over the estimated useful life of the assets.

The useful lives are 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

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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Intangible assets

Intangible assets are comprised 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 recognised 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 derecognised 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 current bank and short-term interest bearing accounts.

Foreign currency translation

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

Taxes

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

Stamp duty - 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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Health insurance surcharges

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

The Company has one renewable three-year lease for its branch. The Company previously classified this lease as an operating lease under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IAS 17, the payments made under operating leases were charged to the statement of income and comprehensive income on a straight line basis over the period of the lease.

On transition to IFRS 16, the Company recognised a right-of-use asset and lease liability for this lease on the statement of financial position. The lease liability was initially measured at the present value of the lease payments that were not paid as at January 1, 2019, discounted using the Company's incremental borrowing rate.

Leases (continued)

The right-of-use asset, on January 1, 2019 was recognised based on the measurement of the lease liability. The right-of-use asset is depreciated using the straight-line method over the remaining 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, 2019 (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.

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

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, AGRC, 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 13 for further information on the provision for unpaid claims.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (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 recognised exchanges or pricing data provided by internationally recognised 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 realised 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 recognised 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.

(d) Land and building revaluation

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

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2019** (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk

5.1 Insurance Risk

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

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

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

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

(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 or fires may also generate significant claims.

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2019** (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)

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 13 for further discussion of the Company's claims exposures and reserving techniques.

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

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

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

(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, 2019 (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:

	2019	2018
Financial assets		
Cash and cash equivalents	\$ 11,867,367	\$ 6,564,471
Available-for-sale investments (Note 7)	14,045,752	14,859,264
Loans and receivables:		
- Premiums receivable (Note 8)	4,888,717	5,183,835
- Reinsurance balances receivable	577,417	556,199
Total financial assets	\$ 31,379,253	\$ 27,163,769
Non-financial assets	19,156,046	20,056,864
Reinsurers' share of provision for unpaid claims	3,907,478	4,160,538
Total assets	\$ 54,442,777	\$ 51,381,171
Financial liabilities		
Payables at amortised cost:		
- Accrued expenses and other liabilities	\$ 433,504	\$ 1,000,288
- Lease liability	25,138	-
- Reinsurance balances payable	3,220,227	2,120,845
Total financial liabilities	\$ 3,678,869	\$ 3,121,133
Non-financial liabilities	12,391,562	11,951,553
Provision for unpaid claims	8,854,701	8,473,147
Total liabilities	\$ 24,925,132	\$ 23,545,833

(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); and
- Amounts due from insurance contract holders (premiums receivable).

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (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. However, this does not 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 ("S&P").

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>2019</u>	<u>2018</u>
Available-for-sale debt securities (Note 7)	\$14,045,752	\$14,859,264
Loans and receivables:		
- Premiums receivable (Note 8)*	5,051,891	5,477,206
- Reinsurance balances receivable	577,417	556,199
Cash and cash equivalents	11,867,367	6,564,471
Reinsurers' share of provision for unpaid claims	<u>3,907,478</u>	<u>4,160,538</u>
Total	<u>\$35,449,905</u>	<u>\$31,617,678</u>

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (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 S&P ratings (or an equivalent rating when not available from S&P).

	<u>2019</u>	<u>2018</u>
AA	\$ 876,920	\$ 1,262,005
A	6,573,365	7,258,738
BBB	6,577,794	6,320,848
Below BBB or not rated	17,673	17,673
Cash and cash equivalents held with financial institution – not rated	<u>11,867,367</u>	<u>6,564,471</u>
Total debt securities and cash and cash equivalents bearing credit risk	<u>\$25,913,119</u>	<u>\$21,423,735</u>

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

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
At December 31, 2019:				
Available-for-sale debt securities	\$14,045,752	\$ -	\$ -	\$14,045,752
Loans and receivables:				
- Premiums receivable	4,516,997	371,720	163,174	5,051,891
- Reinsurance balances receivable	577,417	-	-	577,417
Reinsurers' share of provision for unpaid claims	3,907,478	-	-	3,907,478
Cash and cash equivalents	11,867,367	-	-	11,867,367
Total assets exposed to credit risk	<u>\$34,915,011</u>	<u>\$ 371,720</u>	<u>\$ 163,174</u>	<u>\$35,449,905</u>

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (continued)

(a) Credit risk (continued)

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
At December 31, 2018:				
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
Total assets exposed to credit risk	\$30,806,844	\$ 517,463	\$ 293,371	\$31,617,678

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% (2018: 2.95% to 6.50%)

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

Debt securities	3.51% (2018: 3.53%)
Cash and cash equivalents and term deposits	0.02% (2018: 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, 2019 (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, 2019 and 2018:

2019	Cash flows (undiscounted)			
	Undiscounted amount	< 1 year	1- 5 years	> 5 years
Financial liabilities				
Accrued expenses and other liabilities	\$ 433,504	\$ 433,504	\$ -	\$ -
Reinsurance balances payable	3,220,227	3,220,227	-	-
Provision for unpaid claims (undiscounted)	8,854,701	5,386,266	2,852,599	615,837
Less: reinsurers' share of provision for unpaid claims (undiscounted)	(3,907,478)	(1,839,264)	(1,703,934)	(364,281)
Total undiscounted cash flows	\$ 8,600,954	\$ 7,200,733	\$ 1,148,665	\$ 251,556

2018	Cash flows (undiscounted)			
	Undiscounted amount	< 1 year	1- 5 years	> 5 years
Financial liabilities				
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)
Total undiscounted cash flows	\$ 7,433,742	\$ 6,080,058	\$ 1,110,588	\$ 243,096

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (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; and/or
- 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>2019</u>	<u>2018</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	2.63 years	3.27 years

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

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

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

Sensitivity factor	Description of sensitivity factor applied
Interest rate – cash and cash equivalents	The impact of an increase in market interest rates by 3% (2018: 3%) and decrease in rates by 0.02% (2018: 0.02%)
Interest rate – debt securities	The impact of a change in market interest rates by 3% (2018: 3%)
Commission expense	The impact of a change in commission expense by 5% (2018: 5%)
Loss ratios	The impact of an absolute change in loss ratios by 10% (2018: 10%)

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (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%
December 31, 2019	+3%	-3%	+5%	-5%	+10%	-10%
Impact on profit* (1)	\$ 280,360	\$ (1,941)	\$ (144,527)	\$ 144,527	\$(2,797,359)	\$ 2,797,359
Impact on equity *(2)	\$ (976,478)	\$ 1,094,006	\$ (144,527)	\$ 144,527	\$(2,797,359)	\$ 2,797,359
	Interest rates +3%	Interest rates -0.02%	Commission expense +5%	Commission expense -5%	Loss ratios +10%	Loss ratios -10%
December 31, 2018	+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

* 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, 2019 (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; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

At December 31, 2019	Level 1	Level 2	Level 3	Total Balance
Available-for-sale financial assets				
Debt securities				
- Debt securities issued by foreign governments	\$ -	\$ 464,492	\$ -	\$ 464,492
- Corporate bonds	-	13,563,587	-	13,563,587
- Other debt securities	-	-	17,673	17,673
Total assets measured at fair value	\$ -	\$ 14,028,079	\$ 17,673	\$ 14,045,752

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.5 Fair Value Estimation (continued)

At December 31, 2018	Level 1	Level 2	Level 3	Total Balance
Available for sale financial assets				
Debt securities				
- 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
Total assets measured at fair value	\$ -	\$ 14,841,591	\$ 17,673	\$ 14,859,264

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

	2019	2018
Bank balances	\$ 10,471,766	\$ 5,587,717
Cash at broker	1,395,601	976,754
Total cash and cash equivalents	\$ 11,867,367	\$ 6,564,471

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

7. Investments

	2019	2018
Available-for-sale:		
Fixed income debt securities, at fair value (amortised cost \$13,502,274; 2018: \$14,899,858)	\$ 13,882,229	\$ 14,676,972
Interest receivable	163,523	182,292
Total investments	\$ 14,045,752	\$ 14,859,264

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (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, 2019 and 2018 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.

	2019		2018	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
Available-for-sale: Fixed income debt securities				
Due in less than one year	\$ 2,090,357	\$ 2,102,158	\$ 1,322,674	\$ 1,321,258
Due after one year through five years	11,395,250	11,763,404	10,568,512	10,444,301
Due after five years	16,667	16,667	3,008,672	2,911,413
	\$13,502,274	13,882,229	\$14,899,858	\$14,676,972

	2019	2018
Available-for-sale debt securities comprise:		
Government debt securities	\$ 456,133	\$ 852,008
Corporate debt securities	13,409,429	13,808,297
Other debt securities	16,667	16,667
Total	\$13,882,229	\$14,676,972

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

	2019	%	2018	%
USA	\$ 6,015,366	43%	\$ 6,257,478	42%
Europe	2,216,550	16%	2,484,154	17%
Asia	2,140,196	15%	2,553,687	17%
UK	1,745,942	13%	1,684,917	11%
Australia	860,625	6%	841,290	6%
Caribbean	472,800	3%	450,746	3%
South Africa	430,750	3%	404,700	3%
	13,882,229	99%	14,676,972	99%
Add: interest receivable	163,523	1%	182,292	1%
Total	\$14,045,752	100%	\$ 14,859,264	100%

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (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>	<u>2019</u>	<u>2018</u>
At the beginning of the year	\$ 14,859,264	\$ 13,870,853
Cost of investments purchased	-	2,880,500
Proceeds from sale and maturity of investments	(1,319,180)	(1,366,144)
Amortisation / accretion of premiums / discounts on bonds	(78,405)	(99,926)
Fair value net gains / (losses)	602,842	(421,154)
Decrease in interest receivable	(18,769)	(4,865)
At the end of the year	\$ 14,045,752	\$ 14,859,264

8. Premiums Receivable

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

	<u>2019</u>	<u>2018</u>
Agents and brokers receivables	\$ 3,718,926	\$ 3,979,948
Policyholders receivables	1,332,965	1,497,258
	<u>5,051,891</u>	<u>5,477,206</u>
Provision for bad debts:		
Balance at beginning of year	293,371	251,269
Provision for bad debts	14,255	55,228
Bad debts written off	(144,452)	(13,126)
Balance at end of year	<u>163,174</u>	<u>293,371</u>
Premium receivable, net	\$ 4,888,717	\$ 5,183,835

Aging of premiums receivable, net is as follows:

	<u>2019</u>	<u>2018</u>
Less than 3 months	\$ 3,215,756	\$ 3,646,305
3 – 6 months	1,188,502	1,128,930
6 months – 1 year	484,459	408,600
	<u>\$ 4,888,717</u>	<u>\$ 5,183,835</u>

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (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:

	2019		2018	
	Deferred policy acquisition commissions	Unearned reinsurance commissions	Deferred policy acquisition commissions	Unearned reinsurance commissions
Beginning of year	\$ 911,515	\$ 2,042,029	\$ 818,145	\$ 1,908,127
Commissions written*	2,104,778	4,656,204	2,216,792	5,263,085
Commission incurred/earned*	(2,066,266)	(4,632,820)	(2,123,422)	(5,129,183)
Movement during the year	38,512	23,384	93,370	133,902
End of the year	\$ 950,027	\$ 2,065,413	\$ 911,515	\$ 2,042,029

*Excludes acquisition costs and reinsurance commission relating to Health and Life insurance contracts of \$824,277 and \$258,524 (2018: \$858,510 and \$325,150) respectively.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

10. Intangible Assets

	Computer Software Licences	Other Intangible asset (Finite Life)	Total
Cost/Valuation			
At January 1, 2019	\$ 493,822	\$ 230,000	\$ 723,822
Additions	-	-	-
At December 31, 2019	<u>\$ 493,822</u>	<u>\$ 230,000</u>	<u>\$ 723,822</u>
Accumulated amortisation			
At January 1, 2019	\$ 493,822	\$ 134,167	\$ 627,989
Amortisation charge through income	-	46,000	46,000
At December 31, 2019	<u>\$ 493,822</u>	<u>\$ 180,167</u>	<u>\$ 673,989</u>
Net Book Value at December 31, 2019	<u>\$ -</u>	<u>\$ 49,833</u>	<u>\$ 49,833</u>
Cost/Valuation			
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>
Accumulated amortisation			
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>
Net Book Value at December 31, 2018	<u>\$ -</u>	<u>\$ 95,833</u>	<u>\$ 95,833</u>

During 2016, the Company acquired the insurance portfolio of one of its brokers for 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, 2019 (expressed in Cayman Islands dollars)

11. Property and Equipment

	Land & Buildings	Leasehold improvements & Furnishings	Computer & Office Equipment	Motor Vehicles	Total
Cost/Valuation					
At January 1, 2019	\$ 10,426,835	\$ 676,790	\$ 508,574	\$ 94,193	\$ 11,706,392
Additions	107,342	4,929	11,634	-	123,905
Building contract sum adjustment	(150,000)	-	-	-	(150,000)
Elimination adjustment	(333,177)	-	-	-	(333,177)
Revaluation of land and buildings	(776,000)	-	-	-	(776,000)
At December 31, 2019	<u>\$ 9,275,000</u>	<u>\$ 681,719</u>	<u>\$ 520,208</u>	<u>\$ 94,193</u>	<u>\$ 10,571,120</u>
Accumulated depreciation					
At January 1, 2019	\$ (113,638)	\$ (63,230)	\$ (248,720)	\$ (72,048)	\$ (497,636)
Charge for the year	(219,539)	(65,831)	(86,340)	(4,922)	(376,632)
Elimination adjustment	333,177	-	-	-	333,177
At December 31, 2019	<u>\$ -</u>	<u>\$ (129,061)</u>	<u>\$ (335,060)</u>	<u>\$ (76,970)</u>	<u>\$ (541,091)</u>
Carrying Amount at December 31, 2019	<u>\$ 9,275,000</u>	<u>\$ 552,658</u>	<u>\$ 185,148</u>	<u>\$ 17,223</u>	<u>\$ 10,030,029</u>
2018					
	Land & Buildings	Leasehold improvements & Furnishings	Computer & Office Equipment	Motor Vehicles	Total
Cost					
At January 1, 2018	\$ 8,381,785	\$ 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>\$ 10,426,835</u>	<u>\$ 676,790</u>	<u>\$ 508,574</u>	<u>\$ 94,193</u>	<u>\$ 11,706,392</u>
Accumulated depreciation					
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>\$ (113,638)</u>	<u>\$ (63,230)</u>	<u>\$ (248,720)</u>	<u>\$ (72,048)</u>	<u>\$ (497,636)</u>
Carrying Amount at December 31, 2018	<u>\$ 10,313,197</u>	<u>\$ 613,560</u>	<u>\$ 259,854</u>	<u>\$ 22,145</u>	<u>\$ 11,208,756</u>

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

11. Property and Equipment (continued)

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 building final contract sum, with the developer, was finalised during 2019. The building costs at December 31, 2018 included an estimate of the final payment to the developer, which was based on the information available at the time. The final settlement in 2019 resulted in a decrease to the price of \$150,000 which has been reflected above.

In December 2019, the land and buildings were revalued to fair market value based on a valuation performed by an independent appraiser for financial statement purposes. The fair value of the land and buildings are derived from capitalized income projections based on a property's estimated net market income adjusted for vacancies, and a discount rate derived from an analysis of market evidence. The fair value measurement of the Company's land and building is classified as Level 3 in the fair value hierarchy. Land and buildings are classified as Level 3 as inputs are generally unobservable.

The revaluation resulted in a net decrease of \$776,000 to the land and building carrying value. The land carrying amount increased by \$398,780 while the building decreased by \$1,174,780.

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

Estimate/Assumption	Change	Impact on fair value
Rental income (\$49/sq. ft)	5.00% / -5.00%	\$430,160 / (\$430,160)
Vacancy rates (5%)	5.00% / -5.00%	(\$452,800) / \$452,800
Discount rate (8.25%)	1.00% / -1.00%	(\$930,076) / \$1,186,648

The net book value of the land and buildings, ignoring effects of revaluations would have been \$2,051,220 and \$7,999,780 respectively.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

12. Leases

The Company has a renewable three-year lease expiring on August 31, 2020 for its branch. The lease is under normal commercial terms with an unrelated party. Previously, this lease was classified as an operating lease under IAS 17.

a) Right-of-use asset

	2019
Balance at January 1, 2019	\$ 60,796
Depreciation charge for the year	(36,478)
Balance at December 31, 2019	\$ 24,318

b) Lease liabilities

	2019
Balance at January 1, 2019	\$ 60,796
Payments during the year	(35,658)
Balance at December 31, 2019	\$ 25,138

Below is the Company's total commitment in respect this lease contract at December 31, 2018.

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

c) Amount Recognised in the Statement of Income and Comprehensive Income

	2019
2019 – Leases under IFRS 16	
Interest on lease liabilities	1,567
Right-of-use asset – depreciation charge for the year	36,478
	2018
2018 – Operating leases under IAS 17	
Lease expense	35,322

d) Amount Recognised in the Statement of Cash Flows

	2019
Total lease liability cash payments	37,225

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

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

The movement in the provision for unpaid claims comprises:

2019	Gross	Reinsurers' Share	Net
Provision at beginning of year	\$ 8,473,147	\$ 4,160,538	\$ 4,312,609
Claims incurred	21,342,636	2,502,515	18,840,121
Claims incurred - current year	21,465,449	2,519,691	18,945,758
Claims incurred - prior years	(122,813)	(17,176)	(105,637)
Claims paid	(20,961,082)	(2,755,575)	(18,205,507)
Claims paid - current year	(17,216,797)	(1,198,136)	(16,018,661)
Claims paid - prior year	(3,744,285)	(1,557,439)	(2,186,846)
Provision at end of year	\$ 8,854,701	\$ 3,907,478	\$ 4,947,223
<u>Breakdown of the provision:</u>			
Notified claims	\$ 4,409,701	\$ 2,734,978	\$ 1,674,723
Incurred but not reported	4,445,000	1,172,500	3,272,500
Provision at end of year	\$ 8,854,701	\$ 3,907,478	\$ 4,947,223
2018	Gross	Reinsurers' Share	Net
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)
Provision at end of year	\$ 8,473,147	\$ 4,160,538	\$ 4,312,609
<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
Provision at end of year	\$ 8,473,147	\$ 4,160,538	\$ 4,312,609

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, 2019 (expressed in Cayman Islands dollars)

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

Gross undiscounted reserves at December 31, 2019 are \$8,854,701(2018: \$8,473,147). 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 Property and Casualty ("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 P&C claims development is shown on a financial reporting year basis.

H&L (\$)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	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	17,581,621	152,594,674
One year later	15,302,739	15,325,489	13,028,673	13,981,016	13,297,746	15,137,334	14,979,130	15,441,213	16,157,044		
Current estimate of ultimate claims incurred	15,302,739	15,325,489	13,028,673	13,981,016	13,297,746	15,137,334	14,979,130	15,441,213	16,157,044	17,581,621	150,232,005
Cumulative payments to date	(15,302,739)	(15,325,489)	(13,028,673)	(13,899,683)	(13,297,746)	(15,137,334)	(14,979,130)	(15,441,213)	(16,157,044)	(15,131,621)	(147,700,672)
Liability recognised in the statement of financial position	-	-	-	81,333	-	-	-	-	-	2,450,000	2,531,333
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	165,000
Total liability included in the statement of financial position	-	-	-	81,333	-	-	-	-	-	2,450,000	2,696,333
Reinsurance											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	478,420	269,902	282,817	504,002	434,483	761,794	243,153	215,598	100,000	200,000	3,490,169
One year later	433,028	230,786	310,426	501,891	330,154	849,326	60,455	15,688	-	-	
Current estimate of ultimate claims incurred	433,028	230,786	310,426	501,891	330,154	849,326	60,455	15,688	-	200,000	2,931,754
Cumulative payments to date	(433,028)	(230,786)	(310,426)	(437,221)	(330,154)	(849,326)	(60,455)	(15,688)	-	-	(2,667,084)
Liability recognised in the statement of financial position	-	-	-	64,670	-	-	-	-	-	200,000	264,670
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	-
Total liability included in the statement of financial position	-	-	-	64,670	-	-	-	-	-	200,000	264,670
Net											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	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	17,381,621	149,104,505
One year later	14,869,711	15,094,703	12,718,247	13,479,125	12,967,592	14,288,008	14,918,675	15,425,525	16,157,044	-	-
Current estimate of ultimate claims incurred	14,869,711	15,094,703	12,718,247	13,479,125	12,967,592	14,288,008	14,918,675	15,425,525	16,157,044	17,381,621	147,300,251
Cumulative payments to date	(14,869,711)	(15,094,703)	(12,718,247)	(13,462,462)	(12,967,592)	(14,288,008)	(14,918,675)	(15,425,525)	(16,157,044)	(15,131,621)	(145,033,588)
Liability recognised in the statement of financial position	-	-	-	16,663	-	-	-	-	-	2,250,000	2,266,663
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	165,000
Total liability included in the statement of financial position	-	-	-	16,663	-	-	-	-	-	2,250,000	2,431,663

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

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

	P&C (\$)										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross											
Estimate of ultimate claims incurred:											
At end of financial reporting year	2,905,048	1,837,242	2,195,941	1,799,901	2,675,499	3,476,804	3,237,275	2,723,785	3,804,395	3,883,828	28,539,718
One year later	2,628,210	1,745,398	2,072,621	1,527,507	2,863,739	3,362,977	3,119,237	2,538,340	3,798,441	-	-
Two years later	2,583,388	1,664,370	1,979,168	1,428,152	2,828,490	3,443,803	3,175,178	2,946,837	-	-	-
Three years later	2,590,311	1,657,485	1,874,295	1,445,770	3,144,794	3,217,854	2,761,602	-	-	-	-
Four years later	2,595,310	1,657,031	1,906,609	1,483,313	3,218,718	2,706,973	-	-	-	-	-
Five years later	2,609,174	1,739,977	1,916,538	1,530,926	3,432,581	-	-	-	-	-	-
Six years later	2,804,490	1,734,741	2,045,777	1,551,258	-	-	-	-	-	-	-
Seven years later	2,868,901	1,887,138	2,056,302	-	-	-	-	-	-	-	-
Eight years later	3,736,018	2,353,485	-	-	-	-	-	-	-	-	-
Nine years later	3,768,293	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	3,768,293	2,353,485	2,056,302	1,551,258	3,432,581	2,706,973	2,761,602	2,946,837	3,798,441	3,883,828	29,259,600
Cumulative payments to date	(3,624,217)	(1,945,174)	(1,907,110)	(1,430,194)	(2,949,257)	(2,231,667)	(2,597,439)	(2,368,058)	(2,564,797)	(2,085,176)	(23,703,089)
Liability recognised in the statement of financial position	144,076	408,311	149,192	121,064	483,324	475,306	164,163	578,779	1,233,644	1,798,652	5,556,511
Liability in respect of prior years*											271,857
Liability in respect of ULAE											330,000
Total liability included in the statement of financial position											6,158,368
Reinsurance											
Estimate of ultimate claims incurred:											
At end of financial reporting year	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	2,319,691	16,715,808
One year later	1,621,322	981,949	1,150,755	841,822	1,760,469	1,852,586	1,951,378	1,515,449	2,272,031	-	-
Two years later	1,599,668	942,185	1,112,605	790,123	1,752,851	1,894,018	2,013,394	1,737,555	-	-	-
Three years later	1,606,182	939,149	1,052,427	799,025	1,999,533	1,795,573	1,727,443	-	-	-	-
Four years later	1,609,138	938,930	1,068,593	818,111	2,052,955	1,459,711	-	-	-	-	-
Five years later	1,616,260	980,076	1,073,714	845,200	2,250,764	-	-	-	-	-	-
Six years later	1,714,192	978,144	1,141,976	853,956	-	-	-	-	-	-	-
Seven years later	1,746,897	1,056,889	1,145,898	-	-	-	-	-	-	-	-
Eight years later	2,533,552	1,355,870	-	-	-	-	-	-	-	-	-
Nine years later	2,566,269	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	2,566,269	1,355,870	1,145,898	853,956	2,250,764	1,459,711	1,727,443	1,737,555	2,272,031	2,319,691	17,689,188
Cumulative payments to date	(2,433,090)	(1,084,867)	(1,069,569)	(792,018)	(1,929,782)	(1,216,536)	(1,634,241)	(1,402,357)	(1,459,045)	(1,198,136)	(14,219,641)
Liability recognised in the statement of financial position	133,179	271,003	76,329	61,938	320,982	243,175	93,202	335,198	812,986	1,121,555	3,469,547
Liability in respect of prior years*											173,261
Liability in respect of ULAE											-
Total liability included in the statement of financial position											3,642,808
Net											
Estimate of ultimate claims incurred:											
At end of financial reporting year	1,117,889	802,678	921,849	802,018	1,194,569	1,597,510	1,232,623	1,085,149	1,505,488	1,564,137	11,823,910
One year later	1,006,888	763,449	921,866	685,685	1,103,270	1,510,391	1,167,859	1,022,891	1,526,410	-	-
Two years later	983,720	722,185	866,563	638,029	1,075,639	1,549,785	1,161,784	1,209,282	-	-	-
Three years later	984,129	718,336	821,868	646,745	1,145,261	1,422,281	1,034,159	-	-	-	-
Four years later	986,172	718,101	838,016	665,202	1,165,763	1,247,262	-	-	-	-	-
Five years later	992,914	759,901	842,824	685,726	1,181,817	-	-	-	-	-	-
Six years later	1,090,298	756,597	903,801	697,302	-	-	-	-	-	-	-
Seven years later	1,122,004	830,249	910,404	-	-	-	-	-	-	-	-
Eight years later	1,202,466	997,615	-	-	-	-	-	-	-	-	-
Nine years later	1,202,024	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	1,202,024	997,615	910,404	697,302	1,181,817	1,247,262	1,034,159	1,209,282	1,526,410	1,564,137	11,570,412
Cumulative payments to date	(1,191,127)	(860,307)	(837,541)	(638,176)	(1,019,475)	(1,015,131)	(963,198)	(965,701)	(1,105,752)	(887,040)	(9,483,448)
Liability recognised in the statement of financial position	10,897	137,308	72,863	59,126	162,342	232,131	70,961	243,581	420,658	677,097	2,086,964
Liability in respect of prior years*											98,596
Liability in respect of ULAE											330,000
Total liability included in the statement of financial position											2,515,560

* This relates to liabilities for years before 2010.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

14. 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.

	2019	2018
Gross amounts billed to clients	\$ 49,572,449	\$ 50,187,197
Less: government stamp duties / health insurance surcharges	(1,250,142)	(1,281,280)
Gross premiums written	\$ 48,322,307	\$ 48,905,917

15. 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:

	2019		2018	
	Gross	Reinsured	Gross	Reinsured
Beginning of year	\$ 9,909,524	\$ 7,564,039	\$ 8,732,584	\$ 6,509,169
Premiums written*	22,625,366	17,450,133	23,921,938	19,109,152
Premium earned revenue*	(22,208,741)	(17,219,044)	(22,744,998)	(18,054,282)
Movement during the year	416,625	231,089	1,176,940	1,054,870
End of the year	\$ 10,326,149	\$ 7,795,128	\$ 9,909,524	\$ 7,564,039

* Excludes premiums relating to Health and Life insurance contracts.

16. Share Capital

a) Share Capital

	2019	2018
Authorised Share Capital:		
4,000,000 (2018: 4,000,000) ordinary shares of \$1 each	\$ 4,000,000	\$ 4,000,000
1,000,000 (2018: 1,000,000) preference shares of \$1 each	1,000,000	1,000,000
	\$ 5,000,000	\$ 5,000,000
Issued and fully paid:		
2,000,000 (2018: 2,000,000) ordinary shares of \$1 each	\$ 2,000,000	\$ 2,000,000

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

16. 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 (2018: \$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 (2018: \$3,000,000) represents amounts appropriated by the directors from retained earnings and is considered to be non-distributable.

17. Revaluation Reserve

	Land	Investments	Total
At January 1, 2019	\$ -	\$ (222,886)	\$ (222,886)
Investment fair value reserve net gains	-	602,842	602,842
Land revaluation	398,780	-	398,780
At December 31, 2019	\$ 398,780	\$ 379,956	\$ 778,736
At January 1, 2018	\$ -	\$ 198,268	\$ 198,268
Investment fair value reserve net losses	-	(421,154)	(421,154)
At December 31, 2018	\$ -	\$ (222,886)	\$ (222,886)

18. Investment Income

<u>Available-for-sale:</u>	2019	2018
Fixed income securities		
Interest income	\$ 572,437	\$ 603,275
Amortisation/accretion of premiums/discounts	(78,405)	(99,926)
Investment fees	(38,873)	(35,279)
Total for available-for-sale investments	455,159	468,070
Cash and cash equivalents:		
Interest income	1,941	1,212
Total for cash and cash equivalents	1,941	1,212
Total investment income	\$ 457,100	\$ 469,282

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

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

	2019	2018
Net income for the year	\$ 3,180,685	\$ 5,535,711
Adjustment for non-cash items, interest and dividends:		
Investment income on available for sale investments	(455,159)	(468,070)
Net interest income on cash and cash equivalents	(1,941)	(1,212)
Interest received	593,147	632,119
Interest paid on purchases of investments	-	(22,767)
Investment fees paid	(38,873)	(35,279)
Interest portion of lease liability payments	1,567	-
Depreciation of property and equipment	376,632	225,777
Amortisation of intangible assets	46,000	47,113
Amortisation of right-of-use asset	36,478	-
Building revaluation	1,174,780	-
Realised gains on sale of property and equipment	(2,120)	(1,300)
Movement in provision for bad debts	14,255	55,228
Movement in deferred policy acquisition commissions	(38,512)	(93,370)
Movement in reinsurers' share of unearned premiums	(231,089)	(1054,870)
Movement in reinsurers' share of provision for unpaid claims	253,060	(1,015,275)
Movement in unearned reinsurance commissions	23,384	133,902
Movement in unearned premiums	416,625	1,176,940
Movement in provision for unpaid claims	381,554	791,071
Changes in other assets and liabilities relating to operations:		
Premiums receivable	280,863	(634,035)
Reinsurance balances receivable	(21,218)	3,798
Prepaid expenses and other receivables	(29,990)	4,785
Accrued expenses and other liabilities	(566,784)	593,485
Reinsurance balances payable	1,099,382	317,818
Net cash provided by operating activities	\$ 6,492,726	\$ 6,191,569

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

20. 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 the net amount 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>2019</u>	<u>2018</u>
Management fee expense to BFCS	\$ 429,688	\$ 389,980
Management fee income from BIA	(12,000)	(12,000)
	<u>\$ 417,688</u>	<u>\$ 377,980</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>2019</u>	<u>2018</u>
Prepaid expenses and other receivables	\$ 2,683	\$ 4,642
Accrued expenses and other liabilities	7,340	-

Statement of Income and Comprehensive Income

	<u>2019</u>	<u>2018</u>
Gross premiums written	\$ 2,691,672	\$ 2,815,477
Commission expense	339,598	348,586
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, 2019 (expressed in Cayman Islands dollars)

20. 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>2019</u>	<u>2018</u>
Salaries and other benefits	\$ 731,381	\$ 787,695
Post-employment benefits	28,944	29,813
Total remuneration for key management	\$ 760,325	\$ 817,508
Receivables from key management personnel	\$ 772	1,904

During the year ended December 31, 2019, the Company had a total of 7 directors (2018: 8), of whom 1 (2018: 1) was an executive officer of the Company during 2019 and 1 (2018: 1) is an executive officer of BFH. For the year ended December 31, 2019, the aggregate compensation for directors' services was \$95,313 (2018: \$85,417).

21. 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 \$160,627 (2018: \$152,927) representing the Company's portion of contributions required under the plan. The Company employed 59 employees at year-end (2018: 54 employees).

22. Commitments and Contingencies

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.

23. 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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2019 (expressed in Cayman Islands dollars)

23. Segmented Information (continued)

The segment results for the year ended December 31, 2019 and 2018 are as follows:

	P&C	H&L	Total
2019			
Total segment revenue*	\$ 7,928,261	\$ 24,936,669	\$ 32,864,930
Depreciation of property, plant and equipment	197,732	178,900	376,632
Amortisation of intangible assets	13,800	32,200	46,000
Depreciation of right-of-use asset	19,151	17,327	36,478
Total segment result	81,247	3,099,438	3,180,685

	P&C	H&L	Total
2018			
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

*Net premium and reinsurance commissions

Management have pro-rated the Company's expenses at 52.5% (2018: 52.5%) for the P&C segment and 47.5% (2018: 47.5%) for the H&L segment, based on the estimated amount of resources utilised by each segment.

The segment assets and liabilities and capital expenditure at December 31, 2019 and 2018 are as follows:

	P&C	H&L	Total
2019			
Total segment assets	\$ 35,644,627	\$ 18,798,150	\$ 54,442,777
Total segment liabilities	21,537,409	3,387,723	24,925,132
Capital expenditure (Note 11)	(13,700)	(12,395)	(26,095)
2018			
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

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2019** (expressed in Cayman Islands dollars)

24. Subsequent Events

The spread of coronavirus (“COVID-19”) around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Company is unable to determine if it will have a material impact to its operations and financial position.