

Cayman First Insurance Company Limited

Financial Statements

2021

Cayman First Insurance Company Limited

Financial Statements

2021

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

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, 2021, and the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Other Matter

The statements of the Company for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those statements on May 3, 2021.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte & Touche LLP

April 22, 2022

Cayman First Insurance Company Limited

Statement of Financial Position As at December 31, 2021 (expressed in Cayman Islands dollars)

	Notes	2021	2020
Assets			
Cash	6	\$ 12,664,453	\$ 14,980,740
Investments	7	13,130,634	11,635,038
Premiums receivable, net	8	5,125,614	4,661,915
Reinsurance balances receivable		561,392	1,320,973
Prepaid expenses and other receivables		188,758	264,864
Deferred policy acquisition commissions	9	1,167,455	1,015,609
Reinsurers' share of unearned premiums	15	10,190,712	8,752,476
Reinsurers' share of provision for unpaid claims	13	5,929,410	5,545,743
Intangible assets	10	57,175	22,351
Right-of-use asset	12	59,229	94,766
Property and equipment	11	<u>9,487,809</u>	<u>9,778,526</u>
Total assets		<u>\$ 58,562,641</u>	<u>\$ 58,073,001</u>
Liabilities			
Accrued expenses and other liabilities		\$ 748,267	\$ 607,101
Lease liabilities	12	61,688	95,664
Reinsurance balances payable		1,810,413	2,144,327
Unearned reinsurance commissions	9	2,686,844	2,362,839
Unearned premiums	15	13,117,128	11,434,060
Provision for unpaid	13	<u>11,792,497</u>	<u>10,895,080</u>
Total liabilities		<u>30,216,837</u>	<u>27,539,071</u>
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	606,137	982,903
Retained earnings		<u>16,439,575</u>	<u>18,250,935</u>
Total equity		<u>28,345,804</u>	<u>30,533,930</u>
Total liabilities and equity		<u>\$ 58,562,641</u>	<u>\$ 58,073,001</u>

The financial statements were authorized for issue by the Board of Directors on 31 March 2022.

Approved on behalf of the Board:

Director: Alison Treco	Director: Warren Rolle
Date: 31 March 2022	Date: 31 March 2022

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, 2021

(expressed in Cayman Islands dollars)

	Notes	2021	2020
Underwriting income			
Gross premiums written	14	\$ 56,130,195	\$ 49,154,114
Movement in unearned premiums	15	<u>(1,683,068)</u>	<u>(1,107,911)</u>
		54,447,127	48,046,203
Premiums ceded to reinsurers		(21,435,190)	(19,204,059)
Movement in reinsurances' share of unearned premiums	15	<u>1,438,236</u>	<u>957,348</u>
Net premiums earned		34,450,173	29,799,492
Commission income		<u>6,503,658</u>	<u>6,112,146</u>
Total underwriting income		<u>40,953,831</u>	<u>35,911,638</u>
Underwriting expenses			
Net claims incurred	13	25,981,801	20,748,543
Commission expense		3,386,401	3,009,970
Cost of excess of loss reinsurance		<u>2,945,077</u>	<u>2,667,562</u>
Total underwriting expenses		<u>32,313,279</u>	<u>26,426,075</u>
Net underwriting income		8,640,552	9,485,563
Other operating expenses			
Salaries, benefits and bonuses	20	4,664,799	4,146,203
General and administrative expenses	20	3,184,628	3,160,478
Management fees	20	<u>452,180</u>	<u>389,679</u>
Total other operating expenses		<u>8,301,607</u>	<u>7,696,360</u>
Net technical results		338,945	1,789,203
Other income			
Investment income	18	352,466	424,425
Finance costs	12	<u>(2,771)</u>	<u>(1,510)</u>
Total other income		<u>349,695</u>	<u>422,915</u>
Net income		688,640	2,212,118
Other comprehensive (loss) / income			
Items that may be reclassified subsequently to net income:			
Change in investment fair value reserve	7,17	<u>(376,766)</u>	<u>204,167</u>
		<u>(376,766)</u>	<u>204,167</u>
Total comprehensive income		<u>\$ 311,874</u>	<u>\$ 2,416,285</u>

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, 2021

(expressed in Cayman Islands dollars)

	<u>Share Capital</u>	<u>Share Premium</u>	<u>General Reserve</u>	<u>Revaluation Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at January 1, 2020	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ 778,736	\$ 17,438,817	\$ 29,517,645
Net income for the year	-	-	-	-	2,212,118	2,212,118
Other comprehensive income	-	-	-	204,167	-	204,167
Total comprehensive income	-	-	-	204,167	2,212,118	2,416,285
Transactions with owners						
Dividends paid (\$0.70 per share)	-	-	-	-	(1,400,000)	(1,400,000)
	-	-	-	-	(1,400,000)	(1,400,000)
Balance at December 31, 2020	2,000,000	6,300,092	3,000,000	982,903	18,250,935	30,533,930
Net income for the year	-	-	-	-	688,640	688,640
Other comprehensive loss	-	-	-	(376,766)	-	(376,766)
Total comprehensive income	-	-	-	(376,766)	688,640	311,874
Transactions with owners						
Dividends paid (\$1.25 per share)	-	-	-	-	(2,500,000)	(2,500,000)
	-	-	-	-	(2,500,000)	(2,500,000)
Balance at December 31, 2021	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ 606,137	\$ 16,439,575	\$ 28,345,804

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, 2021

(expressed in Cayman Islands dollars)

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Operating activities			
Net income for the year		\$ 688,640	\$ 2,212,118
Reconciliation of net income to net cash provided by operating activities		<u>1,538,211</u>	<u>(100,151)</u>
Net cash provided by operating activities	19	<u>2,226,851</u>	<u>2,111,967</u>
Investing activities			
Cost of investments purchased	7	(4,850,204)	-
Proceeds from sale and maturity of investments	7	2,935,012	2,547,381
Cost of property and equipment purchased	11	(45,598)	(87,546)
Cost of intangible assets purchased	10	<u>(45,601)</u>	<u>(20,833)</u>
Net cash (used) / provided by investing activities		<u>(2,006,391)</u>	<u>2,439,002</u>
Financing activities			
Dividends paid		(2,500,000)	(1,400,000)
Lease liability cash payments	12	<u>(36,747)</u>	<u>(37,596)</u>
Net cash used in financing activities		<u>(2,536,747)</u>	<u>(1,437,596)</u>
(Decrease) / increase in cash and cash equivalents		(2,316,287)	3,113,373
Cash and cash equivalents at beginning of year		<u>14,980,740</u>	<u>11,867,367</u>
Cash and cash equivalents at end of year	6	<u>\$ 12,664,453</u>	<u>\$ 14,980,740</u>

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, 2021 (expressed in Cayman Islands dollars)

1. Organisation

Cayman First Insurance Company Limited (the "Company") was incorporated as an ordinary resident company under the Companies Act 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 Act of the Cayman Islands. The Company has an A.M. Best rating of A-.

The Company is 87.70% (2020: 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% (2020: 12%) of the Company and the remaining 0.30% (2020: 0.30%) is held by 31 (2020: 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")

(a) New and amended Standards and Interpretations adopted by the Company

In the current year, there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee of the IASB effective for annual reporting periods beginning on or after January 1, 2021. However, they do not have a material effect on the Company's financial statements.

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

IFRS 9 – Financial Instruments

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

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

(b) Standards and Interpretations effective but not affecting the reported results or financial position on the basis that the Company elected for the temporary exemption (continued)

IFRS 9 – Financial Instruments (Continued)

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, 2021, the Company meets these qualifying criteria and has therefore deferred implementation of IFRS 9.

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

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the aforementioned date. Management is in the process of assessing the impact the adoption of these standards, interpretations and amendments will have on the Company’s financial statements.

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

IFRS 17 – Insurance contracts

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

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

The standard allows a choice between recognizing changes in discount rates either in the statement of income or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

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

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

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

IFRS 17 – Insurance contracts (Continued)

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts. The extent of the impact of adoption of the standard is currently under review.

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

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

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

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

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

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

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies

Basis of preparation

These financial statements have been prepared on the historical cost basis, except as modified by the revaluation of available-for-sale investments and land and buildings which are under fair value in accordance with IFRS and IFRIC interpretations.

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

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

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

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

Recognition and derecognition of financial instruments

The Company 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.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Insurance contracts

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

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

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Insurance contracts (continued)

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

Reinsurance contracts

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more insurance contracts issued by the Company are classified as reinsurance contracts held.

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

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense over the period of the contract.

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

Premiums and commissions

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

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Provision for unpaid claims and reinsurers' share of provision for unpaid 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.

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 Acts 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 through other comprehensive income, 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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Investments (continued)

IFRS 13 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.

Property and equipment

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

Expenditure incurred in the construction or replacement of property and equipment is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the property and equipment.

In accordance with the BFH Group policy, land and buildings are revalued at least once every three years. The latest revaluation was for the year ended December 31, 2019.

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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Property and equipment (continued)

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

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 with contractual maturities of three months or less, from the date of acquisition.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

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 Act (2019 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 Act, the Company also charges stamp duty of 2% of the premium relating to immovable property. The Company, as required by the Act, submits the stamp duty charged to the Cayman Islands Government each month. For Property and Casualty insurance policies, 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. For the Health and Group Life policies, the Company bears the cost on behalf of the policyholders. The charges are included on the statement of income and comprehensive income under general and administrative expenses.

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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Leases

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

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. It is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method.

Dividend distribution

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

4. Critical Accounting Estimates and Judgments

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

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

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

4. Critical Accounting Estimates and Judgments (continued)

(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.

(b) Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

4. Critical Accounting Estimates and Judgments (continued)

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

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 7 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.

(e) Provision for bad debts

Premium's receivable, which is shown net of provision for bad debts, is comprised of amounts receivable from brokers and insurance contract holders (policyholders). Provision for bad debts is based on management's evaluation of the respective portfolios. This evaluation is based on the aged analysis of the receivables.

The gross carrying amount of an outstanding balance is written off when the Company has no reasonable expectations of recovering the trade accounts receivable in its entirety or a portion thereof. The carrying value at the statement of financial position date for premiums receivable, net was \$5,125,614 (2020: \$4,661,915).

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (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, 2021 (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 third party 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, 2021 (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:

	2021	2020
Financial assets:		
Cash and cash equivalents (Note 6)	\$ 12,664,453	\$ 14,980,740
Investments (Note 7)	13,130,634	11,635,038
Loans and receivables:		
- Premiums receivable (Note 8)	5,125,614	4,661,915
- Reinsurance balances receivables	561,392	1,320,973
Total financial assets	31,482,093	32,598,666
Non - financial assets	21,151,138	19,928,592
Reinsurers' share of provision for unpaid claims (Note 13)	5,929,410	5,545,743
Total assets	\$ 58,562,641	\$ 58,073,001
Financial liabilities:		
Payables at amortized cost:		
- Accrued expenses and other liabilities	\$ 748,267	\$ 607,101
- Lease liabilities (Note 12)	61,688	95,664
- Reinsurance balance receivable	1,810,413	2,144,327
Total financial liabilities	2,620,368	2,847,092
Non - financial liabilities	15,803,972	13,796,899
Provision for unpaid claims (Note 13)	11,792,497	10,895,080
Total liabilities	\$ 30,216,837	\$ 27,539,071

(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, 2021 (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>2021</u>	<u>2020</u>
Available for sale debt securities (Note 7)	\$ 13,130,634	\$ 11,635,038
Loans and receivables:		
- Premiums receivable (Note 8)*	5,401,532	4,930,549
- Reinsurance balances receivable	561,392	1,320,973
Reinsurers' share of provision for unpaid claims	5,929,410	5,545,743
Cash and cash equivalents	<u>12,664,453</u>	<u>14,980,740</u>
Total	<u>\$ 37,687,421</u>	<u>\$ 38,413,043</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, 2021 (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>2021</u>	<u>2020</u>
AA	\$ 890,151	\$ 455,995
A	7,838,548	5,339,660
BBB	3,958,846	5,392,444
Below BBB or not rated	443,089	446,939
Cash and cash equivalents held with financial institutions - not rated	12,664,453	14,980,740
Total debt securities and cash and cash equivalents bearing credit risk	\$ 25,795,087	\$ 26,615,778

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, 2021				
Available-for-sale debt securities	\$ 13,130,634	\$ -	\$ -	\$ 13,130,634
Loans and receivables:				
- Premiums receivable	4,536,177	589,437	275,918	5,401,532
- Reinsurance balances receivable	561,392	-	-	561,392
Reinsurers' share of provision for unpaid claims	5,929,410	-	-	5,929,410
Cash and cash equivalents	12,664,453	-	-	12,664,453
Total assets exposed to credit risk	\$ 36,822,066	\$ 589,437	\$ 275,918	\$ 37,687,421

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (continued)

(a) Credit risk (continued)

At December 31, 2020	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Available-for-sale debt securities	\$ 11,635,038	\$ -	\$ -	\$ 11,635,038
Loans and receivables:				
- Premiums receivable	4,336,220	325,695	268,634	4,930,549
- Reinsurance balances receivable	1,320,973	-	-	1,320,973
Reinsurers' share of provision for unpaid claims	5,545,743	-	-	5,545,743
Cash and cash equivalents	14,980,740	-	-	14,980,740
Total assets exposed to credit risk	\$ 37,818,714	\$ 325,695	\$ 268,634	\$ 38,413,043

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

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cashflows will fluctuate due to changes in market interest rates. 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 1.05% to 6.50% (2020: 2.95% to 6.50%)

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

Debt securities	2.71% (2020: 3.45%)
Cash and cash equivalents and term deposits	(0.01%) (2020: 0.01%)

(c) Foreign currency risk

Foreign currency risk exists when a financial transaction is denominated in a currency other than the Company's functional currency. 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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (continued)

(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. The effect of a 10% increase (2020: 10%) and a 10% decrease (2020: 10%) in prices at the date of the financial position is set out below.

	Carrying value	Effect on profit and Equity +10%	Effect on profit and Equity -10%
December 31, 2021	\$ 13,011,034	\$ 1,301,103	\$ (1,301,103)
December 31, 2020	\$ 11,518,592	\$ 1,151,859	\$ (1,151,859)

(e) Liquidity risk

Liquidity risk is the risk that the Company may have difficulty liquidating its positions due to existing or unforeseen market constraints to meet its obligations as they become due.

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, 2021 and 2020:

2021	Cash flows (Undiscounted)			
Financial liabilities	Undiscounted amount	< 1 year	1 - 5 years	> 5 years
Accrued expenses and other liabilities	\$ 748,267	\$ 748,267	\$ -	\$ -
Lease liability	61,688	36,286	25,402	-
Reinsurance balances payable	1,810,413	1,810,413	-	-
Provision for unpaid claims	11,792,497	7,010,774	3,927,107	854,616
Less: reinsurers' share of provision for unpaid claims	(5,929,410)	(2,749,133)	(2,613,803)	(566,474)
Total undiscounted cash flows	\$ 8,483,455	\$6,856,607	\$ 1,338,706	\$288,142

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (continued)

(e) Liquidity risk (continued)

2020 Financial liabilities	Cash flows (Undiscounted)			
	Undiscounted amount	< 1 year	1 - 5 years	> 5 years
Accrued expenses and other liabilities	\$ 607,101	\$ 607,101	\$ -	\$ -
Lease liability	95,664	33,975	61,689	-
Reinsurance balances payable	2,144,327	2,144,327	-	-
Provision for unpaid claims	10,895,080	6,289,833	3,782,717	822,530
Less: reinsurers' share of provision for unpaid claims	<u>(5,545,743)</u>	<u>(2,641,630)</u>	<u>(2,387,851)</u>	<u>(516,262)</u>
Total undiscounted cash flows	<u>\$ 8,196,429</u>	<u>\$6,433,606</u>	<u>\$ 1,456,555</u>	<u>\$306,268</u>

5.3 Sensitivity Analysis

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

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.3 Sensitivity Analysis (continued)

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

Sensitivity factor	Description of sensitivity factor applied
Interest rates	The impact of a change in market interest rates by 1% (2020: 1%)
Underwriting expenses	The impact of a change in underwriting expenses rate by 5% (2020: 5%)
Loss ratios	The impact of an absolute change in loss ratios by 5% (2020: 5%)

	Interest rates 1%	Interest rates -1%	Underwriting expenses +5%	Underwriting expenses -5%	Loss ratios +5%	Loss ratios -5%
December 31, 2021						
Impact on profit*	\$ 260,874	\$ (260,874)	\$ (316,574)	\$ 316,574	\$ (1,575,255)	\$ 1,575,255
Impact on equity*	\$ 260,874	\$ (260,874)	\$ (316,574)	\$ 316,574	\$ (1,575,255)	\$ 1,575,255
December 31, 2020						
Impact on profit*	\$ 261,245	\$ (261,245)	\$ (283,877)	\$ 283,877	\$ (1,356,597)	\$ 1,356,597
Impact on equity*	\$ 261,245	\$ (261,245)	\$ (283,877)	\$ 283,877	\$ (1,356,597)	\$ 1,356,597

* Net of reinsurance

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

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 Act (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 Acts, rules and regulations. There were no changes to the Company's capital management objectives, capital requirements or what the Company considers as capital during the year ended December 31, 2021.

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 determine the fair value of 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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.5 Fair Value Estimation (continued)

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

At December 31, 2021	Level 1	Level 2	Level 3	Total balance
Available-for-sale financial assets				
Debt securities				
- Debt securities issued by foreign governments	\$ -	\$ 455,996	\$ -	\$ 455,996
- Corporate bonds	-	12,656,590	-	12,656,590
- Other debt securities	-	-	18,048	18,048
Total assets measured at fair value	\$ -	\$ 13,112,586	\$ 18,048	\$ 13,130,634

At December 31, 2020	Level 1	Level 2	Level 3	Total balance
Available-for-sale financial assets				
Debt securities				
- Debt securities issued by foreign governments	\$ -	\$ 474,225	\$ -	\$ 474,225
- Corporate bonds	-	11,142,765	-	11,142,765
- Other debt securities	-	-	18,048	18,048
Total assets measured at fair value	\$ -	\$ 11,616,990	\$ 18,048	\$ 11,635,038

There were no changes to Level 3 instruments and there were no transfers into and out of Level 3 instruments during 2021 and 2020. In addition, there were no transfers into and out of Level 1 and Level 2 instruments.

6. Cash and Cash Equivalents

	<u>2021</u>	<u>2020</u>
Bank balances	\$ 11,300,690	\$ 14,298,827
Cash at broker	<u>1,363,763</u>	<u>681,913</u>
Total cash and cash equivalents	<u>\$ 12,664,453</u>	<u>\$ 14,980,740</u>

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

7. Investments

	2021	2020
Available-for-sale:		
Fixed income debt securities, at fair value through other comprehensive income:		
Amortised cost \$12,803,676 (2020: \$10,934,469)	\$ 13,011,034	\$ 11,518,592
Interest receivable	119,600	116,446
Total investments	\$ 13,130,634	\$ 11,635,038

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, 2021 and 2020 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.

	2021		2020	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
Available-for-sale:				
Fixed income debt securities				
Due in less than one year	\$ 2,503,467	\$ 2,525,946	\$ 2,509,579	\$ 2,543,992
Due after one year through five years	8,515,988	8,719,021	8,408,223	8,957,933
Due after five years	1,784,221	1,766,067	16,667	16,667
	\$ 12,803,676	\$ 13,011,034	\$ 10,934,469	\$ 11,518,592

	2021	2020
Available-for-sale debt securities comprise:		
Government debt securities	\$ 447,638	\$ 465,867
Corporate debt securities	12,546,729	11,036,058
Other debt securities	16,667	16,667
	\$ 13,011,034	\$ 11,518,592

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

7. Investments (continued)

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

	2021	%	2020	%
USA	\$ 6,953,425	53%	\$ 4,825,246	41%
Europe	1,749,071	13%	1,816,717	16%
UK	1,688,129	13%	1,762,308	15%
Asia	1,289,659	10%	1,747,067	15%
Caribbean	464,304	4%	482,533	4%
Australia	444,154	3%	458,579	4%
South Africa	422,292	3%	426,142	4%
	13,011,034	99%	11,518,592	99%
Add: interest receivable	119,600	1%	116,446	1%
Total	\$ 13,130,634	100%	\$ 11,635,038	100%

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

Available-for-sale investments:	2021	2020
At the beginning of the year	\$ 11,635,038	\$ 14,045,752
Cost of investments purchased	4,850,204	-
Proceeds from sale and maturity of investments	(2,935,012)	(2,547,381)
Amortisation / accretion of premiums / discounts on bonds	(61,875)	(61,482)
Realised gains recognized through profit and loss	15,891	41,059
Fair value net (losses) / gains through other comprehensive income	(376,766)	204,167
Increase / decrease in interest receivable	3,154	(47,077)
At the end of the year	\$ 13,130,634	\$ 11,635,038

8. Premiums Receivable

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

	2021	2020
Agents and brokers receivables	\$ 3,719,015	\$ 3,415,759
Policyholders receivables	1,682,517	1,514,790
	5,401,532	4,930,549
<i>Provision for bad debts:</i>		
Balance at beginning of year	268,634	163,174
Bad debt written off during the year	-	(4,068)
Provision for bad debts	7,284	109,528
Balance at end of year	275,918	268,634
Premiums receivable, net	\$ 5,125,614	\$ 4,661,915

8. Premiums Receivable (continued)

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

Aging of premiums receivable, net, is as follows:

	<u>2021</u>	<u>2020</u>
Less than 3 months	\$ 3,273,386	\$ 2,934,426
3 - 6 months	1,121,252	1,054,351
6 months - 1 year	617,354	673,138
Over 1 year	<u>113,622</u>	<u>-</u>
	<u>\$ 5,125,614</u>	<u>\$ 4,661,915</u>

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:

	<u>2021</u>		<u>2020</u>	
	Deferred policy acquisition commissions	Unearned reinsurance commissions	Deferred policy acquisition commissions	Unearned reinsurance commissions
Balance at beginning of the year	\$ 1,015,609	\$ 2,362,839	\$ 950,027	\$ 2,065,413
Commissions written*	2,488,362	6,702,815	2,239,897	6,348,439
Commissions incurred /earned*	<u>(2,336,516)</u>	<u>(6,378,810)</u>	<u>(2,174,315)</u>	<u>(6,051,013)</u>
Movement during the year	<u>151,846</u>	<u>324,005</u>	<u>65,582</u>	<u>297,426</u>
Balance at end of the year	<u>\$ 1,167,455</u>	<u>\$ 2,686,844</u>	<u>\$ 1,015,609</u>	<u>\$ 2,362,839</u>

*Excludes acquisition costs and reinsurance commission relating to Health and Life insurance contracts of \$1,049,885 and \$124,848 (2020: \$835,655 and \$61,133) respectively.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

10. Intangible Assets

	Computer Software Licences	Other Intangible Asset (Finite Life)	Total
Cost/Valuation			
At January 1, 2020	\$ 493,822	\$ 230,000	\$ 723,822
Additions	<u>20,833</u>	<u>-</u>	<u>20,833</u>
At December 31, 2020	514,655	230,000	744,655
Additions	<u>45,601</u>	<u>-</u>	<u>45,601</u>
At December 31, 2021	<u>\$ 560,256</u>	<u>\$ 230,000</u>	<u>\$ 790,256</u>
Accumulated amortisation			
At January 1, 2020	\$ 493,822	\$ 180,167	\$ 673,989
Amortisation charge through income	<u>2,315</u>	<u>46,000</u>	<u>48,315</u>
At December 31, 2020	496,137	226,167	722,304
Amortisation charge through income	<u>6,944</u>	<u>3,833</u>	<u>10,777</u>
At December 31, 2021	<u>\$ 503,081</u>	<u>\$ 230,000</u>	<u>\$ 733,081</u>
Net Book Value			
At December 31, 2021	<u>\$ 57,175</u>	<u>\$ -</u>	<u>\$ 57,175</u>
At December 31, 2020	<u>\$ 18,518</u>	<u>\$ 3,833</u>	<u>\$ 22,351</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, 2021 (expressed in Cayman Islands dollars)

11. Property and Equipment

	Land and Buildings	Leasehold Improvements and Furnishings	Computer and Office Equipment	Motor Vehicles	Total
Cost/Valuation					
At January 1, 2020	\$ 9,275,000	\$ 681,719	\$ 520,208	\$ 94,193	\$ 10,571,120
Additions	<u>2,952</u>	<u>5,458</u>	<u>79,136</u>	<u>-</u>	<u>87,546</u>
At December 31, 2020	9,277,952	687,177	599,344	94,193	10,658,666
Additions	<u>21,567</u>	<u>5,675</u>	<u>18,356</u>	<u>-</u>	<u>45,598</u>
At December 31, 2021	<u>\$ 9,299,519</u>	<u>\$ 692,852</u>	<u>\$ 617,700</u>	<u>\$ 94,193</u>	<u>\$ 10,704,264</u>
Accumulated amortisation					
At January 1, 2020	\$ -	\$ 129,061	\$ 335,060	\$ 76,970	\$ 541,091
Charge for the year	<u>177,349</u>	<u>66,786</u>	<u>89,992</u>	<u>4,922</u>	<u>339,049</u>
At December 31, 2020	177,349	195,847	425,052	81,892	880,140
Charge for the year	<u>178,438</u>	<u>67,824</u>	<u>85,131</u>	<u>4,922</u>	<u>336,315</u>
At December 31, 2021	<u>\$ 355,787</u>	<u>\$ 263,671</u>	<u>\$ 510,183</u>	<u>\$ 86,814</u>	<u>\$ 1,216,455</u>
Net Book Value					
At December 31, 2021	<u>\$ 8,943,732</u>	<u>\$ 429,181</u>	<u>\$ 107,517</u>	<u>\$ 7,379</u>	<u>\$ 9,487,809</u>
At December 31, 2020	<u>\$ 9,100,603</u>	<u>\$ 491,330</u>	<u>\$ 174,292</u>	<u>\$ 12,301</u>	<u>\$ 9,778,526</u>

The Company made a decision to buy land and develop its own purpose-built corporate headquarters. The land was acquired in 2014 and the building was completed in June 2018.

In accordance with the Group policy, land and buildings are revalued triennially. 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 2019 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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

11. Property and Equipment (continued)

The following table illustrates the impact of changes in estimates and assumptions in determination of fair values of land and buildings in the 2019 valuation.

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 \$2,051,221 (2020: \$2,051,221) and \$7,578,540 (2020:\$ 7,780,430) respectively.

12. Leases

The Company has a renewable three-year lease expiring on August 31, 2023 for its branch. The lease is under normal commercial terms with an unrelated party.

(a) Right-of-use asset

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 94,766	\$ 24,318
Additions	-	106,612
Depreciation charge for the year	<u>(35,537)</u>	<u>(36,164)</u>
Balance at end of year	<u>\$ 59,229</u>	<u>\$ 94,766</u>

(b) Lease liabilities

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 95,664	\$ 25,138
Additions	-	106,612
Payments during the year	<u>(33,976)</u>	<u>(36,086)</u>
Balance at end of year	<u>\$ 61,688</u>	<u>\$ 95,664</u>

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

	<u>2021</u>	<u>2020</u>
Interest on lease liabilities	\$ 2,771	\$ 1,510
Right-of-use asset - depreciation charge for the year	\$ 35,537	\$ 36,164

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

12. Leases (continued)

(d) Amount Recognised in the Statement of Cash Flows

	<u>2021</u>	<u>2020</u>
Total lease liability cash payments	\$ 36,747	\$ 37,596

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

The movement in the provision for unpaid claims comprises:

<u>2021</u>	<u>Gross</u>	<u>Reinsurers' Share</u>	<u>Net</u>
Provision at beginning of year	\$ 10,895,080	\$ (5,545,743)	\$ 5,349,337
Claims incurred - current year	31,086,868	(4,535,222)	26,551,646
Claims incurred - prior years	<u>(951,352)</u>	<u>381,507</u>	<u>(569,845)</u>
Claims incurred	<u>30,135,516</u>	<u>(4,153,715)</u>	<u>25,981,801</u>
Claims paid - current year	(24,725,281)	1,897,756	(22,827,525)
Claims paid - prior years	<u>(4,512,818)</u>	<u>1,872,292</u>	<u>(2,640,526)</u>
Claims paid	<u>(29,238,099)</u>	<u>3,770,048</u>	<u>(25,468,051)</u>
Provision at end of year	<u>\$ 11,792,497</u>	<u>\$ (5,929,410)</u>	<u>\$ 5,863,087</u>
<u>Breakdown of the provision</u>			
Notified claims	\$ 6,347,497	\$ (4,468,160)	\$ 1,879,337
Incurred but not reported	<u>5,445,000</u>	<u>(1,461,250)</u>	<u>3,983,750</u>
Provision at end of year	<u>\$ 11,792,497</u>	<u>\$ (5,929,410)</u>	<u>\$ 5,863,087</u>

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

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

<u>2020</u>	<u>Gross</u>	<u>Reinsurers'</u> <u>Share</u>	<u>Net</u>
Provision at beginning of year	\$ 8,854,701	\$ (3,907,478)	\$ 4,947,223
Claims incurred - current year	23,853,848	(3,538,660)	20,315,188
Claims incurred - prior years	<u>1,485,776</u>	<u>(1,052,421)</u>	<u>433,355</u>
Claims incurred	<u>25,339,624</u>	<u>(4,591,081)</u>	<u>20,748,543</u>
Claims paid - current year	(19,364,565)	1,966,465	(17,398,100)
Claims paid - prior years	<u>(3,934,680)</u>	<u>986,351</u>	<u>(2,948,329)</u>
Claims paid	<u>(23,299,245)</u>	<u>2,952,816</u>	<u>(20,346,429)</u>
Provision at end of year	<u>\$ 10,895,080</u>	<u>\$ (5,545,743)</u>	<u>\$ 5,349,337</u>
<u>Breakdown of the provision</u>			
Notified claims	\$ 6,381,631	\$ (4,199,794)	\$ 2,181,837
Incurred but not reported	<u>4,513,449</u>	<u>(1,345,949)</u>	<u>3,167,500</u>
Provision at end of year	<u>\$ 10,895,080</u>	<u>\$ (5,545,743)</u>	<u>\$ 5,349,337</u>

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.

Gross undiscounted reserves at December 31, 2021 are \$11,792,497 (2020: \$10,895,080). Losses incurred but not reported include a provision for unallocated loss adjustment expenses ("ULAE").

Movements in liabilities related to insured events in prior periods changed primarily because of adjustments made 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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

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

H&L (\$)

December 31, 2021

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Gross											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	13,494,394	14,217,078	13,640,992	14,878,119	15,532,493	16,371,438	16,455,880	17,581,621	20,050,809	24,735,738	166,958,562
One year later	13,028,673	13,981,016	13,297,746	15,137,334	14,979,130	15,441,213	16,157,044	17,407,410	19,662,965		
Current estimate of ultimate claims incurred	13,028,673	13,981,016	13,297,746	15,137,334	14,979,130	15,441,213	16,157,044	17,407,410	19,662,965	24,735,738	163,828,269
Cumulative payments to date	(13,028,673)	(13,899,683)	(13,297,746)	(15,137,334)	(14,979,130)	(15,441,213)	(16,157,044)	(17,407,410)	(19,662,965)	(21,735,738)	(160,746,936)
Liability recognised in the statement of financial position	-	81,333	-	-	-	-	-	-	-	3,000,000	3,081,333
Liability in respect of ULAE											165,000
Total liability included in the statement of financial position											3,246,333
Reinsurance											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	282,817	504,002	434,483	761,794	243,153	215,598	100,000	200,000	1,218,750	254,099	4,214,696
One year later	310,426	501,891	330,154	849,326	60,455	15,688	-	36,982	1,071,484		
Current estimate of ultimate claims incurred	310,426	501,891	330,154	849,326	60,455	15,688	-	36,982	1,071,484	254,099	3,430,505
Cumulative payments to date	(310,426)	(437,221)	(330,154)	(849,326)	(60,455)	(15,688)	-	(36,982)	(1,071,484)	(54,099)	(3,165,835)
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											264,670
Net											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	13,211,577	13,713,076	13,206,509	14,116,325	15,289,340	16,155,840	16,355,880	17,381,621	18,832,059	24,481,639	162,743,866
One year later	12,718,247	13,479,125	12,967,592	14,288,008	14,918,675	15,425,525	16,157,044	17,370,428	18,591,481		
Current estimate of ultimate claims incurred	12,718,247	13,479,125	12,967,592	14,288,008	14,918,675	15,425,525	16,157,044	17,370,428	18,591,481	24,481,639	160,397,764
Cumulative payments to date	(12,718,247)	(13,462,462)	(12,967,592)	(14,288,008)	(14,918,675)	(15,425,525)	(16,157,044)	(17,370,428)	(18,591,481)	(21,681,639)	(157,581,101)
Liability recognised in the statement of financial position	-	16,663	-	-	-	-	-	-	-	2,800,000	2,816,663
Liability in respect of ULAE											165,000
Total net liability											2,981,663

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

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

P&C (\$)

December 31, 2021

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Gross											
Estimate of ultimate claims incurred:											
At end of financial reporting year	2,195,941	1,799,901	2,675,499	3,476,804	3,237,275	2,723,785	3,804,395	3,883,828	3,803,039	6,351,130	33,951,597
One year later	2,072,621	1,527,507	2,863,739	3,362,977	3,119,237	2,538,340	3,798,441	3,780,831	3,440,976	-	-
Two years later	1,979,168	1,428,152	2,828,490	3,443,803	3,175,178	2,946,837	3,768,249	3,598,871	-	-	-
Three years later	1,874,295	1,445,770	3,144,794	3,217,854	2,761,602	2,952,801	3,620,449	-	-	-	-
Four years later	1,906,609	1,483,313	3,218,718	2,706,973	2,757,582	2,893,912	-	-	-	-	-
Five years later	1,916,538	1,530,926	3,432,581	3,281,308	2,713,807	-	-	-	-	-	-
Six years later	2,045,777	1,551,258	3,648,089	3,524,078	-	-	-	-	-	-	-
Seven years later	2,056,302	1,545,619	3,702,732	-	-	-	-	-	-	-	-
Eight years later	2,404,059	1,550,720	-	-	-	-	-	-	-	-	-
Nine years later	2,253,226	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	2,253,226	1,550,720	3,702,732	3,524,078	2,713,807	2,893,912	3,620,449	3,598,871	3,440,976	6,351,130	33,649,901
Cumulative payments to date	(2,098,027)	(1,433,585)	(3,477,618)	(3,153,687)	(2,590,373)	(2,595,905)	(2,677,443)	(3,047,314)	(2,315,495)	(2,989,543)	(26,378,990)
Liability recognised in the statement of financial position	155,199	117,135	225,114	370,391	123,434	298,007	943,006	551,557	1,125,481	3,361,587	7,270,911
Liability in respect of prior years*											945,253
Liability in respect of ULAE											330,000
Total liability included in the statement of financial position											8,546,164
Reinsurance											
Estimate of ultimate claims incurred:											
At end of financial reporting year	1,274,092	997,883	1,480,930	1,879,294	2,004,652	1,638,636	2,298,907	2,319,691	2,319,910	4,281,123	20,495,118
One year later	1,150,755	841,822	1,760,469	1,852,586	1,951,378	1,515,449	2,272,031	2,226,491	2,097,724	-	-
Two years later	1,112,605	790,123	1,752,851	1,894,018	2,013,394	1,737,555	2,241,497	2,092,205	-	-	-
Three years later	1,052,427	799,025	1,999,533	1,795,573	1,727,443	1,736,389	2,130,234	-	-	-	-
Four years later	1,068,593	818,111	2,052,955	1,459,711	1,724,287	1,692,467	-	-	-	-	-
Five years later	1,073,714	845,200	2,250,764	1,955,515	1,697,979	-	-	-	-	-	-
Six years later	1,141,976	853,956	2,387,644	2,212,076	-	-	-	-	-	-	-
Seven years later	1,145,898	850,439	2,422,423	-	-	-	-	-	-	-	-
Eight years later	1,321,084	851,963	-	-	-	-	-	-	-	-	-
Nine years later	1,243,138	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	1,243,138	851,963	2,422,423	2,212,076	1,697,979	1,692,467	2,130,234	2,092,205	2,097,724	4,281,123	20,721,332
Cumulative payments to date	(1,165,982)	(793,730)	(2,233,162)	(1,938,006)	(1,630,020)	(1,528,173)	(1,521,186)	(1,764,557)	(1,401,184)	(1,843,657)	(15,819,657)
Liability recognised in the statement of financial position	77,156	58,233	189,261	274,070	67,959	164,294	609,048	327,648	696,540	2,437,466	4,901,675
Liability in respect of prior years*											763,065
Liability in respect of ULAE											-
Total net liability											5,664,740

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

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

	P&C (\$)										
<u>December 31, 2021</u>	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
<u>Net</u>											
Estimate of ultimate claims incurred:											
At end of financial reporting year	921,849	802,018	1,194,569	1,597,510	1,232,623	1,085,149	1,505,488	1,564,137	1,483,129	2,070,007	13,456,479
One year later	921,866	685,685	1,103,270	1,510,391	1,167,859	1,022,891	1,526,410	1,554,340	1,343,252	-	-
Two years later	866,563	638,029	1,075,639	1,549,785	1,161,784	1,209,282	1,526,752	1,506,666	-	-	-
Three years later	821,868	646,745	1,145,261	1,422,281	1,034,159	1,216,412	1,490,215	-	-	-	-
Four years later	838,016	665,202	1,165,763	1,247,262	1,033,295	1,201,445	-	-	-	-	-
Five years later	842,824	685,726	1,181,817	1,325,793	1,015,828	-	-	-	-	-	-
Six years later	903,801	697,302	1,260,445	1,312,002	-	-	-	-	-	-	-
Seven years later	910,404	695,180	1,280,309	-	-	-	-	-	-	-	-
Eight years later	1,082,975	698,757	-	-	-	-	-	-	-	-	-
Nine years later	1,010,088	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	1,010,088	698,757	1,280,309	1,312,002	1,015,828	1,201,445	1,490,215	1,506,666	1,343,252	2,070,007	12,928,569
Cumulative payments to date	(932,045)	(639,855)	(1,244,456)	(1,215,681)	(960,353)	(1,067,732)	(1,156,257)	(1,282,757)	(914,311)	(1,145,886)	(10,559,333)
Liability recognised in the statement of financial position	78,043	58,902	35,853	96,321	55,475	133,713	333,958	223,909	428,941	924,121	2,369,236
Liability in respect of prior years*											182,188
Liability in respect of ULAE											330,000
Total net liability											2,881,424

* This relates to liabilities for years before 2012.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

14. Gross Premiums Written

Based on the provision of the Stamp Duty Act (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.

	<u>2021</u>	<u>2020</u>
Gross amounts billed to clients	\$ 57,533,828	\$ 50,379,752
Less: government stamp duties/health insurance surcharges	<u>(1,403,633)</u>	<u>(1,225,638)</u>
Gross premiums written	<u>\$ 56,130,195</u>	<u>\$ 49,154,114</u>

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:

	<u>2021</u>		<u>2020</u>	
	Gross	Reinsured	Gross	Reinsured
Balance at beginning of the year	\$ 11,434,060	\$ 8,752,476	\$ 10,326,149	\$ 7,795,128
Premiums written*	27,183,354	21,224,894	24,575,259	19,169,271
Premiums earned revenue*	<u>(25,500,286)</u>	<u>(19,786,658)</u>	<u>(23,467,348)</u>	<u>(18,211,923)</u>
Movement during the year	<u>1,683,068</u>	<u>1,438,236</u>	<u>1,107,911</u>	<u>957,348</u>
Balance at end of the year	<u>\$ 13,117,128</u>	<u>\$ 10,190,712</u>	<u>\$ 11,434,060</u>	<u>\$ 8,752,476</u>

* Excludes premiums relating to Health and Life insurance contracts.

16. Share Capital

(a) Share Capital

	<u>2021</u>	<u>2020</u>
Authorized:		
4,000,000 (2020: 4,000,000) ordinary shares of \$1 each	\$ 4,000,000	\$ 4,000,000
1,000,000 (2020: 1,000,000) preference shares of \$1 each	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
Issued and fully paid:		
2,000,000 (2020: 2,000,000) ordinary shares of \$1 each	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (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 (during 2014 and 2011). The share premium of \$6,300,092 (2020: \$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 (2020: \$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, 2021	\$ 398,780	\$ 584,123	\$ 982,903
Investments fair value reserve net losses	-	(376,766)	(376,766)
At December 31, 2021	\$ 398,780	\$ 207,357	\$ 606,137

	Land	Investments	Total
At January 1, 2020	\$ 398,780	\$ 379,956	\$ 778,736
Investments fair value reserve net gains	-	204,167	204,167
At December 31, 2020	\$ 398,780	\$ 584,123	\$ 982,903

18. Investment Income

	2021	2020
<u>Available-for-sale:</u>		
Debt securities		
Interest income	\$ 426,885	\$ 482,580
Amortisation / accretion of premiums/discounts	(61,875)	(61,482)
Realised gains	15,891	41,059
Investment fees	(28,433)	(37,645)
Total available-for-sale investments	\$ 352,468	\$ 424,512
<u>Cash and cash equivalents:</u>		
Interest (expense)/income	\$ (2)	\$ (87)
Total cash and cash equivalents	\$ (2)	\$ (87)
Total investment income	\$ 352,466	\$ 424,425

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

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

	<u>2021</u>	<u>2020</u>
Net income for the year	\$ 688,640	\$ 2,212,118
Adjustments for non-cash items, interest and dividends:		
Investment income on available-for-sale investments	(352,468)	(424,512)
Net interest expense / income on cash and cash equivalents	2	87
Interest received	445,499	529,570
Interest paid on purchase of investments	(21,770)	-
Investment fees paid	(28,433)	(37,645)
Interest portion of lease liability payments	2,771	1,510
Depreciation of property and equipment	336,315	339,049
Amortisation of intangible assets	10,777	48,315
Depreciation of right of-use asset	35,537	36,164
Movement in provision for bad debts	7,284	109,528
Movement in deferred policy acquisition commissions	(151,846)	(65,582)
Movement in reinsurers' share of unearned premiums	(1,438,236)	(957,348)
Movement in reinsurers' share of provision for unpaid claims	(383,667)	(1,638,265)
Movement in unearned reinsurance commissions	324,005	297,426
Movement in unearned premiums	1,683,068	1,107,911
Movement in provision for unpaid claims	897,417	2,040,379
Changes in other assets and liabilities relating to operations :		
Premiums receivable	(470,983)	117,274
Reinsurance balances receivable	759,581	(743,556)
Prepaid expenses and other receivables	76,106	41,847
Accrued expenses and other liabilities	141,166	173,597
Reinsurance balances payable	(333,914)	(1,075,900)
Net cash provided by operating activities	<u>\$ 2,226,851</u>	<u>\$ 2,111,967</u>

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (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.

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>2021</u>	<u>2020</u>
Management fee expense to BFCS	\$ 464,180	\$ 401,679
Management fee income from BIA	<u>(12,000)</u>	<u>(12,000)</u>
	<u>\$ 452,180</u>	<u>\$ 389,679</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>2021</u>	<u>2020</u>
Accrued expenses and other liabilities	\$ -	\$ 30,000

Statement of Income and Comprehensive Income	<u>2021</u>	<u>2020</u>
Gross premiums written	\$ 2,706,834	\$ 2,676,807
Commission expense	342,748	338,712
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, 2021 (expressed in Cayman Islands dollars)

20. Related Party Balances and Transactions (continued)

Included in the statement of financial position, under accrued expenses and other liabilities, is an amount of \$62,500 (2020: \$57,748) due to BFHI for expenses paid on behalf of the Company.

During 2020, the Group implemented a new system to manage the P&C line of business. The software is owned by Bahamas First General (“BFG”), a Bahamas registered company within the BFH Group. Below is a summary of transactions and balances between BFG and the Company, in relation to the software:

Statement of Financial Position	<u>2021</u>	<u>2020</u>
Accrued expenses and other liabilities	\$ -	\$ 26,125

Statement of Income and Comprehensive Income	<u>2021</u>	<u>2020</u>
General and administrative expenses (information technology)	\$ 245,271	\$ 118,250

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 salaries, benefits and bonuses expense are as follows:

	<u>2021</u>	<u>2020</u>
Salaries and other benefits	\$ 576,903	\$ 610,258
Post-employment benefits	<u>22,233</u>	<u>24,347</u>
Total remuneration for key management personnel	<u>\$ 599,136</u>	<u>\$ 634,605</u>
Receivables from key management personnel	<u>\$ 1,436</u>	<u>\$ 1,814</u>

During the year ended December 31, 2021, the Company had a total of 8 directors (2020: 8), of whom 1 (2020: 1) is an executive officer of the Company and 1 (2020: 1) is an executive officer of BFH. For the year ended December 31, 2021, the aggregate compensation for directors’ services was \$139,385 (2020: \$151,563).

21. Pension Fund

The Company participates in The Cayman National Pension Fund, a defined contribution plan approved under the National Pensions Act 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 salaries, benefits and bonuses expense is an amount of \$129,457 (2020: \$130,437) representing the Company’s portion of contributions required under the plan. The Company employed 68 employees at year-end (2020: 61 employees).

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

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.

The segment results for the year ended December 31, 2021 and 2020 are as follows:

	P&C	H&L	Total
2021			
Net underwriting income	\$ 6,176,269	\$ 2,464,283	\$ 8,640,552
Depreciation of property, plant and equipment	193,381	142,934	336,315
Amortisation of intangible assets	1,150	9,627	10,777
Depreciation of right-of-use asset	20,434	15,103	35,537
Segment net income	1,645,822	(957,182)	688,640
	P&C	H&L	Total
2020			
Net underwriting income	\$ 5,480,423	\$ 4,005,140	\$ 9,485,563
Depreciation of property, plant and equipment	194,953	144,096	339,049
Amortisation of intangible assets	13,800	34,515	48,315
Depreciation of right-of-use asset	20,794	15,370	36,164
Segment net income	1,297,074	915,044	2,212,118

Management has pro-rated the Company's expenses based on the estimated amount of resources utilised by each segment, which is generally 57.5% (2020: 57.5%) for the P&C segment and 42.5% (2020: 42.5%) for the H&L segment.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2021 (expressed in Cayman Islands dollars)

23. Segmented Information (continued)

The segment assets and liabilities and capital expenditure at December 31, 2021 and 2020 are as follows:

	<u>P&C</u>	<u>H&L</u>	<u>Total</u>
2021			
Total segment assets	\$ 42,075,302	\$ 16,487,339	\$ 58,562,641
Total segment liabilities	25,903,807	4,313,030	30,216,837
Capital expenditure (Notes 10 and 11)	26,219	64,980	91,199
	<u>P&C</u>	<u>H&L</u>	<u>Total</u>
2020			
Total segment assets	\$ 40,421,228	\$ 17,651,773	\$ 58,073,001
Total segment liabilities	24,121,456	3,417,615	27,539,071
Capital expenditure (Notes 10 and 11)	50,339	58,040	108,379

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