

Cayman First Insurance Company Limited

Financial Statements

2015

Cayman First Insurance Company Limited

Financial Statements

2015

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Cayman First Insurance Company Limited, (the "Company") which comprise the statement of financial position as at December 31, 2015, and the statements of income and comprehensive income, changes in equity and cash flows for the year then ended (all expressed in Cayman Islands dollars), and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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

(continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Other Matter

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

A handwritten signature in cursive script that reads "Deloitte Touche".

April 4, 2016

Cayman First Insurance Company Limited



Statement of Financial Position

As At December 31, 2015

(expressed in Cayman Islands dollars)

	Note	2015	2014
Assets			
Cash and cash equivalents	6	\$ 8,390,862	\$ 6,632,830
Investments	7	14,276,887	14,726,408
Premiums receivable	8	4,536,812	4,941,375
Reinsurance balances receivable		607,907	431,802
Prepaid expenses and other receivables		203,227	265,957
Deferred policy acquisition commissions	9	910,036	894,141
Reinsurers' share of unearned premiums	14	6,946,284	7,577,542
Reinsurers' share of provision for unpaid claims	12	3,869,908	3,149,082
Intangible assets	10	5,557	1,355
Property, plant and equipment	11	2,489,504	2,089,043
Total assets		\$ 42,236,984	\$ 40,709,535
 Liabilities			
Accrued expenses and other liabilities		\$ 499,960	\$ 411,047
Reinsurance balances payable		1,959,078	1,758,758
Unearned reinsurance commissions	9	1,795,519	1,822,906
Unearned premiums	14	9,202,225	9,837,249
Provision for unpaid claims	12	7,950,422	6,838,836
Total liabilities		21,407,204	20,668,796
 Equity			
Share capital	15	2,000,000	2,000,000
Share premium	15	6,300,092	6,300,092
General reserve	15	3,000,000	3,000,000
Investment fair value reserve		(105,973)	129,180
Retained earnings		9,635,661	8,611,467
Total equity		20,829,780	20,040,739
Total liabilities and equity		\$ 42,236,984	\$ 40,709,535

Approved on behalf of the Board:

Director: 	Director: 
Date: March 09, 2016	Date: March 09, 2016

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, 2015

(expressed in Cayman Islands dollars)

	Note	2015	2014
Underwriting income			
Gross premiums written	13	\$ 42,226,694	\$ 42,818,001
Movement in unearned premiums	14	635,024	67,919
		42,861,718	42,885,920
Premiums ceded to reinsurers		(17,874,320)	(18,992,114)
Movement in deferred reinsurance premiums	14	(631,258)	(43,010)
Net premiums earned		24,356,140	23,850,796
Commission income		4,851,269	5,134,845
Total underwriting income		29,207,409	28,985,641
Underwriting expenses			
Net claims incurred	12	15,230,194	14,049,146
Commission expense		2,831,371	2,833,648
Cost of excess of loss reinsurance		2,673,949	2,753,178
Total underwriting expenses		20,735,514	19,635,972
Net underwriting income		8,471,895	9,349,669
Other operating expenses			
Salaries, benefits and bonuses	18	3,368,603	3,195,322
General and administrative expenses		2,529,449	2,592,915
Management fees	18	328,078	316,266
Total other operating expenses		6,226,130	6,104,503
Net technical results		2,245,765	3,245,166
Other income (expenses)			
Investment income	16	445,096	450,919
Other income		-	749
Movement in provision for litigation		-	(3,544)
Total other income/(expenses)		445,096	448,124
Net income		2,690,861	3,693,290
Other comprehensive loss			
Items that may be reclassified subsequently to net income:			
Change in investment fair value reserve	7	(235,153)	(199,438)
		(235,153)	(199,438)
Comprehensive income		\$ 2,455,708	\$ 3,493,852

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, 2015 (expressed in Cayman Islands dollars)

	Share Capital	Share Premium	General Reserve	Investment Fair Value Reserve	Retained Earnings	Total
Year-ended December 31, 2015						
Balance, beginning of year	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ 129,180	\$ 8,611,467	\$ 20,040,739
Comprehensive income:						
Net income for the year	-	-	-	-	2,690,861	2,690,861
Change in investment fair value reserve (Note 7)	-	-	-	(235,153)	-	(235,153)
	-	-	-	<u>(235,153)</u>	<u>2,690,861</u>	<u>2,455,708</u>
Transactions with owners						
Dividends paid (\$0.83 per share)	-	-	-	-	(1,666,667)	(1,666,667)
	-	-	-	-	<u>(1,666,667)</u>	<u>(1,666,667)</u>
Balance, end of year	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ (105,973)	\$ 9,635,661	\$ 20,829,780
Year-ended December 31, 2014						
Balance, beginning of year	\$ 1,500,000	\$ 2,663,371	\$ 3,000,000	\$ 328,618	\$ 4,918,177	\$ 12,410,166
Comprehensive income:						
Net income for the year	-	-	-	-	3,693,290	3,693,290
Change in investment fair value reserve (Note 7)	-	-	-	(199,438)	-	(199,438)
	-	-	-	<u>(199,438)</u>	<u>3,693,290</u>	<u>3,493,852</u>
Transactions with owners						
Rights issue (Note 15)	500,000	3,636,721	-	-	-	4,136,721
	<u>500,000</u>	<u>3,636,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,136,721</u>
Balance, end of year	\$ 2,000,000	\$ 6,300,092	\$ 3,000,000	\$ 129,180	\$ 8,611,467	\$ 20,040,739

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, 2015 (expressed in Cayman Islands dollars)

	Note	2015	2014
Operating activities			
Net income for the year		\$ 2,690,861	\$ 3,693,290
Reconciliation of net income to net cash provided by operating activities		1,102,768	(388,423)
Net cash provided by operating activities	17	3,793,629	3,304,867
Investing activities			
Cost of investments purchased	7	(2,575,064)	(3,907,591)
Proceeds from sale and maturity of investments	7	2,658,561	2,091,765
Cost of intangible assets purchased	10	(6,667)	-
Cost of property, plant and equipment purchased	11	(445,760)	(2,032,876)
Net cash used in investing activities		(368,930)	(3,848,702)
Financing activities			
Dividends paid		(1,666,667)	-
Rights issue		-	4,136,721
Net cash (used in) /provided by financing activities		(1,666,667)	4,136,721
Increase in cash and cash equivalents		1,758,032	3,592,886
Cash and cash equivalents at beginning of year		6,632,830	3,039,944
Cash and cash equivalents at end of year	6	\$ 8,390,862	\$ 6,632,830

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, 2015 (expressed in Cayman Islands dollars)

1. Organisation

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

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

The Company is 87.65% (2014: 87.64%) 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% (2014: 12%) of the Company and the remaining 0.35% (2014: 0.36%) is held by 32 (2014: 33) minority shareholders.

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

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

In the current year, there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB effective for annual reporting periods beginning on or after January 1, 2015.

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

IAS 16/38	Property, Plant and Equipment/Intangible Assets: Revaluation Method – Proportionate Restatement of Accumulated Depreciation/Amortisation
IAS 24	Related Party Disclosures: Key Management Personnel
IFRS 8	Operating Segments: Aggregation of Operating Segments and Reconciliation of the Total of The Reportable Segments' Assets to the Entity's Assets
IFRS 13	Fair Value Measurement (Scope of Paragraph 52)

b) Standards and Interpretations in issue but not yet effective

IAS 1	Disclosure Initiative
IAS 16/38	Clarification of Acceptable Methods of Depreciation and Amortisation
IFRS 9	Financial Instruments
IFRS 16	Leases

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2015** (expressed in Cayman Islands dollars)

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

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

3. Significant Accounting Policies

Basis of preparation

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

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

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

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

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

Insurance contracts

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

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

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

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2015** (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Reinsurance contracts

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

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

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

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

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

Premiums and commissions

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

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

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

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.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015

(expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Claims (continued)

At the date of the statement of financial position, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows. If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. Management has engaged independent actuaries, IAO Actuarial Consulting Services Inc. ("IAO"), a subsidiary of AON, to assist in performing the liability adequacy tests at year end.

Receivables and payables related to insurance contracts

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

The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for other receivables. The impairment loss is also calculated under the same method used for financial assets.

Management fees

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

Investments

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

The fair value of debt securities is based on either current bid prices reported on recognised exchanges or pricing data provided by internationally recognised pricing services. The mutual fund at December 31, 2014 was carried at fair value based on the Net Asset Value ("NAV") per share provided by the administrator of the fund. In the absence of readily available pricing data, fair value is determined based on dealer quotes or pricing models which are based on observable market-based inputs when available.

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

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

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

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

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, plant and equipment

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

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

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

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

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

Intangible assets

Intangible assets comprise acquired computer software licences.

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

Cash and cash equivalents

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

Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the 'functional currency'). The financial statements are presented in Cayman Islands dollars, which is the Company's presentation and functional currency.

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2015** (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

Foreign currency translation (continued)

Revenue and expense transactions denominated in currencies other than the Cayman Islands dollar have been translated using exchange rates ruling at the dates of those transactions. Assets and liabilities denominated in currencies other than the Cayman Islands dollar have been translated using period end foreign exchange rates. Gains or losses on foreign currency transactions are included in other income.

Taxes

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

Stamp duty

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

Health insurance surcharges

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

Pension obligations

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

Provisions

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

Leases

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

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.

Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. Management estimates and judgments are based on the Company's claims experience, relevant circumstances and/or advice from legal counsel. Management has also engaged independent actuaries, IAO Actuarial Consulting Services Inc., to assist them in making such estimates, based on the Company's own loss history and relevant industry data.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within two to three months after the claims event. Health claims are normally reported within three months of the event and are usually settled within days of being reported.

Information for long-tail claims such as casualty claims for bodily injury, general third party liability, employers' liability, workmen's compensation and long term disability may not be readily available. The provision for the long-tail claims is continually evaluated by management and is based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The Company does not establish provisions for catastrophes (such as natural disasters) in advance of the occurrence of such events. These events can cause significant volatility in the Company's level of incurred losses and the provision for unpaid claims.

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2015** (expressed in Cayman Islands dollars)

4. Critical Accounting Estimates and Judgments (continued)

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

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

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

(b) Impairment of financial assets

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

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

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

5. Management of Insurance and Financial Risk

5.1 Insurance Risk

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

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

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

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.1 Insurance Risk (continued)

(a) Property and casualty insurance risks

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

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

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

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

The Company has a dedicated in-house claims department and uses third party loss adjusters as necessary. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments. The Company will, where necessary, appoint lawyers to act on the Company's behalf in respect of serious bodily injury claims, thus ensuring settlements and avoiding claims development. However, the severity of claims can be affected by increasing level of court awards and inflation. See Note 12 for further discussion of the Company's claims exposures and reserving techniques.

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

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

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

Cayman First Insurance Company Limited

Notes to Financial Statements **For the year ended December 31, 2015** (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.1 Insurance Risk (continued)

(b) Health and group life insurance risks

The most significant factors that could increase the overall frequency of claims relating to health and group life insurance contracts are epidemics or widespread changes in lifestyle resulting in earlier or more claims than expected.

The reinsurance program used by the Company is reviewed and approved by the Technical Review and Risk Compliance Committee on an annual basis.

5.2 Financial Risk

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015

(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:

	2015	2014
Financial assets		
Cash and cash equivalents	\$ 8,390,862	\$ 6,632,830
Available for sale investments (Note 7)	14,276,887	14,726,408
Loans and receivables:		
- Premiums receivable	4,536,812	4,941,375
- Reinsurance balances receivable	607,907	431,802
Reinsurers' share of provision for unpaid claims	3,869,908	3,149,082
Total financial assets	\$31,682,376	\$29,881,497
Non-financial assets	10,554,608	10,828,038
Total assets	\$42,236,984	\$40,709,535
Financial liabilities		
Payables at amortised cost:		
- Accrued expenses and other liabilities	\$ 499,960	\$ 411,047
- Reinsurance balances payable	1,959,078	1,758,758
Short term insurance contracts:		
- Provision for unpaid claims	7,950,422	6,838,836
Total financial liabilities	\$10,409,460	\$9,008,641
Non-financial liabilities	10,997,744	11,660,155
Total liabilities	\$21,407,204	\$20,668,796

(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);

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015

(expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (continued)

(a) Credit risk (continued)

- amounts due from insurance contract holders (premiums receivable);
- other receivables.

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

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis by reviewing their financial strength and credit ratings. The Technical Review and Risk Compliance Committee, which directs the Company's reinsurance placement policy, assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. Reinsurance coverage is placed with a number of major international third party reinsurers, including underwriting members of Lloyd's, with credit ratings of A- or higher from A.M. Best or Standard & Poor's.

The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company.

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

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

	<u>2015</u>	<u>2014</u>
Available for sale debt securities (Note 7)	\$14,276,887	\$14,690,683
Loans and receivables:		
- Premiums receivable (Note 8)*	5,080,443	5,297,789
- Reinsurance balances receivable	607,907	431,802
Cash and cash equivalents	8,390,862	6,632,830
Reinsurers' share of provision for unpaid claims	<u>3,869,908</u>	<u>3,149,082</u>
Total	<u>\$32,226,007</u>	<u>\$30,202,186</u>

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (continued)

(a) Credit risk (continued)

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

	<u>2015</u>	<u>2014</u>
AA	2,602,554	2,237,613
A	4,812,502	6,737,179
BBB	6,064,685	4,868,247
Below BBB or not rated	797,146	847,644
Cash and cash equivalents held with financial institution – not rated	<u>8,390,862</u>	<u>6,632,830</u>
Total debt securities and cash and cash equivalents bearing credit risk	<u>\$22,667,749</u>	<u>\$21,323,513</u>

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

Receivables 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, 2015:				
Available for sale debt securities	\$14,276,887	\$ -	\$ -	\$14,276,887
Loans and receivables:				
- Premiums receivable	3,899,029	637,783	543,631	5,080,443
- Reinsurance balances receivable	607,907	-	-	607,907
Reinsurers' share of provision for unpaid claims	3,869,908	-	-	3,869,908
Cash and cash equivalents	8,390,862	-	-	8,390,862
Total assets exposed to credit risk	<u>\$31,044,593</u>	<u>\$637,783</u>	<u>\$ 543,631</u>	<u>\$32,226,007</u>

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (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, 2014:	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Available for sale debt securities	\$14,690,683	\$ -	\$ -	\$14,690,683
Loans and receivables:				
- Premiums receivable	4,323,030	618,345	356,414	5,297,789
- Reinsurance balances receivable	431,802	-	-	431,802
Reinsurers' share of provision for unpaid claims	3,149,082	-	-	3,149,082
Cash and cash equivalents	6,632,830	-	-	6,632,830
Total assets exposed to credit risk	\$29,227,427	\$618,345	\$ 356,414	\$30,202,186

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

(b) Interest rate risk

The Company's investment in fixed income debt securities and cash and cash equivalents are all subject to interest rate risk. The coupon rates associated with the fixed interest debt securities held by the Company range from 2.95% to 6.75% (2014: 2.60% to 8.50%)

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

Debt securities	4.24% (2014: 4.62%)
Cash and cash equivalents and term deposits	0.01% (2014: 0.01%)

(c) Foreign currency risk

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

(d) Price risk

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.2 Financial Risk (continued)

(e) Liquidity risk

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

The following tables indicate the timing of undiscounted cash flows arising from financial liabilities as of December 31, 2015 and 2014:

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

2014	Cash flows (undiscounted)			
	Undiscounted amount	< 1 year	1- 5 years	> 5 years
Financial liabilities				
Accrued expenses and other liabilities	\$ 411,047	\$ 411,047	\$ -	\$ -
Reinsurance balances payable	1,758,758	1,758,758	-	-
Provision for unpaid claims (undiscounted)	6,838,836	4,068,143	2,284,943	485,750
Less: reinsurers' share of provision for unpaid claims (undiscounted)	(3,149,082)	(1,590,155)	(1,275,486)	(283,441)
Total undiscounted cash flows	\$ 5,859,559	\$ 4,647,793	\$ 1,009,457	\$ 202,309

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.3 Sensitivity Analysis

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

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

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

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

	<u>2015</u>	<u>2014</u>
Net insurance liabilities – property risk	3 months	3 months
Net insurance liabilities – casualty risk	2.5 years	2.5 years
Net insurance liabilities – health contracts	1 month	1 month
Investments (excluding equity securities)	4.27 years	4.05 years

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

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

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

Sensitivity factor	Description of sensitivity factor applied
Interest rate – cash and cash equivalents	The impact of an increase in market interest rates by 3% (2014: 3%) and decrease in rates by 0.1% (2014: 0.1%)
Interest rate – debt securities	The impact of a change in market interest rates by 3% (2014: 3%)
Commission expense	The impact of a change in commission expense by 5% (2014: 5%)
Loss ratios	The impact of an absolute change in loss ratios by 10% (2014: 10%)

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015

(expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.3. Sensitivity Analysis (continued)

	Interest rates +3%	Interest rates -0.01%	Commission expense +5%	Commission expense -5%	Loss ratios +10%	Loss ratios -10%
December 31, 2015						
Impact on profit* (1)	\$ 251,726	\$ (209)	\$ (141,569)	\$ 141,569	\$(2,168,219)	\$ 2,168,219
Impact on equity *(2)	\$(1,441,805)	\$1,724,399	\$ (141,569)	\$ 141,569	\$(2,168,219)	\$ 2,168,219
	Interest rates +3%	Interest rates -0.1%	Commission expense +5%	Commission expense -5%	Loss ratios +10%	Loss ratios -10%
December 31, 2014						
Impact on profit* (1)	\$ 198,985	\$ (154)	\$ (141,682)	\$ 141,682	\$(2,109,762)	\$ 2,109,762
Impact on equity *(2)	\$(1,412,245)	\$1,680,058	\$ (141,682)	\$ 141,682	\$(2,109,762)	\$ 2,109,762

* Net of reinsurance

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

5.4 Capital Management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements stipulated within the Cayman Islands Insurance Law (Revised) and with the Insurance (Capital and Solvency) (Class A Insurers) Regulations, 2012 mandated by the Cayman Islands Monetary Authority ("CIMA"); 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 actively monitors its capital requirements and is in compliance with all relevant laws, rules and regulations.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.5 Fair Value Estimation

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

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

Specific valuation techniques used to fair value financial instruments include:

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

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

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

5. Management of Insurance and Financial Risk (continued)

5.5 Fair Value Estimation (continued)

At December 31, 2014	Level 1	Level 2	Level 3	Total Balance
Available for sale financial assets				
Debt securities				
- Debt securities issued by U.S Government Agencies	\$ -	\$ 457,034	\$ -	\$ 457,034
- Debt securities issued by foreign governments	-	442,333	-	442,333
- Corporate bonds	-	13,774,018	-	13,774,018
- Other debt securities	-	-	17,298	17,298
Total debt securities	\$ -	\$14,673,385	\$ 17,298	\$ 14,690,683
Mutual funds				
- Real Estate Fund	\$ -	\$ -	\$ 35,725	\$ 35,725
Total mutual funds	\$ -	\$ -	\$ 35,725	\$ 35,725
Total assets measured at fair value	\$ -	\$14,673,385	\$ 53,023	\$ 14,726,408

The following table presents the changes in Level 3 instruments:

	2015	2014
Opening balance	\$ 53,023	\$ 70,519
Change in investment fair value reserve	10,615	1,616
Proceeds from sale of investments	(32,049)	(16,765)
Realised losses on sale of investments	(13,641)	(2,347)
Impairment charge	(650)	-
Closing balance	\$ 17,298	\$ 53,023
Change in investment fair value reserve included in other Comprehensive loss	\$ 10,615	\$ 1,616

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

6. Cash and Cash Equivalents

	2015	2014
Bank balances	\$ 5,222,143	\$ 4,404,570
Cash at broker	3,168,719	2,228,260
Total cash and cash equivalents	\$ 8,390,862	\$ 6,632,830

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

7. Investments

	2015	2014
Available for sale:		
Fixed income debt securities, at fair value (amortised cost \$14,180,403; 2014: \$14,344,675)	\$ 14,074,431	\$ 14,484,469
Unlisted mutual fund, at fair value (cost less impairment \$Nil; 2014: \$46,340)	-	35,725
Interest receivable	202,456	206,214
Total investments	\$ 14,276,887	\$ 14,726,408

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.

At September 30, 2007, the manager of the mutual fund (a leveraged Fund that invests primarily in real estate located in the UK) suspended subscriptions and redemptions.

Following the suspension of the Fund's subscriptions and redemptions, with the ultimate goal being to fully liquidate the fund over a period of approximately three years, it was resolved that the fund would sell the underlying properties of the Fund and return the capital to investors at appropriate intervals.

At December 31, 2014, the Fund had made two distributions to the investors. During 2015, the Fund made three further distributions bringing the total distributions to approximately 99% (2014: 53%) of the issued units. The final Fund closure is anticipated to be during the second half of 2016. The shareholders have been notified that it's unlikely that there will be any further material distribution as any incoming funds will go towards maintaining and winding down the Fund.

The Company received \$32,049 (2014: \$16,765) for its liquidated holding. The carrying cost of the units sold was \$45,690 (2014: \$19,112), and the realised loss of \$13,641 (2014: \$2,347) has been included in investment income on the statement of income and comprehensive income. The carrying cost of the remaining units was \$650 and this has been written off as an impairment charge.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015

(expressed in Cayman Islands dollars)

7. Investments (continued)

The amortised cost and fair value of fixed income debt securities held at December 31, 2015 and 2014 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.

	2015		2014	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
Available for sale: Fixed income debt securities				
Due in less than one year	\$ 2,097,238	\$ 2,117,862	\$ 1,667,887	\$ 1,680,003
Due after one year through five years	6,042,091	6,115,223	7,454,492	7,631,626
Due after five years	6,041,074	5,841,346	5,222,296	5,172,840
	\$14,180,403	\$14,074,431	\$14,344,675	\$14,484,469

	2015	2014
Available for sale debt securities comprise:		
Government debt securities	\$ 873,466	\$ 886,877
Corporate debt securities	13,184,298	13,580,925
Other debt securities	16,667	16,667
Total	\$14,074,431	\$14,484,469

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

	2015	%	2014	%
USA	\$ 6,490,101	45%	\$ 8,018,942	55%
Europe	1,766,167	12%	1,371,027	9%
UK	1,690,822	12%	1,329,577	9%
Asia	1,653,930	12%	1,214,440	8%
Australia	1,291,535	9%	1,321,991	9%
Caribbean	444,200	3%	450,642	3%
South Africa	382,025	3%	411,187	3%
Canada	355,651	3%	402,388	3%
	14,074,431	99%	14,520,194	99%
Add: interest receivable	202,456	1%	206,214	1%
Total	\$ 14,276,887	100%	\$ 14,726,408	100%

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

7. Investments (continued)

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

<u>Available for sale investments</u>	<u>2015</u>	<u>2014</u>
At the beginning of the year	\$14,726,408	\$ 13,255,758
Cost of investments purchased	2,575,064	3,907,591
Proceeds from sale and maturity of investments	(2,658,561)	(2,091,765)
Amortisation / accretion of premiums / discounts on bonds	(140,147)	(154,330)
Realised gains/(losses) on sale of investments	13,684	(2,347)
Impairment charge	(650)	-
Fair value net losses	(235,153)	(199,438)
(Decrease) /increase in interest receivable	(3,758)	10,939
At the end of the year	\$ 14,276,887	\$ 14,726,408

To finance the construction of the Company's corporate headquarters, the Company, in June 2014, offered a rights issue to all holders of its ordinary voting shares. BFHI obtained a non-revolving 10-year demand loan from Cayman National Bank Ltd ("Bank") to finance its acquisition of shares in the Company. As a prerequisite of the loan facility, the Company entered into a Deed of Guarantee dated June 23, 2014 guaranteeing the payment of the loan, all interest and all other sums payable under or in respect of the loan facility. Pursuant to a pledge agreement dated June 23, 2014, the Company has provided to the Bank security interest over its investments, held with or through BMO Nesbitt Burns Inc. in its capacity as securities intermediary, as collateral for the credit facility. Consequently, the Company's investments have been hypothecated to the extent required to collateralise the loan issued to BFHI. The outstanding loan balance at December 31, 2015 was \$1,440,955 (2014: \$4,007,412).

8. Premiums Receivable

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

	<u>2015</u>	<u>2014</u>
Agents and brokers receivables	\$ 3,674,138	\$ 3,632,062
Policyholders receivables	1,406,305	1,665,727
	<u>5,080,443</u>	<u>5,297,789</u>
Provision for bad debts		
Balance at beginning of year	356,414	166,179
Provision for impairment of receivables	211,182	190,235
Bad debts write off	(23,965)	-
Balance at end of year	<u>543,631</u>	<u>356,414</u>
Premium receivable, net	\$ 4,536,812	\$ 4,941,375

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

8. Premiums Receivable (continued)

Aging of premiums receivable, net is as follows;

	2015	2014
Less than 3 months	\$ 2,881,206	\$ 3,035,195
3-6 months	1,247,823	1,287,835
6 months -1 year	407,783	441,720
Over 1 year	-	176,625
	\$ 4,536,812	\$ 4,941,375

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:

	2015		2014	
	Deferred policy acquisition commissions	Unearned reinsurance commissions	Deferred policy acquisition commissions	Unearned reinsurance commissions
Beginning of year	\$ 894,141	\$ 1,822,906	\$ 862,549	\$ 1,786,171
Commissions written*	2,187,317	4,784,759	2,239,069	5,107,179
Commission incurred/earned*	(2,171,422)	(4,812,146)	(2,207,477)	(5,070,444)
Movement during the year	15,895	(27,387)	31,592	36,735
End of the year	\$ 910,036	\$ 1,795,519	\$ 894,141	\$ 1,822,906

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

10. Intangible Assets

	<u>Computer Software Licences</u>
Cost/Valuation	
At January 1, 2015	\$ 487,155
Additions	6,667
At December 31, 2015	<u>\$ 493,822</u>
Accumulated amortisation	
At January 1, 2015	\$ 485,800
Amortisation charge through income	2,465
At December 31, 2015	<u>\$ 488,265</u>
Net Book Value at December 31, 2015	<u>\$ 5,557</u>
Cost/Valuation	
At January 1, 2014	\$ 487,155
Additions	-
At December 31, 2014	<u>\$ 487,155</u>
Accumulated amortisation	
At January 1, 2014	\$ 483,092
Amortisation charge through income	2,708
At December 31, 2014	<u>\$ 485,800</u>
Net Book Value at December 31, 2014	<u>\$ 1,355</u>

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

11. Property, Plant and Equipment

	Land	Construction in Progress	Leasehold improvements & Furnishings	Computer & Office Equipment	Motor Vehicles	Total
Cost						
At January 1, 2015	\$ 1,887,555	\$ 105,349	\$ 1,806,555	\$ 454,573	\$ 107,483	\$ 4,361,515
Additions	-	\$ 435,409	3,398	6,953	-	\$ 445,760
At December 31, 2015	\$ 1,887,555	\$ 540,758	\$ 1,809,953	\$ 461,526	\$ 107,483	\$ 4,807,275
Accumulated depreciation						
At January 1, 2015	\$ -	\$ -	\$ (1,795,771)	\$ (407,246)	\$ (69,455)	\$ (2,272,472)
Charge for the year	-	-	(5,648)	(28,234)	(11,417)	\$ (45,299)
At December 31, 2015	\$ -	\$ -	\$ (1,801,419)	\$ (435,480)	\$ (80,872)	\$ (2,317,771)
Net Book Value at December 31, 2015	\$ 1,887,555	\$ 540,758	\$ 8,534	\$ 26,046	\$ 26,611	\$ 2,489,504
Cost						
At January 1, 2014	\$ -	\$ -	\$ 1,804,476	\$ 416,680	\$ 107,483	\$ 2,328,639
Additions	1,887,555	\$ 105,349	2,079	37,893	-	\$ 2,032,876
At December 31, 2014	\$ 1,887,555	\$ 105,349	\$ 1,806,555	\$ 454,573	\$ 107,483	\$ 4,361,515
Accumulated depreciation						
At January 1, 2014	\$ -	\$ -	\$ (1,764,099)	\$ (372,713)	\$ (58,038)	\$ (2,194,850)
Charge for the year	-	-	(31,672)	(34,533)	(11,417)	\$ (77,622)
At December 31, 2014	\$ -	\$ -	\$ (1,795,771)	\$ (407,246)	\$ (69,455)	\$ (2,272,472)
Net Book Value at December 31, 2014	\$ 1,887,555	\$ 105,349	\$ 10,784	\$ 47,327	\$ 38,028	\$ 2,089,043

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

The development process is still in its preliminary stages, and the costs incurred to December 31, 2015 have been recorded under construction in progress. The development is expected to be completed in the second quarter of 2017 and the estimated cost, including the land, is projected to be approximately \$8,200,000.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

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

The movement in the provision for unpaid claims comprises:

2015	Gross	Reinsurers' Share	Net
Provision at beginning of year	\$ 6,838,836	\$ 3,149,082	\$ 3,689,754
Claims incurred	18,154,624	2,924,430	15,230,194
Claims incurred - current year	18,354,923	2,641,088	15,713,835
Claims incurred - prior years	(200,299)	283,342	(483,641)
Claims paid	(17,043,038)	(2,203,604)	(14,839,434)
Claims paid - current year	(14,327,569)	(1,213,930)	(13,113,639)
Claims paid - prior year	(2,715,469)	(989,674)	(1,725,795)
Provision at end of year	\$ 7,950,422	\$ 3,869,908	\$ 4,080,514

Breakdown of the provision:

Notified claims	\$ 5,125,422	\$ 3,344,908	\$ 1,780,514
Incurred but not reported	2,825,000	525,000	2,300,000
Provision at end of year	\$ 7,950,422	\$ 3,869,908	\$ 4,080,514

2014	Gross	Reinsurers' Share	Net
Provision at beginning of year	\$ 5,911,803	\$ 2,521,098	\$ 3,390,705
Claims incurred	16,398,387	2,349,241	14,049,146
Claims incurred - current year	16,316,491	1,915,413	14,401,078
Claims incurred - prior years	81,896	433,828	(351,932)
Claims paid	(15,471,354)	(1,721,257)	(13,750,097)
Claims paid - current year	(13,102,132)	(844,504)	(12,257,628)
Claims paid - prior year	(2,369,222)	(876,753)	(1,492,469)
Provision at end of year	\$ 6,838,836	\$ 3,149,082	\$ 3,689,754

Breakdown of the provision:

Notified claims	\$ 4,163,836	\$ 2,674,082	\$ 1,489,754
Incurred but not reported	2,675,000	475,000	2,200,000
Provision at end of year	\$ 6,838,836	\$ 3,149,082	\$ 3,689,754

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

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

Gross undiscounted reserves at December 31, 2015 are \$7,950,422 (2014: \$6,838,836). Losses incurred but not reported include a provision for unallocated loss adjustment expenses ("ULAE").

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

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

H&L (\$)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Gross											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	6,798,121	6,709,248	9,868,384	14,344,710	14,855,678	15,566,981	13,494,394	14,217,078	13,640,992	14,878,119	124,373,705
One year later	7,032,332	6,476,636	10,290,940	14,358,866	15,302,739	15,325,489	13,028,673	13,981,016	13,297,746		
Current estimate of ultimate claims incurred	7,032,332	6,476,636	10,290,940	14,358,866	15,302,739	15,325,489	13,028,673	13,981,016	13,297,746	14,878,119	123,972,556
Cumulative payments to date	(7,032,332)	(6,476,636)	(10,290,940)	(14,358,866)	(15,302,739)	(15,325,489)	(13,028,673)	(13,899,683)	(13,297,746)	(12,968,119)	(121,981,223)
Liability recognised in the statement of financial position	-	-	-	-	-	-	-	81,333	-	1,910,000	1,991,333
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	150,000
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	2,141,333
Reinsurance											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	436,029	202,643	941,154	1,017,669	478,420	269,902	282,817	504,002	434,483	761,794	5,328,913
One year later	358,288	180,320	1,110,581	961,385	433,028	230,786	310,426	501,891	330,154		
Current estimate of ultimate claims incurred	358,288	180,320	1,110,581	961,385	433,028	230,786	310,426	501,891	330,154	761,794	5,178,653
Cumulative payments to date	(358,288)	(180,320)	(1,110,581)	(961,385)	(433,028)	(230,786)	(310,426)	(437,221)	(330,154)	(461,794)	(4,813,983)
Liability recognised in the statement of financial position	-	-	-	-	-	-	-	64,670	-	300,000	364,670
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	-
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	364,670
Net											
Estimate of ultimate claims incurred:											
At end of calendar underwriting year	6,362,092	6,506,605	8,927,230	13,327,041	14,377,258	15,297,079	13,211,577	13,713,076	13,206,509	14,116,325	119,044,792
One year later	6,674,044	6,296,316	9,180,359	13,397,481	14,869,711	15,094,703	12,718,247	13,479,125	12,967,592	-	-
Current estimate of ultimate claims incurred	6,674,044	6,296,316	9,180,359	13,397,481	14,869,711	15,094,703	12,718,247	13,479,125	12,967,592	14,116,325	118,793,903
Cumulative payments to date	(6,674,044)	(6,296,316)	(9,180,359)	(13,397,481)	(14,869,711)	(15,094,703)	(12,718,247)	(13,462,462)	(12,967,592)	(12,506,325)	(117,167,240)
Liability recognised in the statement of financial position	-	-	-	-	-	-	-	16,663	-	1,610,000	1,626,663
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	150,000
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	1,776,663

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

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

P&C (\$)

	2006 (15 months)	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Gross											
Estimate of ultimate claims incurred:											
At end of financial reporting year	2,923,333	2,092,763	21,991,580	2,178,428	2,905,048	1,837,242	2,195,941	1,799,901	2,675,499	3,476,804	44,076,539
One year later	2,574,107	1,779,036	22,216,231	2,031,769	2,628,210	1,745,398	2,072,621	1,527,507	2,863,739	-	-
Two years later	2,721,423	2,129,378	22,360,368	2,321,613	2,583,388	1,864,370	1,979,168	1,428,152	-	-	-
Three years later	2,146,527	1,254,550	22,498,219	2,495,499	2,590,311	1,657,485	1,874,295	-	-	-	-
Four years and three months later	2,552,039	1,264,438	22,433,726	2,798,724	2,595,310	1,857,031	-	-	-	-	-
Five years and three months later	2,194,930	1,264,438	22,545,822	2,870,211	2,609,174	-	-	-	-	-	-
Six years and three months later	1,762,475	1,264,438	22,495,254	3,176,896	-	-	-	-	-	-	-
Seven years and three months later	1,708,975	1,264,438	22,559,611	-	-	-	-	-	-	-	-
Eight years and three months later	1,709,870	1,264,438	-	-	-	-	-	-	-	-	-
Nine years and three months later	1,643,819	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	1,643,819	1,264,438	22,559,611	3,176,896	2,609,174	1,657,031	1,874,295	1,428,152	2,863,739	3,476,804	42,553,959
Cumulative payments to date	(1,643,819)	(1,264,438)	(22,398,746)	(2,301,091)	(2,525,571)	(1,618,227)	(1,822,234)	(1,291,504)	(1,608,954)	(1,359,450)	(37,834,034)
Liability recognised in the statement of financial position	-	-	160,865	875,805	83,603	38,804	52,061	136,648	1,254,785	2,117,354	4,719,925
Liability in respect of prior years*	-	-	-	-	-	-	-	-	-	-	789,164
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	300,000
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	5,809,089
Reinsurance											
Estimate of ultimate claims incurred:											
At end of financial reporting year	1,250,372	1,234,340	19,966,673	1,355,516	1,787,159	1,034,564	1,274,092	997,883	1,480,930	1,879,294	32,260,823
One year later	1,203,146	1,086,990	20,389,491	1,287,558	1,621,322	981,949	1,150,755	841,822	1,760,469	-	-
Two years later	1,332,074	1,277,850	20,466,158	1,446,906	1,599,668	942,185	1,112,605	790,123	-	-	-
Three years later	784,697	752,753	20,539,224	1,549,729	1,606,182	939,149	1,052,427	-	-	-	-
Four years and three months later	931,752	758,685	20,503,291	1,731,493	1,609,138	938,930	-	-	-	-	-
Five years and three months later	798,355	758,685	20,570,935	1,775,884	1,616,260	-	-	-	-	-	-
Six years and three months later	462,986	758,685	20,545,513	1,956,868	-	-	-	-	-	-	-
Seven years and three months later	463,011	758,685	20,583,179	-	-	-	-	-	-	-	-
Eight years and three months later	463,096	758,685	-	-	-	-	-	-	-	-	-
Nine years and three months later	457,554	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	457,554	758,685	20,583,179	1,956,868	1,616,260	938,930	1,052,427	790,123	1,760,469	1,879,294	31,793,789
Cumulative payments to date	(457,554)	(758,685)	(20,488,755)	(1,442,793)	(1,574,958)	(919,758)	(1,026,707)	(714,753)	(868,834)	(752,136)	(29,004,933)
Liability recognised in the statement of financial position	-	-	94,424	514,075	41,302	19,172	25,720	75,370	891,635	1,127,158	2,788,856
Liability in respect of prior years*	-	-	-	-	-	-	-	-	-	-	716,382
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	-
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	3,505,238
Net											
Estimate of ultimate claims incurred:											
At end of financial reporting year	1,672,961	858,423	2,024,907	822,912	1,117,889	802,678	921,849	802,018	1,194,569	1,597,510	11,815,716
One year later	1,370,961	692,046	1,826,740	744,211	1,006,888	763,449	921,866	685,685	1,103,270	-	-
Two years later	1,389,349	851,528	1,894,210	874,707	983,720	722,185	866,563	638,029	-	-	-
Three years later	1,361,830	501,797	1,958,995	945,770	984,129	718,336	821,868	-	-	-	-
Four years and three months later	1,620,287	505,753	1,930,435	1,067,231	986,172	718,101	-	-	-	-	-
Five years and three months later	1,396,575	505,753	1,974,887	1,094,327	992,914	-	-	-	-	-	-
Six years and three months later	1,299,489	505,753	1,949,741	1,220,028	-	-	-	-	-	-	-
Seven years and three months later	1,245,964	505,753	1,976,432	-	-	-	-	-	-	-	-
Eight years and three months later	1,246,774	505,753	-	-	-	-	-	-	-	-	-
Nine years and three months later	1,186,265	-	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims incurred	1,186,265	505,753	1,976,432	1,220,028	992,914	718,101	821,868	638,029	1,103,270	1,597,510	10,760,170
Cumulative payments to date	(1,186,265)	(505,753)	(1,909,991)	(858,298)	(950,613)	(698,469)	(795,527)	(576,751)	(740,120)	(607,314)	(8,829,101)
Liability recognised in the statement of financial position	-	-	66,441	361,730	42,301	19,632	26,341	61,278	363,150	990,196	1,931,069
Liability in respect of prior years*	-	-	-	-	-	-	-	-	-	-	72,782
Liability in respect of ULAE	-	-	-	-	-	-	-	-	-	-	300,000
Total liability included in the statement of financial position	-	-	-	-	-	-	-	-	-	-	2,303,851

* This relates to liabilities for years before 2006.

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

13. Gross premiums written

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

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

	2015	2014
Gross amounts billed to clients	\$ 43,287,353	\$ 43,854,042
Less: government stamp duties / health insurance surcharges	(1,060,659)	(1,036,041)
Gross premiums written	\$ 42,226,694	\$ 42,818,001

14. Unearned premiums and Reinsurers' share of unearned premiums

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

	2015		2014	
	Gross	Reinsured	Gross	Reinsured
Beginning of year	\$ 9,837,249	\$ 7,577,542	\$ 9,905,168	\$ 7,620,552
Premiums written*	22,701,588	17,823,103	23,903,317	18,946,937
Premium revenue*	(23,336,612)	(18,454,361)	(23,971,236)	(18,989,947)
Movement during the year	(635,024)	(631,258)	(67,919)	(43,010)
End of the year	\$ 9,202,225	\$ 6,946,284	\$ 9,837,249	\$ 7,577,542

* Excludes premiums relating to health and life insurance contracts.

15. Share Capital

a) Share Capital

	2015	2014
Authorised Share Capital:		
4,000,000 (2014: 4,000,000) ordinary shares of \$1 each	\$ 4,000,000	\$ 4,000,000
1,000,000 (2014: 1,000,000) preference shares of \$1 each	1,000,000	1,000,000
	\$ 5,000,000	\$ 5,000,000
Issued and fully paid:		
2,000,000 (2014: 2,000,000) ordinary shares of \$1 each	\$ 2,000,000	\$ 2,000,000

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

15. Share Capital (continued)

b) Share Premium

	2015	2014
Balance at beginning of year	\$ 6,300,092	\$ 2,663,371
Rights issue	-	3,636,721
Balance at end of year	\$ 6,300,092	\$ 6,300,092

The Company completed a rights issue of 500,000 ordinary shares in June 2014. The shares were issued at the December 31, 2013 net book value per share of \$8.273444 resulting in the additional share premium of \$3,636,721 for the year ended December 31, 2014.

The Company had completed another rights issue of 500,000 ordinary shares in September 2011 and the opening share premium balance at January 1, 2014 of \$2,663,371 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 (2014: \$3,000,000) represents amounts appropriated by the directors from retained earnings, and is considered to be non-distributable.

16. Investment Income

	2015	2014
<u>Available for sale:</u>		
Fixed income securities		
Interest income	\$ 614,351	\$ 644,656
Amortisation/accretion of premiums/discounts	(140,147)	(154,330)
Realised gains/(losses) on sale of investments	13,684	(2,347)
Impairment charge	(650)	-
Investment fees	(42,351)	(37,214)
Total for available for sale investments	444,887	450,765
<u>Cash and cash equivalents:</u>		
Interest income	209	154
Total for cash and cash equivalents	209	154
Total investment income	\$ 445,096	\$ 450,919

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

17. Reconciliation of Net Income to Net Cash Provided /(Used) by Operating Activities

		<u>2015</u>		<u>2014</u>
Net income for the year	\$	2,690,861	\$	3,693,290
Adjustment for non-cash items, interest and dividends:				
Investment income on available for sale investments		(444,887)		(450,765)
Net interest income on cash and cash equivalents		(209)		(154)
Interest received		647,428		680,835
Interest paid on purchases of investments		(29,110)		(46,964)
Investment fees paid		(42,351)		(37,214)
Depreciation of property, plant and equipment		45,299		77,622
Amortisation of intangible assets		2,465		2,708
Movement in provision for impairment of receivables		211,182		190,235
Movement in deferred policy acquisition commissions		(15,895)		(31,592)
Movement in reinsurers' share of unearned premiums		631,258		43,010
Movement in reinsurers' share of provision for unpaid claims		(720,826)		(627,984)
Movement in unearned reinsurance commissions		(27,387)		36,735
Movement in unearned premiums		(635,024)		(67,919)
Movement in provision for unpaid claims		1,111,586		927,033
Changes in other assets and liabilities relating to operations:				
Premiums receivable		193,381		222,736
Reinsurance balances receivable		(176,105)		149,750
Prepaid expenses and other receivables		62,730		(61,153)
Accrued expenses and other liabilities		88,913		81,400
Reinsurance balances payable		200,320		(426,742)
Provision for litigation		-		(1,050,000)
Net cash provided by operating activities	\$	3,793,629	\$	3,304,867

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

18. Related Party Balances and Transactions

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

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

The Company pays an annual management fee to BFCS for executive management oversight and general administrative support provided to the Company. The management fee for the year ended December 31, 2015 was \$328,078 (2014:\$ 316,266).

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

	<u>2015</u>	<u>2014</u>
Salaries and other benefits	\$ 748,726	\$ 639,305
Termination benefits	-	148,438
Post-employment benefits	28,729	27,989
Total remuneration for key management	<u>\$ 777,455</u>	<u>\$ 815,732</u>
Receivables from key management personnel	<u>\$ 2,386</u>	<u>\$ 2,601</u>

During the year ended December 31, 2015, the Company had a total of 9 directors (2014: 7), of whom 1 (2014: none) is an executive officer of the Company and 2 (2014: 2) are executive officers of BFH. For the year ended December 31, 2015, the aggregate compensation for directors' services was \$78,472 (2014: \$75,000).

19. Pension Fund

The Company participates in The Cayman National Pension Fund, a defined contribution plan approved under the National Pensions Law of the Cayman Islands and administered by a previously affiliated Company. Membership is mandatory for all employees between the ages of 18 and 60 with contributions from both employer and employees. Included in personnel expense is an amount of \$130,383 (2014: \$125,501) representing the Company's portion of contributions required under the plan. The Company employed 45 employees at year-end (2014: 43 employees).

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

20. Commitments and Contingencies

a) Commitments

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

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

The Company also has a renewable two-year operating lease expiring on August 31, 2016 for its branch and below is the Company's total commitments in respect this lease contract.

	Cash flows (undiscounted)			
	Total	< 1 year	1- 5 years	> 5 years
2015				
Operating lease agreements and rental payments	\$ 21,667	\$ 21,667	\$ -	\$ -
Total	\$ 21,667	\$ 21,667	\$ -	\$ -
2014				
Operating lease agreements and rental payments	\$ 54,167	\$ 32,500	\$ 21,667	\$ -
Total	\$ 54,167	\$ 32,500	\$ 21,667	\$ -

b) Other legal proceedings

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

21. Segmented Information

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

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

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

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

21. Segmented Information (continued)

The segment results for the year ended December 31, 2015 and 2014 are as follows:

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

	P&C	H&L	Total
2014			
Total segment revenue*	\$ 8,037,084	\$ 18,195,379	\$ 26,232,463
Depreciation of property, plant and equipment	40,109	37,513	77,622
Amortisation of intangible assets	-	2,708	2,708
Total segment result	2,083,682	1,609,608	3,693,290

**Net premium and reinsurance commissions*

Management have pro-rated the Company's expenses at 52.5% (2014: 48.5%) for the P&C segment and 47.5% (2014: 51.5%) for the H&L segment, based on the estimated amount of resources utilized by each segment.

The segment assets and liabilities and capital expenditure at December 31, 2015 and 2014 are as follows:

	P&C	H&L	Total
2015			
Total segment assets	\$ 28,600,922	\$ 13,636,062	\$ 42,236,984
Total segment liabilities	18,800,003	2,607,201	21,407,204
Capital expenditure	240,691	211,736	452,427
2014			
Total segment assets	\$ 26,897,753	\$ 13,811,782	\$ 40,709,535
Total segment liabilities	18,234,510	2,434,286	20,668,796
Capital expenditure	985,945	1,046,931	2,032,876

Cayman First Insurance Company Limited

Notes to Financial Statements For the year ended December 31, 2015 (expressed in Cayman Islands dollars)

22. Comparative figures

In accordance with IAS 1 (revised), the Company has re-presented certain comparative information to conform with the current year presentation, as follows:

- As detailed in Note 3, the Company charges health policy holders monthly surcharges which the Company then submits to the Health Insurance Commission to cover medical costs for indigent persons. In the past, the surcharges were included in gross premiums written, as they were not separately identified on premium bills. However, since 2014, all surcharges have been itemized separately on client bills, and the Company therefore now excludes the amount of surcharges from its gross premiums written figure. The change introduces a consistent treatment between health surcharges and property & casualty stamp duties, the latter having always been shown separately on client bills and never been included in gross premiums written. Details of stamp duties and health surcharges are disclosed in Note 13.

Previously, health surcharges were also included as part of the (excess of loss) reinsurance cost on health business, being likened to a form of “compulsory” reinsurance. The change explained above with regard to their exclusion from gross premiums written removes the need for this corresponding expense charge.

Previously, any outstanding amounts at year end were recorded under reinsurance balances payable. Those amounts have been reclassified to accrued expenses and other liabilities.

Below is a summary of the changes put through the prior year comparatives:

	2014 (As previously reported)	Adjustments	2014 (After the reclassifications)
<u>Statement of Financial Position</u>			
Liabilities			
Accrued expenses and other liabilities	354,702	56,345	411,047
Reinsurance balances payable	1,815,103	(56,345)	1,758,758
<u>Statement of Comprehensive Income</u>			
Gross premiums written	43,471,166	(653,165)	42,818,001
Cost of excess of loss reinsurance	(3,406,343)	653,165	(2,753,178)
<u>Statement of Cash flows</u>			
Changes in other assets and liabilities relating to operations:			
Accrued expenses and other liabilities	25,055	56,345	81,400
Reinsurance balances payable	(370,397)	(56,345)	(426,742)