

Consolidated Financial Statements of

BAHAMAS FIRST HOLDINGS LIMITED

Year ended December 31, 2020

BAHAMAS FIRST HOLDINGS LIMITED

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Bahamas First Holdings Limited

Opinion

We have audited the consolidated financial statements of Bahamas First Holdings Limited and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of profit or loss, profit or loss and other comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



<i>Unpaid claims liability (See Notes 3, 4 and 10)</i>	
<i>The risk</i>	<i>Our response</i>
<p>As at December 31, 2020, the unpaid claims liability, including claims incurred but not reported (“IBNR”), amounted to \$57,774,921.</p> <p>The Group maintains reserves for the best-estimate of the costs to cover claims for losses or injuries that have been incurred as at December 31, 2020, whether or not reported to the Group as at that date, including claims handling costs.</p> <p>The valuation of the unpaid claims liability is estimated using a range of standard actuarial claims projection techniques.</p> <p>The calculation of the unpaid claims liability depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are used to form expectations about the ultimate settlement amounts. If the data used in calculating the unpaid claims liability, or for forming judgements over key assumptions, is not complete and accurate, then material impacts on the valuation of the unpaid claims liability may arise.</p> <p>As a result of the factors discussed in this key audit matter, as part of our risk assessment, we determined that the valuation of the unpaid claims liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the consolidated financial statements as a whole.</p>	<p>In assessing the unpaid claims liability, as part of our procedures, we performed the following:</p> <ul style="list-style-type: none"> • We gained an understanding of the Group’s methodology for recording the unpaid claims liability to identify any changes in methodology or approach and considered the appropriateness of any modifications and any impacts on disclosures. • We compared the claims data recorded in the claims administration systems to the data used in the actuarial reserving calculations to assess the integrity of the data used by the Group’s external actuaries in the actuarial reserving process. • We compared the output of the Group’s external actuarial report with the amounts recorded in the consolidated financial statements. • Using our own actuarial specialists, we evaluated the findings in the Group’s external actuarial report which calculated the required unpaid claims liability at December 31, 2020. Through critical assessment of this report, discussion and examining supporting documentation, we assessed whether the reserve estimation approach is in accordance with actuarial standards of practice and assessed the appropriateness of the methodology and underlying assumptions used, for reasonableness. • We compared the prior year’s unpaid claims liability to actual outcomes to assess whether the Group has set adequate reserves. • Using computer assisted audit techniques, we compared individual case reserves as at December 31, 2020 with those at December 31, 2019 to identify those with significant or no deviation. For a sample of individual case reserves, we assessed the reasonableness of the movement in reserves by evaluating supporting documentation. • We sent confirmation requests to the Group’s attorneys and based on replies received, we assessed whether the open litigation and claims reported in the attorneys’ responses were adequately provided for on select claims.



Gross premiums written (See Notes 3 and 5)	
The risk	Our response
<p>Gross premiums written is the Group’s primary source of income, which amounted to \$159,097,251 for the year ended December 31, 2020.</p> <p>The existence and accuracy of premiums written is considered to be a key audit area due to the material financial impact of premium income on the Group’s consolidated financial statements and, as per ISAs, the presumption that there are risks of fraud in revenue recognition.</p> <p>Premiums are written by the Group and underwriting agents primarily utilising the Group’s underwriting technology platforms. Due to the fact that certain third-party agents manage policyholder interactions, insurance contract binding and adjustments to already incepted policies, this inherently increases the risks associated with the financial reporting for the existence and accuracy of premiums written.</p>	<p>In this area, as part of our procedures, we performed the following:</p> <ul style="list-style-type: none"> • We gained an understanding of the Group’s process for writing premiums to identify any changes in methodology or approach and considered the appropriateness of any modifications and any impacts on disclosures. • We analyzed the reconciliation of the listing of gross premiums written during the year, with the amount reported in the consolidated financial statements. • We requested confirmation of the gross premiums written during the year from a sample of the Group’s agents and reconciled responses to the Group’s records. • We tested a sample of policies issued during the year, by tracing relevant information to the policy issued. • Using computer assisted audit techniques, we searched for duplicate policies. • We performed procedures to test whether gross premiums written were recorded in the appropriate period.

Other Information

Management is responsible for the other information. The other information comprises the information to be included in the Group’s annual report (but does not include the consolidated financial statements and our auditors’ report thereon), which is expected to be made available to us after the date of this auditors’ report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is John M. Lopez.

A handwritten signature of the KPMG firm, written in blue ink, appearing as 'KPMG' in a stylized, cursive font.

Nassau, Bahamas
May 17, 2021

BAHAMAS FIRST HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020
(Expressed in Bahamian dollars)

	Notes	2020	2019
ASSETS			
Cash and cash equivalents		\$ 39,808,907	\$ 76,298,279
Trade accounts receivable, net	4,8,22	30,496,304	27,982,506
Sundry receivables and prepayments	22	6,189,285	6,625,155
Deferred commission costs	9	4,464,438	5,061,150
Deferred reinsurance premiums	9	36,825,812	36,186,510
Unpaid claims recoverable from reinsurers	4,10	38,795,245	223,262,062
Investments	6	37,415,048	42,834,135
Investment in associate	7	-	727,980
Property and equipment	4,11,19	22,748,681	23,019,642
Right-of-use assets	12	777,164	1,071,207
Intangible assets and goodwill	4,13,19	<u>9,125,678</u>	<u>7,163,650</u>
TOTAL ASSETS		<u>\$ 226,646,562</u>	<u>\$ 450,232,276</u>

(Continued)

See notes to consolidated financial statements.

BAHAMAS FIRST HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2020

(Expressed in Bahamian dollars)

		2020	2019
LIABILITIES AND EQUITY			
LIABILITIES:			
Accrued expenses and other liabilities		\$ 3,332,487	\$ 1,746,857
Reinsurance balances payable		32,968,848	72,534,806
Unearned commission income	9	9,320,623	9,300,933
Unearned premiums	9	50,273,186	51,304,050
Unpaid claims	4,10	57,774,921	244,237,144
Lease liabilities	12	838,858	1,164,586
Bonds payable	14	<u>7,616,866</u>	<u>7,616,866</u>
Total liabilities		<u>162,125,789</u>	<u>387,905,242</u>
EQUITY:			
Common shares	15	365,116	365,116
Preference shares	15	5,000,000	5,000,000
Contributed surplus		14,926,159	14,926,159
General reserve	16	4,000,000	4,000,000
Revaluation reserve	17	6,546,825	6,194,064
Retained earnings		<u>29,175,407</u>	<u>27,484,448</u>
Total equity attributable to owners of the company		<u>60,013,507</u>	<u>57,969,787</u>
Non-controlling interest	18	<u>4,507,266</u>	<u>4,357,247</u>
Total equity		<u>64,520,773</u>	<u>62,327,034</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 226,646,562</u>	<u>\$ 450,232,276</u>

(Concluded)

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on May 14, 2021 and are signed on its behalf by:

Alison Treco, Chairman

Patrick G.W. Ward, Director

BAHAMAS FIRST HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2020

(Expressed in Bahamian dollars)

	Notes	2020	2019
UNDERWRITING INCOME:			
Gross premiums written	5,22	\$159,097,251	\$160,629,101
Movement in unearned premiums	9	<u>1,030,864</u>	<u>(2,287,975)</u>
		160,128,115	158,341,126
Premiums ceded to reinsurers		(96,156,369)	(93,383,253)
Movement in deferred reinsurance premiums	9	<u>639,302</u>	<u>1,719,436</u>
Net premiums earned		64,611,048	66,677,309
Commission income		<u>24,462,316</u>	<u>20,283,099</u>
Total underwriting income		<u>89,073,364</u>	<u>86,960,408</u>
UNDERWRITING EXPENSES:			
Net claims incurred	10	28,694,909	39,891,805
Commission expense	22	14,444,956	13,402,908
Cost of excess of loss reinsurance		10,052,456	10,058,609
Premium tax		<u>2,814,004</u>	<u>2,989,583</u>
Total underwriting expenses		<u>56,006,325</u>	<u>66,342,905</u>
Net underwriting income		<u>33,067,039</u>	<u>20,617,503</u>
OTHER EXPENSES:			
Salaries, benefits and bonuses	21,22	14,348,197	14,171,865
General and administrative expenses		8,610,158	8,441,228
Interest expense		1,479,260	1,478,977
Depreciation and amortization of intangible assets	11,12,13	<u>2,115,951</u>	<u>1,896,667</u>
Total other expenses		<u>26,553,566</u>	<u>25,988,737</u>
UNREALIZED (LOSS) ON INVESTMENT	6	(2,881,437)	-
OTHER INCOME, NET	20	<u>1,321,413</u>	<u>290,828</u>
PROFIT/(LOSS) FOR THE YEAR		<u>\$ 4,953,449</u>	<u>\$ (5,080,406)</u>
ATTRIBUTABLE TO:			
OWNERS OF THE COMPANY		\$ 4,626,907	\$ (5,549,923)
NON-CONTROLLING INTEREST	18	<u>326,542</u>	<u>469,517</u>
		<u>\$ 4,953,449</u>	<u>\$ (5,080,406)</u>
BASIC AND DILUTED EARNINGS/(LOSS) PER COMMON SHARE	15	<u>\$ 0.12</u>	<u>\$ (0.16)</u>

See notes to consolidated financial statements.

BAHAMAS FIRST HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2020

(Expressed in Bahamian dollars)

	Notes	2020	2019
PROFIT/(LOSS) FOR THE YEAR		\$ 4,953,449	\$ (5,080,406)
OTHER COMPREHENSIVE INCOME:			
Item that will not be reclassified subsequently to profit or loss:			
Revaluation of land and buildings	11,17	-	1,905,353
		-	1,905,353
Items that may be reclassified subsequently to profit or loss:			
Unrealized gain on available-for-sale investments	6,17	352,761	799,433
		352,761	799,433
OTHER COMPREHENSIVE INCOME FOR THE YEAR		352,761	2,704,786
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		\$ 5,306,210	\$ (2,375,620)
ATTRIBUTABLE TO:			
OWNERS OF THE COMPANY		\$ 4,949,530	\$ (2,992,984)
NON-CONTROLLING INTEREST	18	356,680	617,364
		\$ 5,306,210	\$ (2,375,620)

See notes to consolidated financial statements.

BAHAMAS FIRST HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2020

(Expressed in Bahamian dollars)

	Attributable to owners of the group						Non- Controlling Interest	Total
	Common Shares	Preference Shares	Contributed Surplus	General Reserve	Revaluation Reserve	Retained Earnings		
Balance at December 31, 2018	\$ 365,116	\$ 5,000,000	\$ 14,926,159	\$ 4,000,000	\$ 3,489,278	\$ 36,453,145	\$ 4,104,778	\$ 68,338,476
(Loss)/profit for the year	-	-	-	-	-	(5,549,923)	469,517	(5,080,406)
Other comprehensive income/(loss) (Note 17)	-	-	-	-	2,704,786	(147,847)	147,847	2,704,786
Total comprehensive income/(loss)	-	-	-	-	2,704,786	(5,697,770)	617,364	(2,375,620)
<u>Transactions with shareholders</u>								
Dividends paid by CFI	-	-	-	-	-	-	(364,895)	(364,895)
Preference shares dividend paid (Note 15)	-	-	-	-	-	(350,000)	-	(350,000)
Dividends paid (\$0.08 per common share) (Note 15)	-	-	-	-	-	(2,920,927)	-	(2,920,927)
Balance at December 31, 2019	\$ 365,116	\$ 5,000,000	\$ 14,926,159	\$ 4,000,000	\$ 6,194,064	\$ 27,484,448	\$ 4,357,247	\$ 62,327,034
Profit for the year	-	-	-	-	-	4,626,907	326,542	4,953,449
Other comprehensive income/(loss) (Note 17)	-	-	-	-	352,761	(30,138)	30,138	352,761
Total comprehensive income	-	-	-	-	352,761	4,596,769	356,680	5,306,210
<u>Transactions with shareholders</u>								
Dividends paid by CFI	-	-	-	-	-	-	(206,661)	(206,661)
Preference shares dividend paid (Note 15)	-	-	-	-	-	(350,000)	-	(350,000)
Dividends paid (\$0.07 per common share) (Note 15)	-	-	-	-	-	(2,555,810)	-	(2,555,810)
Balance at December 31, 2020	\$ 365,116	\$ 5,000,000	\$ 14,926,159	\$ 4,000,000	\$ 6,546,825	\$ 29,175,407	\$ 4,507,266	\$ 64,520,773

See notes to consolidated financial statements.

BAHAMAS FIRST HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2020

(Expressed in Bahamian dollars)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) for the year		\$ 4,953,449	\$ (5,080,406)
Adjustments for:			
Depreciation	11,12	1,152,979	1,533,179
Loss on building revaluation	20	-	1,409,736
Building contract sum adjustment	11	-	180,000
Interest on leases		59,856	59,326
Amortization of intangible assets	13	962,972	363,488
Amortization of premiums and discounts on bonds	6,20	73,778	94,086
Share of net earnings of associate	7,20	(140,180)	(38,932)
Loss on sale of investment in associate	7,20	218,160	-
Realized gain on sales of investments	6,20	(49,270)	-
Unrealized loss on FVTPL investments	6	2,881,437	-
Gain on disposal of property and equipment	20	(4,000)	(2,840)
Increase in trade accounts receivable, net		(2,513,798)	(1,411,151)
Decrease/(increase) in sundry receivables and prepayments	7	760,870	(4,097,270)
Decrease in right of use asset	12	137,000	-
Decrease in deferred commission costs	9	596,712	43,438
Increase in deferred reinsurance premiums	9	(639,302)	(1,719,436)
Increase/(decrease) in accrued expenses and other liabilities		1,585,630	(4,652,059)
(Decrease)/increase in reinsurance balances payable		(39,565,958)	68,750,907
Increase in unearned commission income	9	19,690	420,509
(Decrease)/increase in unearned premiums	9	(1,030,864)	2,287,975
(Decrease)/increase in net unpaid claims	10	(1,995,406)	2,645,070
Decrease in lease liability		(68,230)	-
Net cash (used in)/from operating activities		<u>\$ (32,604,475)</u>	<u>\$ 60,785,620</u>

(Continued)

See notes to consolidated financial statements.

BAHAMAS FIRST HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2020

(Expressed in Bahamian dollars)

	Notes	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	11	\$ (724,975)	\$ (428,777)
Purchase of intangible assets	13	(2,925,000)	-
Proceeds from disposal of property and equipment	11,20	4,000	10,910
Proceeds from disposal of investment in associate	7	325,000	-
Proceeds from sale and maturity of investments	6	3,463,903	5,282,561
Purchase of investments	6	<u>(598,000)</u>	<u>(2,599,501)</u>
Net cash (used)/from investing activities		<u>\$ (455,072)</u>	<u>\$ 2,265,193</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Preference shares dividend paid	15	\$ (350,000)	\$ (350,000)
Changes in non-controlling interest		(206,661)	(364,895)
Common shares dividend paid	15	(2,555,810)	(2,920,927)
Lease liability cash payments		<u>(317,354)</u>	<u>(316,922)</u>
Net cash (used in) financing activities		<u>\$ (3,429,825)</u>	<u>\$ (3,952,744)</u>
NET (DECREASE)/INCREASE IN			
CASH AND CASH EQUIVALENTS			
		(36,489,372)	59,098,069
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR		<u>76,298,279</u>	<u>17,200,210</u>
END OF YEAR		<u>\$ 39,808,907</u>	<u>\$ 76,298,279</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Interest received		<u>\$ 1,124,227</u>	<u>\$ 1,316,637</u>
Dividends received		<u>\$ 250,313</u>	<u>\$ 316,641</u>
Premium taxes paid		<u>\$ 2,814,004</u>	<u>\$ 2,989,583</u>
Interest expense paid		<u>\$ 1,539,116</u>	<u>\$ 1,538,303</u>

(Concluded)

See notes to consolidated financial statements.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

(Expressed in Bahamian dollars)

1. GENERAL

Bahamas First Holdings Limited (“BFH” or the “Company”) and its subsidiaries are incorporated under the laws of the Commonwealth of The Bahamas, except BFH International Limited, Cayman First Insurance Company Limited, BRAC Insurance Associates Ltd. and BFH Services (Cayman) Limited which are incorporated under the laws of the Cayman Islands.

These consolidated financial statements include the accounts of BFH and its subsidiaries, which are hereinafter collectively referred to as the “Group”. The primary activity of the Group is the carrying on of general insurance business (property and casualty) and health and group life insurance. The subsidiaries are as follows:

Registered insurers:

- Bahamas First General Insurance Company Limited (“BFG”)
- Cayman First Insurance Company Limited (“CFI”)

Registered insurance intermediaries:

- Nassau Underwriters Agency Insurance Agents & Brokers Ltd. (“NUA”)
- BRAC Insurance Associates Ltd. (“BIA”)
- CMA Insurance Brokers & Agents Limited (“CMA”)

Management company:

- Bahamas First Corporate Services Ltd. (“BFCS”)

BFCS provides administrative and corporate services to the Group and charges management fees to the various Group companies, which are eliminated on consolidation.

Claims servicing company:

- First Response Limited (“FRL”)

FRL provides motor claim roadside assistance and claim adjusting services to BFG.

Health referral agency:

- BFH Services (Cayman) Limited (“BFHS”)

Insurance holding company:

- BFH International Limited (“BFHIL”)

All of the above subsidiaries are wholly-owned except for CFI, of which BFHIL owns 87.70%. The ordinary and preference shares along with the corporate bonds are listed and traded on the Bahamas International Securities Exchange (“BISX”). The registered office of the Company is located at 32 Collins Avenue, Nassau, The Bahamas.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

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 Group**

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, 2020.

Amendments to IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material

The amendments refine the definition of material in IAS 1 and align the definitions used across IFRS and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity’s materiality judgments.

Amendments to IFRS 3, Business combinations – Definition of a business

To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions.

These amendments did not have a material impact on these financial statements.

A number of other new standards are also effective from January 1, 2020 but they do not have a material effect on the Group’s financial statements.

b. **Standards and Interpretations effective but not affecting the reported results or financial position on the basis that the Group elected for the temporary exemption**

IFRS 9 – Financial Instruments

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. 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 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.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian 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 Group elected for the temporary exemption (continued)**

IFRS 9 – Financial Instruments (continued)

During 2020, the Group performed a high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its statement of financial position and equity, except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

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, 2020, the Group met these qualifying criteria of i) not applying any previous version of IFRS 9 and ii) at least 90% of its total liabilities being connected to insurance contracts 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.

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 adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) *(Expressed in Bahamian 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)

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 profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

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 Group has not yet fully assessed the impact of the new standard on its results.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies:

- a. ***Basis of preparation*** - These financial statements have been prepared in accordance with IFRS. They have been prepared on the accrual basis and under the historical cost convention, except as outlined in the accounting policies below. The preparation of financial statements in accordance 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 accounting policies are consistent with those used in previous years.

- b. ***Basis of consolidation*** - Subsidiaries are those entities controlled by BFH. Control exists when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. In assessing control, the potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.
- c. ***Business combinations*** - The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. *Business combinations (continued)*

The cost of the acquisition is measured at the aggregate of the consideration transferred (measured at acquisition date fair value), and the amount of any non-controlling interest in the acquiree. For each business combination, the Company measures the non-controlling interest in the acquiree either at the proportionate share of the acquiree's identifiable net assets. Acquisition cost incurred is expensed. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Changes in the Company's ownership in a subsidiary that do not result in a loss of control are accounted for as equity transactions and are recognized in contributed surplus in the consolidated statement of changes in equity.

d. *Investment in associates* - An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results, and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially carried at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss of the associate after the date of acquisition. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Company's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Company's share of those changes is recognized in other income, net in the consolidated statement of profit or loss.

After application of the equity method, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Losses of associates in excess of the Group's interest in those associates are not recognized.

Where a company within the Group transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. *Financial instruments*

Classification and measurement - On initial recognition, a financial asset or liability is measured at its fair value plus, in the case of investments not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortized.

The classification depends on the nature and purpose of the financial assets. Management determines the classification of its investments at initial recognition and re-evaluates the classification at each reporting date.

Financial assets are classified as either: financial assets at fair value through profit or loss (“FVTPL”); held-to-maturity investments; loans and receivables; or available-for-sale (“AFS”) and are measured as follows:

(i) Financial assets at fair value through profit or loss

Financial assets are classified as FVTPL where the financial asset is either held for trading or is designated as FVTPL. A financial asset is classified into the FVTPL category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. These assets are stated at fair value, with any resultant gain or loss recognized in the consolidated statement of profit or loss and other comprehensive income.

(ii) Available-for-sale investments

AFS financial assets are those non-derivative financial assets that are either designated as available for sale or are not classified as a) FVTPL, b) held-to-maturity or c) loans and receivables. AFS assets are stated at fair value. Cost may be used to approximate the fair value of AFS assets.

(iii) Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are non-derivative financial assets which are carried at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. *Financial instruments (continued)*

(iii) Held-to-maturity investments (continued)

Investment income is recorded in interest income in the consolidated statement of profit or loss and other comprehensive income. As at December 31, 2020 the Group does not hold any investments within this classification.

(iv) Loans and receivables

Loans and other receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, and which the Group has no intention of trading or designating at fair value. Loans and receivables are recognized when the Group provides goods or services to debtors or cash is advanced to borrowers. Loans and receivables are subsequently carried at amortized cost using the effective interest method, less any impairment.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value.

Trade accounts receivable and sundry receivables and prepayments are classified as loans and receivables and are carried at cost, which equates to amortized cost, less provision for bad debts. Reinsurance balances payable, accrued expenses and other liabilities and bonds payable are financial liabilities, which are carried at cost.

Investments in Bahamas Government Registered Stock are classified as loans and receivables and are carried at amortized cost. Preference shares and redeemable fixed rate note investments that meet the criteria are also classified as loans and receivables and carried at amortized cost. Preference shares and mutual fund investments that do not meet the loan and receivables recognition criteria are classified as available-for-sale and are measured at fair value at the consolidated statement of financial position date. All other investments are classified as financial assets at fair value through profit or loss.

Gains and losses arising from changes in fair value of available-for-sale investments are recognized in other comprehensive income (loss) until the investments are disposed of or are determined to be permanently impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income (loss) is included in profit or loss for the period. Investments are measured at fair value with reference to market prices, or, for non-listed companies, financial information on the company. The gain or loss on investments classified as at fair value through profit or loss is recognized in the consolidated statement of profit or loss.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. *Financial instruments (continued)*

Recognition and derecognition - Regular way purchases and sales of financial assets are recognized on the trade date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Group has transferred its right to receive cash flows from the asset and substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished.

f. **Trade accounts receivable** - Trade accounts receivable is stated at cost less provision for bad debts. The provision for bad debts is based on management's evaluation of the accounts receivable portfolio, as noted in Note 4(d).

g. **Property and equipment** - Property and equipment, other than freehold land and buildings, are stated at cost less accumulated depreciation and 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. All other expenditure is recognized in the consolidated statement of profit or loss as an expense as incurred. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized in the consolidated statement of profit or loss.

Depreciation is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of the assets. Land is not depreciated and expenditure incurred on construction-in-progress is not depreciated until construction is completed.

The estimated useful lives are as follows:

Buildings	40 years
Furniture and equipment	5 - 10 years
Leasehold improvements and others	3 - 6 years
Motor Vehicles	5 years

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. *Property and equipment (continued)*

Freehold land and buildings are stated at fair market value, based on independent professional appraisals, which are performed at least once every three years. At the end of each reporting period, management updates its assessment of the fair value of each property, considering current information available and the most recent independent valuations. 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 and is transferred to retained earnings to the extent realized by complete or partial disposal of the related asset, including depreciation.

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. The accumulated depreciation is reduced or eliminated, and any remaining surplus is used to increase cost.

h. *Intangible assets and goodwill* - On acquisition of an investment in an associate/subsidiary any goodwill arising (i.e. the excess of the cost of the investment over the investor's share of the net fair value of the identifiable assets, liabilities and contingent liabilities) is accounted for as follows:

- (i) goodwill is included in the carrying amount of the investment in associate and is neither amortized nor individually tested for impairment. For subsidiaries, it is included as goodwill in the consolidated statement of financial position and is tested for impairment at least annually.
- (ii) other intangible assets identified on acquisition of a subsidiary are recognized at cost, only if future economic benefits attributable to the asset will flow to the Group, and if the fair value of the asset can be measured reliably. In addition, for purposes of recognition, the intangible asset must be separable from the business being acquired or must arise from contractual or legal rights. On acquisition, the useful life of the asset is estimated and determined to be either finite or indefinite.
- (iii) any excess of the investor's share of the fair value of the net assets over the cost of the investment is included in the consolidated statement of profit or loss in the period in which the investment is acquired.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. *Intangible assets and goodwill (continued)*

Also included in this caption are acquired software licenses. The software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. After initial recognition, an intangible asset with a finite useful life is amortized using the straight-line method over the estimated useful life of 3-20 years, and amortization expense is included in depreciation and amortization of intangible assets in the consolidated statement of profit or loss. An intangible asset with an indefinite useful life is not amortized, but tested for impairment at least annually. An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the Group.

An intangible asset shall be derecognized on disposal or when no future economic benefit is expected from its use or disposal. The gain or loss arising from the derecognition is recognized in the consolidated statement of profit or loss.

i. *Impairment* - Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill and intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period in the consolidated statement of profit or loss.

In assessing whether financial assets carried at amortized cost are impaired, due consideration is given to the factors outlined in Note 4(d).

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. *Insurance contracts*

Product classification - Insurance contracts are those that transfer significant insurance risk at the effective date of the contract. Insurance risk is transferred when the Group agrees to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Any 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 Group are as follows:

Property and casualty (“P&C”) insurance contracts - Property and casualty contracts are generally one year renewable contracts issued by the Group covering insurance risks over property, motor, marine, engineering and general accident.

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

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. *Insurance contracts (continued)*

Reinsurance contracts - Contracts with reinsurers under which the Group is compensated for losses are classified as reinsurance contracts held. Insurance contracts in which the contract holder is another insurer (inwards reinsurance) are accounted for in the same manner as insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognized 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.

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 recognizes that impairment loss in the consolidated statement of profit or loss.

Portfolio Transfer In / (Out) - At the option of the Company and at the anniversary date of the reinsurance agreements, proportional reinsurers agree to relinquish (assume) liability for all policies in force at such anniversary date. The Company debits (credits) the reinsurers with the related portion of the unearned premiums and unpaid claims calculated in accordance with the method outlined in the agreement.

Premiums - Premiums written are recognized as income over the periods covered by the related policies taking into consideration the exposure period to which they relate. The adjustment to apportion the gross premiums written and ceded over the life of the policy is made through the movement in the unearned premiums.

Unearned premiums at year end, represent the proportion of the premiums written which relate to periods of insurance subsequent to the consolidated statement of financial position date. This amount is calculated on a quarterly pro-rated basis using the eights method with some catastrophe based seasonality adjustments. This method is based on the general assumption that the premiums are spread uniformly over the quarter. For property business exposed to catastrophes, the apportionment is adjusted accordingly to better align the recognition of premium income with the exposure of the hurricane season.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. *Insurance contracts (continued)*

Premiums ceded - Premiums ceded to reinsurers are recognized as an expense over the periods covered by the related policies taking into consideration the exposure period to which they relate.

Deferred reinsurance premiums in the consolidated statement of financial position at year end represent the proportion of the premiums ceded which relate to periods of insurance subsequent to the consolidated statement of financial position date. This amount is calculated on a quarterly pro-rated basis using the eights method, adjusting accordingly for seasonality to align with the exposure of the hurricane season.

k. **Unpaid claims and unpaid claims recoverable from reinsurers** - The provision for unpaid claims, and the reinsurers' share thereof, represents 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 on or before each consolidated statement of financial position date.

The provision is periodically reviewed and evaluated in the light of emerging claims experience and changing circumstances. Changes in estimate of the ultimate liability are included in net claims incurred in the consolidated statement of profit or loss.

At the date of the consolidated 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 to assist in performing the liability adequacy test at year-end.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. *Policy acquisition costs*

Deferred and unearned commissions - At year end, deferred and unearned commissions represent the proportion of the commission paid to agents and brokers and received from reinsurers which related to periods of insurance subsequent to the consolidated statement of financial position date. These amounts are calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate using the eights method, adjusting accordingly for seasonality to align with the exposure of the hurricane season.

Commission income and expense - Base commissions paid to agents and received from insurers and reinsurers are calculated based on gross premiums written and reinsured. Base commissions paid and received are adjusted so that they are recognized over the period covered by the related policies taking into consideration the exposure period to which they relate.

Profit commissions received from reinsurers and non-group insurers, calculated based on past underwriting results, are received from other insurance companies for whom Group agents may act and from the Group's reinsurers. Profit commission income and expense are recognized when the Company's right to receive, or obligation to make, payment has been established.

- m. ***Dividend and interest income*** - Dividends are recognized in profit or loss when the Group's right to receive the dividend income is established. Interest income is accounted for on an accrual basis. Both are recognized in other income, net in the consolidated statement of profit or loss.
- n. ***Investment premiums and discounts*** - Premiums and discounts arising on acquisition of fixed income securities are amortized over the period remaining to maturity and are recognized in other income, net in the consolidated statement of profit or loss.
- o. ***Cash and cash equivalents*** - Cash and cash equivalents consist of cash on hand and deposits with banks maturing within ninety days from the date of acquisition.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- p. ***Borrowings*** - Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statement of profit or loss over the period of borrowing using the effective rate method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan and are capitalized, and included in sundry receivables and prepayments in the consolidated statement of financial position. Capitalized fees are amortized over the period of the facility to which it relates, and are included in general and administrative expenses in the consolidated statement of profit or loss.

- q. ***Share capital*** - Shares are classified as equity when there is no obligation to transfer cash or other assets. Share capital is comprised of common and preference shares. The preference shares are non-voting and redeemable at the option of the Company. When common shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction in equity.

Dividends on common shares are recognized as a liability and deducted from equity when they are declared by the Group's Board of Directors.

- r. ***Foreign currency translation:***
- (i) ***Functional and presentation currency*** - Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Bahamian dollars, which is BFH's functional and presentation currency.
 - (ii) ***Transactions and balances*** - Assets and liabilities denominated or accounted for in currencies other than the Bahamian dollar are translated into Bahamian dollars at the exchange rate prevailing at the consolidated statement of financial position date. Foreign currency transactions and income and expense items have been translated at the exchange rates prevailing at the date of the transaction. Gains or losses arising from transactions in foreign currencies are included in the consolidated statement of profit or loss and other comprehensive income (loss).

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- s. **Related parties** – Related parties include:
- (i) key management personnel, including Directors; and close members of that person's family;
 - (ii) entities that have the ability to control or exercise significant influence over the Group in making financial or operational decisions; and
 - (iii) entities that are controlled, jointly controlled or significantly influenced by parties in (i) and (ii).
- t. **Pension benefits** - The Group's employees participate in a defined contribution plan. Under the plan, the Group contributes a fixed percentage of annual salary that is expensed in the year. Once the contributions have been made, the Group has no further obligations. The expensed amount is included in salaries, benefits and bonuses in the consolidated statement of profit or loss.
- u. **Share-based payments** - The Company has a share option plan for executives and, on occasion, a share subscription offer for employees. When the options are exercised the Company issues new shares and the proceeds received are credited to common shares and contributed surplus in the consolidated statement of changes in equity.
- v. **Earnings per share** - Earnings per share is computed by dividing the profit attributable to the common shareholders by the weighted average number of common shares outstanding during the year. The weighted average number of common shares outstanding during the year is the number of common shares outstanding at the beginning of the period, adjusted by the number of common shares repurchased or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the year. There is no material difference between basic earnings per share and fully diluted earnings per share.
- w. **Leases** - At inception of a contract, the Group 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 Group uses the definition of a lease in IFRS 16, Leases.

The Group 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 and an estimate of costs to dismantle and remove any improvements made to office premises.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

w. *Leases (continued)*

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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 interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- (i) fixed payments, including in-substance fixed payments;
- (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (iii) amounts expected to be payable under a residual value guarantee; and
- (iv) the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents the right-of-use assets and lease liabilities in the statement of financial position.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

w. *Leases (continued)*

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

- x. **Taxation** - Subsidiaries of the Group operating in The Bahamas are subject to tax on taxable gross premium income at the flat rate of 3% (2019: 3%) for premium tax; and at 12% (2019: 12%), for value added tax (VAT). There are no other taxes on corporate income or capital gains levied on the Group in any of the jurisdictions in which it operates.

- y. **Segment reporting** - In identifying its operating segments, management generally follows the Group's business operating activities by geographic location (Bahamas & Cayman). The Bahamas' segment includes general insurance only and Cayman's segment includes both general insurance and health and group life. General insurance comprises fire, motor, marine, engineering and general accident. The health and life insurance segment includes group life and medical insurance.

- z. **Contingent liabilities** - A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably.

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group will be required to settle that obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle that obligation at the reporting date and are discounted to present value.

Potential recoveries from third parties are recognized as a receivable when it is virtually certain that the recoveries will be received, and the amount can be measured reliably.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Group will ultimately pay to settle 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 consolidated 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.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within one 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.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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

The ultimate cost of outstanding claims is estimated using a range of standard actuarial claims projection techniques. The Group actuary has used a combination of actuarial methodologies to determine the estimate of ultimate liabilities on an undiscounted basis

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

The Group 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 Group'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.

The carrying value at the consolidated statement of financial position date of gross unpaid claims reported and loss adjustment expenses and claims incurred but not reported ("IBNR") was \$57,774,921 (2019: \$244,237,144). The amount of reinsurance recoveries estimated at the consolidated statement of financial position date is \$38,795,245 (2019: \$223,262,062).

Refer to Note 10 for further information on the provision for unpaid claims.

b. *Pro-ration of Premiums and Commissions*

As described in Note 3(j), unearned premiums and deferred reinsurance premiums at year end represent the proportion of the premiums which relate to periods of insurance subsequent to the consolidated statement of financial position date. Similarly, as per Note 3(l), deferred and unearned commissions at year end represent the proportion of the commission paid to agents and brokers and received from reinsurers which relate to periods of insurance subsequent to the consolidated statement of financial position date. These premium and commission amounts are recognised on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

Commissions received from reinsurers are dependent on the underlying loss ratio of the various classes of business, on an underwriting year basis. Commissions are susceptible to adjustments in future years as the underwriting year result develops.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

c. *Impairment of goodwill and intangible assets*

Determining whether goodwill or intangible assets are impaired requires an estimation of (i) the value in use or (ii) the fair value less costs to sell of the cash-generating unit or group of units to which the value has been allocated:

- (i) The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit(s) and a suitable discount rate in order to calculate present value, both of which are material sources of uncertainty.
- (ii) The fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit(s) between knowledgeable willing parties, less the costs of disposal.

The carrying value at the consolidated statement of financial position date for intangible assets and goodwill was \$9,125,678 (2019: \$7,163,650).

d. *Provision for bad debts*

As described in Note 3f, provision for bad debts is based on management's evaluation of the respective portfolios. This evaluation is based on the aged analysis of the trade accounts receivable. Trade accounts receivable, which is shown net of provision for bad debts, is comprised of (1) amounts receivable from insurance agents that have signed agency agreements with the Group insurers ("insurer trade receivables"); (2) clients of the Group's agency subsidiaries ("policyholders' receivables"); and (3) amounts receivable from reinsurers based on the benefits the Group is entitled to under its reinsurance contracts held ("reinsurers' receivables").

Provisions are recorded for policyholders' receivables as follows:

Over 6 months	10% provision
Over 9 months	20% provision
Over 1 year	100% provision

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering the trade accounts receivable in its entirety or a portion thereof. The carrying value at the consolidated statement of financial position date for trade accounts receivable, net was \$30,496,304 (2019: \$27,982,506).

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

e. *Depreciation*

Depreciation is based on management's estimates of the future useful life of property and equipment. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the depreciation charges. The Company reviews the future useful life of property and equipment periodically, taking into consideration the factors mentioned above and all other important factors. In case of significant changes in the estimated useful lives, depreciation charges are adjusted prospectively.

f. *Fair value of financial assets and liabilities*

The fair values of listed equities are based on current bid prices reported on recognized exchanges. The fair value of debt securities is based on either current bid prices reported on recognized exchanges, secondary markets or pricing data provided by internationally recognized pricing services. Mutual funds are carried at fair value based on the net asset value per share provided by the administrator of the fund. If prices are not readily available, the fair value is estimated using either dealer quotes or pricing models or discounted cash flow models or management's estimate of amounts that could be realized under current market conditions and which are based on observable market-based inputs when available.

Where fair value has been determined using data provided by a recognized pricing service, dealer quotes, pricing models or net asset value per share, the Group 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.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) *(Expressed in Bahamian dollars)*

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

f. *Fair value of financial assets and liabilities (continued)*

Investments for which observable market prices do not exist are reported at fair value as determined in good faith by management. Fair value is based on the best information available and is determined by reference to information including, but not limited to the following: projected revenues, net earnings, earnings before interest, taxes, depreciation and amortization (“EBITDA”), book value, relevant public or private transactions, valuations for publicly traded companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and restrictions on disposition. The amount determined to be fair value may incorporate management’s own assumptions (including appropriate risk adjustments for non-performance and lack of marketability).

For certain financial instruments carried at cost, the carrying amounts approximate fair value due to the short term nature of these instruments. Such instruments include trade accounts receivable, sundry receivables and prepayments, reinsurance balances payable and accrued expenses and other liabilities.

Refer to Notes 5 and 6 for further information on the fair value of financial assets and liabilities.

g. *Land and building revaluation*

Land and buildings are 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.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

5. RISK MANAGEMENT

As an insurance company, the Group is concerned about the risks inherent in its business activities (insurance risk) and the risks associated with the management of the financial assets and liabilities (financial risk) which support the operational activities. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management structure. The Group has established the Technical Review and Risk Compliance Committee, and the Finance and Investment Committee to oversee the management of the risks assigned within its respective Board approved mandate. It is management's responsibility to adhere to the parameters established within the Board's risk management structure. This is executed through periodic evaluation of risk registers, development of appropriate policies and procedures, periodic measurement of KPIs, and the necessary controls to ensure reliable reporting and material compliance with regulatory guidelines. The Group's Internal Audit function reviews the risk management policies and processes and reports directly to the Audit Committee. The Audit Committee oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks that face the Group. The committees report regularly to the Board of Directors on their activities.

The Group has exposures to risks that may develop in each class of business within each operating segment and could have a material impact upon the Group's financial position.

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

Risk factors that affect insurance are many and include the lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Group insures the risks of entities within The Bahamas and the Cayman Islands. There is a concentration of insurance risk in those territories.

Below is a discussion of insurance risks specific to the lines of coverage provided by the operating segments within the Group.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) *(Expressed in Bahamian dollars)*

5. RISK MANAGEMENT (CONTINUED)

Insurance risk (continued)

Property and casualty insurance risks

Property risks are comprised of physical damage to property. Property policies are underwritten by reference to the commercial replacement value of the properties and content insured.

Casualty risks are comprised of personal injury from motor claims, public liability, employers' liability, workmen's compensation and personal liability coverage.

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

Claim payment limits are always included to cap the amount payable on occurrence of the insured event. The key factors that influence the quantum of claim settlements are the costs of rebuilding properties and the replacement of or indemnity for building contents.

The frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. The Group manages this risk through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. Underwriting limits are in place to enforce appropriate risk selection criteria. The Group actively manages and pursues early settlement of all claims to reduce its exposure to unpredictable developments. It has a dedicated in-house claims department and uses third party loss adjusters as necessary. 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.

The Group follows the policy of underwriting and reinsuring contracts of insurance, which generally limit the liability for any one risk. In addition, catastrophe reinsurance is obtained to limit liability to a maximum of 10% of the Group's capital and reserves in the event of a series of claims arising out of a single occurrence.

The Group is exposed to contractual disputes with its reinsurers and the possibility of default by its reinsurers. The Group is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance constraints. The Group's strategy is to select reinsurers with the best combination of financial strength, price and capacity.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

5. RISK MANAGEMENT (CONTINUED)

Insurance risk (continued)

Property and casualty insurance risks (continued)

In the event that the Group's reinsurers were unable to meet their obligations under the reinsurance programs in place, the Group would still be obligated 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 above mentioned 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.

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 Group is reviewed and approved by the Technical Review and Risk Compliance Committee on an annual basis.

Financial risk

The Group is exposed to financial risk through its financial assets and liabilities. The components of financial risk that have an impact on the Group are credit risk, market risk and liquidity risk. Market risk exposure results from adverse movements in market rates and prices and as a result the Group is exposed to interest rate risk, foreign currency risk and price risk.

Financial risk is a significant risk for the Group's operations. The risk framework combines investment policies, limits, stress tests and regular monitoring to control the nature and level of financial risk and to ensure adherence to Group and regulatory policies and guidelines.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

5. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

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

	2020	2019
Financial assets:		
Cash	\$ 39,808,907	\$ 76,298,279
Investments:		
Fair value through profit or loss	11,372,983	14,254,420
Available-for-sale	19,978,347	22,608,952
Loans and receivables:		
Debt securities	6,063,718	5,970,763
Trade accounts receivable, net	30,496,304	27,982,506
Sundry receivables*	5,780,271	5,746,789
Total financial assets	<u>113,500,530</u>	<u>152,861,709</u>
Non - financial assets	<u>113,146,032</u>	<u>297,370,567</u>
Total assets	<u>\$226,646,562</u>	<u>\$450,232,276</u>
Financial liabilities:		
Payables at amortized cost:		
Reinsurance balances payable, accrued expenses and other liabilities	\$ 36,301,335	\$ 74,281,663
Bonds payable at amortised cost (Fair Value: 7,616,866)	<u>7,616,866</u>	<u>7,616,866</u>
Total financial liabilities	<u>43,918,201</u>	<u>81,898,529</u>
Non - financial liabilities	<u>118,207,588</u>	<u>306,006,713</u>
Total liabilities	<u>\$162,125,789</u>	<u>\$387,905,242</u>

* excludes prepaid expenses of \$409,014 (2019: \$878,366)

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

5. RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Key areas where the Group is exposed to credit risk are in the cash and cash equivalents, investments, unpaid claims recoverable from reinsurers, trade accounts receivable and sundry receivables.

The Group's investment policy permits the Group to invest in fixed income securities, equity securities, private placements of financial institutions and term deposits, and to limit exposure to any one issuer. The Group's deposits are placed with well-known high quality financial institutions. Policies and guidelines are in place to limit the exposure faced by the Group.

The Group is exposed to credit risk with respect to the amounts recoverable from its reinsurers. The Group's liability as primary insurer is not discharged if a reinsurer defaults on the obligation to pay. The Technical Review and Risk Compliance Committee ensures that management assesses the creditworthiness of all reinsurers by reviewing credit ratings as determined by independent rating agencies and other publicly available financial information. The Group has approved limits for the maximum participation of any one reinsurer in its reinsurance program. 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 concentration of credit risk is also monitored to minimize the Group's exposure to significant losses from reinsurer insolvency.

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

	2020	2019
Available-for-sale securities:		
Fixed income debt securities	\$ 15,792,310	\$ 18,628,675
Mutual funds	2,386,037	2,180,277
Preference shares	1,800,000	1,800,000
Loans and receivables:		
Debt securities	6,063,718	5,970,763
Trade accounts receivable	31,646,880	28,931,917
Sundry receivables	5,780,271	5,746,789
Reinsurers' share of provision for unpaid claims	38,795,245	223,262,062
Cash	<u>39,808,907</u>	<u>76,298,279</u>
Total	<u>\$ 142,073,368</u>	<u>\$ 362,818,762</u>

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

5. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Debt securities are analysed in the table below using Standard & Poor's ("S&P") ratings.

	2020	2019
AA	\$ 540,655	\$ 1,045,120
A	6,350,775	7,800,615
BBB	9,578,610	11,152,840
Below BBB or Not rated	<u>5,385,988</u>	<u>4,600,863</u>
Total debt securities	<u>\$ 21,856,028</u>	<u>\$ 24,599,438</u>

Financial and other assets exposed to credit risk that are neither past due nor impaired, past due but not impaired and those that are impaired are analyzed in the table below:

At December 31, 2020	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Available-for-sale debt securities	\$ 19,978,347	\$ -	\$ -	\$ 19,978,347
Loans and receivables:				
Debt securities	6,063,718	-	-	6,063,718
Trade accounts receivable	21,385,717	9,110,587	1,150,576	31,646,880
Sundry receivables	5,780,271	-	-	5,780,271
Reinsurers' share of provision for unpaid claims	38,795,245	-	-	38,795,245
Cash	<u>39,808,907</u>	<u>-</u>	<u>-</u>	<u>39,808,907</u>
Total assets exposed to credit risk	<u>\$131,812,205</u>	<u>\$9,110,587</u>	<u>\$1,150,576</u>	<u>\$142,073,368</u>

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

5. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

At December 31, 2019	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Available-for-sale debt securities	\$ 22,608,952	\$ -	\$ -	\$ 22,608,952
Loans and receivables:				
Debt securities	5,970,763	-	-	5,970,763
Trade accounts receivable	21,977,266	6,005,240	949,411	28,931,917
Sundry receivables	5,746,789	-	-	5,746,789
Reinsurers' share of provision for unpaid claims	223,262,062	-	-	223,262,062
Cash	76,298,279	-	-	76,298,279
Total assets exposed to credit risk	<u>\$355,864,111</u>	<u>\$6,005,240</u>	<u>\$ 949,411</u>	<u>\$362,818,762</u>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above. The Group does not hold collateral as security.

Concentration of exposure

The concentration of the Group's gross written premium are as follows:

	2020	2019
Group agents and insurers	\$ 102,541,636	\$ 103,195,843
Non-Group agents	51,292,336	51,933,301
Associate	<u>5,263,279</u>	<u>5,499,957</u>
Total	<u>\$ 159,097,251</u>	<u>\$ 160,629,101</u>

The concentration of credit risk is regularly monitored and evaluated. Specifically for non-group agents, the Group evaluates payment history as well as its financial position on a periodic basis.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

5. RISK MANAGEMENT (CONTINUED)

Concentration of exposure (continued)

The geographical locations of the Group's portfolio of investments are as follows:

	<u>2020</u>	<u>%</u>	<u>2019</u>	<u>%</u>
Bahamas	\$ 23,592,738	63%	\$ 26,175,461	61%
USA	5,790,295	15%	7,218,439	17%
Europe	2,180,060	6%	2,659,860	6%
United Kingdom	2,114,770	6%	2,095,130	5%
Asia	2,096,480	6%	2,568,235	6%
Caribbean	579,040	2%	567,360	1%
Australia	550,295	1%	1,032,750	3%
South Africa	511,370	1%	516,900	1%
Total	<u>\$ 37,415,048</u>	<u>100%</u>	<u>\$ 42,834,135</u>	<u>100%</u>

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. This is primarily a concern with fixed and fluctuating interest rate financial instruments, which the Group intends to hold for the long-term.

The Group's investment in debt securities, mutual funds, cash and cash equivalents, and its bonds payables are all subject to interest rate risk. Fluctuations in interest rates impact the level of gains and losses on the Group's interest bearing financial instruments.

The coupon rates associated with the fixed income debt securities held by the Group range from 2.95% to 8.00% (2019: 2.95% to 6.50%) per annum. The underlying debt securities of the money market fund may be affected by changes in interest rates. Interest on the series II bonds payable is at B\$ prime rate plus 2.00% [effective rate 6.25% (2019: 6.25%)] per annum.

The average interest yields of investments held during the year are as follows:

Debt securities	4.50% (2019: 4.85%)
Cash and cash equivalents	0.01% (2019: 0.01%)

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

5. RISK MANAGEMENT (CONTINUED)

Foreign currency risk

Foreign currency risk relates to the Group operating in different currencies and converting non-Bahamian earnings at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Group is not directly exposed to foreign currency risk, as investments are denominated in Bahamian dollars and US dollars.

The Group's investments in The Bahamas are denominated in Bahamian dollars, which is fixed to the US dollar at the following rate: B\$1 = US\$1. CFI has investments denominated in US dollars. The Cayman Island dollar is fixed to the US\$ at the following rate: CI\$1 = US\$1.20, at the date of the consolidated statement of financial position.

Price risk

The Group is subject to price risk on its investments due to fluctuations in fair value as a result changes in market prices. One of the primary objectives of the Group's risk management policy is to mitigate potential adverse impacts of market movements. Price risk arises primarily from changes in the value of equity investments and debt securities in the event that these are required to be sold to meet liquidity needs.

Trading levels in The Bahamas, whether on BISX or over-the-counter markets, are generally low and therefore, the ability of the Group to liquidate large positions may be difficult and prices received may be severely impacted. The Central Bank has created a secondary market for certain debt securities issued by the Government of The Bahamas, and prices currently being observed in this market and over-the-counter approximate the face values of such securities.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

5. RISK MANAGEMENT (CONTINUED)

Price risk (continued)

The Group is sensitive to price risk on its fair value through profit or loss and available-for-sale securities. These securities are managed according to the benchmarks as specified in the Group's statement of investment policy and guidelines. The effect of a 10% increase (2019: 10%) and a 10% decrease (2019: 10%) in prices at the date of the consolidated statement of financial position are set out below:

	Carrying value	Effect on profit and equity +10%	Effect on profit and equity -10%
At December 31, 2020			
Listed on stock exchanges / markets	\$ 11,367,426	\$ 1,136,743	\$ (1,136,743)
Fixed income debt securities	21,856,028	2,185,603	(2,185,603)
Preference shares	1,800,000	180,000	(180,000)
Listed / unlisted mutual funds	2,386,037	238,604	(238,604)
Unlisted equity securities	5,557	556	(556)
Total	<u>\$ 37,415,048</u>	<u>\$ 3,741,506</u>	<u>\$ (3,741,506)</u>
At December 31, 2019			
Listed on stock exchanges / markets	\$ 14,248,863	\$ 1,424,886	\$ (1,424,886)
Fixed income debt securities	24,599,438	2,459,944	(2,459,944)
Preference shares	1,800,000	180,000	(180,000)
Listed / unlisted mutual funds	2,180,277	218,028	(218,028)
Unlisted equity securities	5,557	556	(556)
Total	<u>\$ 42,834,135</u>	<u>\$ 4,283,414</u>	<u>\$ (4,283,414)</u>

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

5. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity risk is the risk that the Group may have difficulty liquidating its positions due to existing or unforeseen market constraints to meet obligations associated with financial instruments. In respect of catastrophic events, the Group is exposed to liquidity risk associated with the timing differences between cash flows and expected reinsurance recoveries to meet its insurance liability obligation. Most of the Group's investments are either in a market that is not highly active or do not have a market and therefore may not be readily realizable. As a result, the Group may not be able to quickly liquidate its investments at an amount close to their fair value in order to meet liquidity requirements. The Group mitigates this risk by maintaining significant holdings in cash and cash equivalents and also ensures that there are set guidelines for asset allocations, portfolio limit structures and maturity profiles of investments. The consolidated statement of financial position presents assets and liabilities in order of liquidity. Except for the investment assets shown as due in over one year in Note 6 and the unpaid claims recoverable from reinsurers projections shown below, investment in associate, property and equipment, right-of-use assets and intangible assets and goodwill, all assets are current assets.

The following tables indicate the timing of undiscounted cash flows arising from liabilities as at December 31, 2020 and 2019:

2020 Liabilities	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
Accrued expenses and other liabilities	\$ 3,332,487	\$ 3,332,487	\$ -	\$ -
Reinsurance balances payable	32,968,848	32,968,848	-	-
Unpaid claims	57,774,921	31,842,626	21,472,092	4,460,203
Less: unpaid claims recoverable from reinsurers	(38,795,245)	(20,638,186)	(15,040,301)	(3,116,758)
Bonds payable	7,616,866	116,866	7,500,000	-
Total undiscounted cash flows	<u>\$ 62,897,877</u>	<u>\$ 47,622,641</u>	<u>\$13,931,791</u>	<u>\$ 1,343,445</u>

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

5. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

2019 Liabilities	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
Accrued expenses and other liabilities	\$ 1,746,857	\$ 1,746,857	\$ -	\$ -
Reinsurance balances payable	72,534,806	72,534,806	-	-
Unpaid claims	244,237,144	187,914,880	32,111,197	24,211,067
Less: unpaid claims recoverable from reinsurers	(223,262,062)	(184,766,565)	(21,852,222)	(16,643,275)
Bonds payable	<u>7,616,866</u>	<u>116,866</u>	<u>3,750,000</u>	<u>3,750,000</u>
Total undiscounted cash flows	<u>\$ 102,873,611</u>	<u>\$ 77,546,844</u>	<u>\$14,008,975</u>	<u>\$ 11,317,792</u>

In addition to the analysis above, we have disclosed the cash flows for lease liabilities in Note 12. All other liabilities are current liabilities.

Sensitivity analysis

The Group predominantly funds its net insurance liabilities through its 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 Group's portfolio of investments. Several of the Group'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 consolidated 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 Group's experience.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

5. RISK MANAGEMENT (CONTINUED)

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%					
Underwriting expenses		The impact of a change in underwriting expenses by 5%					
Loss ratio		The impact of a change in loss ratio by 5%					
December 31, 2020 in \$	Interest rates		Underwriting expenses		Loss ratio		
	+1%	-1%	+5%	-5%	+5%	-5%	
Impact on profit	583,565	(583,565)	(1,365,571)	1,365,571	(3,230,552)	3,230,552	
Impact on equity	583,565	(583,565)	(1,365,571)	1,365,571	(3,230,552)	3,230,552	
December 31, 2019 in \$	Interest rates		Underwriting expenses		Loss ratio		
	+1%	-1%	+5%	-5%	+5%	-5%	
Impact on profit	973,836	(973,836)	(1,322,555)	1,322,555	(3,333,865)	3,333,865	
Impact on equity	973,836	(973,836)	(1,322,555)	1,322,555	(3,333,865)	3,333,865	

Capital management

The Group's objectives when managing Capital are:

- To safeguard the Group's ability to continue as a going concern through prudent and sustainable growth, so that it can continue to maximize returns for shareholders;
- 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 comply with the regulatory capital requirements in the jurisdictions in which the Group operates.

In each country in which the Group operates, the insurance regulator specifies the minimum amount and type of capital that must be held and solvency ratio that must be maintained, based on the applicable laws and regulations governing the country's insurance industry. The minimum capital requirements applicable to the Group range from \$50,000 to \$6,600,000. Minimum solvency ratios for insurers range from 125% to 150%. The Group has complied with all of the externally imposed capital requirements to which it is subject.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

6. INVESTMENTS

	2020	2019
Loans and receivable:		
Debt securities:		
Bahamas Government Registered Stocks - at cost		
Unrestricted - Fair value: \$2,179,100 (2019: 2,359,900)	\$ 2,179,100	\$ 2,359,900
Restricted - Fair value: \$1,000,000 (2019: 1,000,000)	1,000,000	1,000,000
Other fixed income debt securities, at cost - Fair value : \$2,884,618 (2019: 2,610,863)	<u>2,884,618</u>	<u>2,610,863</u>
Total loans and receivable	<u>6,063,718</u>	<u>5,970,763</u>
Fair value through profit or loss:		
Bahamas International Securities Exchange Limited (BISX) 12 (2019: 12) common shares - at cost \$130,556 (2019: \$130,556)	5,557	5,557
Commonwealth Bank Limited 3,166,414 (2019: 3,166,414) common shares - Cost \$1,306,277 (2019: \$1,306,277)	<u>11,367,426</u>	<u>14,248,863</u>
Total at fair value through profit or loss	<u>11,372,983</u>	<u>14,254,420</u>
Available-for-sale:		
Fixed income debt securities, at fair value; amortised cost \$15,091,363 (2019: \$18,172,729)	15,792,310	18,628,675
Mutual funds, at fair value; cost \$1,918,939 (2019: \$1,820,939)	2,386,037	2,180,277
Preference shares, at fair value; cost \$1,800,000 (2019: \$1,800,000)	<u>1,800,000</u>	<u>1,800,000</u>
Total available-for-sale	<u>19,978,347</u>	<u>22,608,952</u>
Total investments	<u>\$ 37,415,048</u>	<u>\$ 42,834,135</u>

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

6. INVESTMENTS (CONTINUED)

Loans and receivables investments are recorded at amortized cost based on the effective interest rate method. The variable interest rate instruments are tied to B\$ prime, with interest rates ranging from 4.41% to 4.50% (2019: 3.37% to 4.44%) per annum and scheduled maturities between 2022 and 2030 (2019: 2020 and 2030) at the date of the consolidated statement of financial position.

In 2011, in accordance with the Insurance Act 2005 (Amended 2009), and regulations 61 and 62 of the Insurance (General) Regulations 2010, the Group established a Trust Account (the “BFG Trust”) in which \$1,000,000 of the Bahamas Government Registered Stocks have been placed in trust. This amount is restricted for regulatory purposes but the interest income accrues to the Group.

As at December 31, 2020, the investment in Commonwealth Bank Limited (the “Bank”) was valued at \$3.59 (2019: \$4.50) per share, which was the quoted price by the Bahamas International Securities Exchange (“BISX”). As a result, the Group recorded an unrealized loss of \$2,881,437 (2019: \$Nil) for the year then ended.

The amortized cost and fair value of available-for-sale fixed income debt securities held at December 31, 2020, by contractual maturities, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to repay obligations early without repayment penalties. Interest rates range from 2.95% to 6.50% (2019: 2.95% to 6.50%) per annum at the date of the consolidated statement of financial position.

	2020		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:				
Due in less than 1 year	3,011,495	\$ 3,052,790	\$ 2,508,428	\$ 2,522,590
Due from 1 through 5 years	12,059,868	12,719,520	13,674,300	14,116,085
Due after 5 years	20,000	20,000	1,990,000	1,990,000
Total available-for-sale:	<u>\$ 15,091,363</u>	<u>\$ 15,792,310</u>	<u>\$ 18,172,728</u>	<u>\$ 18,628,675</u>

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

6. INVESTMENTS (CONTINUED)

The Group's fixed income debt securities are comprised of the following:

	2020	2019
Corporate debt securities	\$ 16,606,103	\$ 18,989,871
Government debt securities	2,050,825	2,224,667
Other debt securities	20,000	25,000
Total	<u>\$ 18,676,928</u>	<u>\$ 21,239,538</u>

Reconciliation of movements in the balance of investments is provided below:

	Loans & Receivables	Fair value through profit or loss	Available- for-sale	Total
At December 31, 2018	\$ 7,276,708	\$ 14,254,420	\$ 23,280,720	\$ 44,811,848
Cost of investments purchased	2,393,600	-	205,901	2,599,501
Sales and maturities	(3,699,545)	-	(1,583,016)	(5,282,561)
Amortization of premiums / (discounts) on bonds (Note 20)	-	-	(94,086)	(94,086)
Unrealised gain on investments	-	-	799,433	799,433
At December 31, 2019	5,970,763	14,254,420	22,608,952	42,834,135
Cost of investments purchased	500,000	-	98,000	598,000
Sales and maturities	(407,045)	-	(3,056,858)	(3,463,903)
Amortization of premiums / (discounts) on bonds (Note 20)	-	-	(73,778)	(73,778)
Realized gains on sale of investments (Note 20)	-	-	49,270	49,270
Unrealised (loss)/gain on investments	-	(2,881,437)	352,761	(2,528,676)
At December 31, 2020	<u>\$ 6,063,718</u>	<u>\$ 11,372,983</u>	<u>\$ 19,978,347</u>	<u>\$ 37,415,048</u>

Management believes that there is no objective evidence of impairment of its investment portfolio as there has not been a significant or prolonged decline in the fair value of any of its securities.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) *(Expressed in Bahamian dollars)*

6. INVESTMENTS (CONTINUED)

Fair value measurement

In accordance with IFRS 13 Fair Value Measurement, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and are actively traded on recognized exchanges.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In addition to the measurement hierarchy, financial instruments which have significant unobservable inputs (classified as Level 3) require the disclosures on the transfers into and out of Level 3, a reconciliation of the opening and closing balances, total gains and losses for the period split between those recognized in other comprehensive income, purchases, sales, issues and settlements, and sensitivity analysis of reasonably possible changes in assumptions, if material. Disclosure is also required of the movements between different levels of the fair value hierarchy and the reason for those movements.

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 analyses, are used to determine fair value for the remaining financial instruments.

Significant unobservable inputs for a discounted cash flow analysis are cash flows and the discount rate.

The Loans and receivable are measured at amortized and the fair value of these instruments were disclosed earlier in the note. These approximate fair values were derived from secondary market prices and accordingly would be classified as Level 2 in the fair value hierarchy.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

6. INVESTMENTS (CONTINUED)

Fair value measurement (Continued)

The following table presents the Group's financial assets measured at fair value at December 31, 2020, by the level in the fair value hierarchy into which the fair value measurement is categorized:

2020

	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss:				
Equity securities	\$ 11,372,983	\$ -	\$ -	\$ 11,372,983
Total	<u>11,372,983</u>	<u>-</u>	<u>-</u>	<u>11,372,983</u>
Available-for-sale financial assets:				
Fixed income debt securities	1,970,000	13,802,310	20,000	15,792,310
Mutual funds	-	2,386,037	-	2,386,037
Preference shares	<u>1,550,000</u>	<u>250,000</u>	<u>-</u>	<u>1,800,000</u>
Total	<u>3,520,000</u>	<u>16,438,347</u>	<u>20,000</u>	<u>19,978,347</u>
Total financial assets measured at fair value	<u>\$ 14,892,983</u>	<u>\$ 16,438,347</u>	<u>\$ 20,000</u>	<u>\$ 31,351,330</u>

There were no transfers between the various levels during the year.

The following table presents the Group's financial assets measured at fair value at December 31, 2019, by the level in the fair value hierarchy into which the fair value measurement is categorized:

2019

	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss:				
Equity securities	\$ 14,254,420	\$ -	\$ -	\$ 14,254,420
Total	<u>14,254,420</u>	<u>-</u>	<u>-</u>	<u>14,254,420</u>
Available-for-sale financial assets:				
Fixed income debt securities	1,970,000	16,638,675	20,000	18,628,675
Mutual funds	-	2,180,277	-	2,180,277
Preference shares	<u>1,550,000</u>	<u>250,000</u>	<u>-</u>	<u>1,800,000</u>
Total	<u>3,520,000</u>	<u>19,068,952</u>	<u>20,000</u>	<u>22,608,952</u>
Total financial assets measured at fair value	<u>\$ 17,774,420</u>	<u>\$ 19,068,952</u>	<u>\$ 20,000</u>	<u>\$ 36,863,372</u>

There were no transfers between the various levels during 2019.

There were no changes in the carrying value of Level 3 instruments during 2020 and 2019.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

6. INVESTMENTS (CONTINUED)

Fair value measurement (Continued)

As set out in Note 2b, the Group has chosen to defer application of IFRS 9 due to its activities being predominantly connected with insurance. To facilitate comparison with entities applying IFRS 9 in full, the table below splits the Group's financial instruments as at the reporting date between those which are considered to have contractual terms which are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("non-SPPI"). The following table presents the fair value and the amount of change in the fair value:

2020

	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
		<u>Fair value</u>	<u>Change in Fair value</u>	<u>Fair value</u>	<u>Change in Fair Value</u>
Loans and receivable	\$ 6,063,718	\$ 6,063,718	\$ -	\$ -	\$ -
Available for sale	19,978,347	15,792,310	245,000	4,186,037	107,761
Fair Value Through Profit or Loss	11,372,983	-	-	11,372,983	(2,881,437)
	<u>\$ 37,415,048</u>	<u>\$ 21,856,028</u>	<u>\$ 245,000</u>	<u>\$ 15,559,020</u>	<u>\$ (2,773,676)</u>

2019

	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
		<u>Fair value</u>	<u>Change in Fair value</u>	<u>Fair value</u>	<u>Change in Fair Value</u>
Loans and receivable	\$ 5,970,763	\$ 5,970,763	\$ -	\$ -	\$ -
Available for sale	22,608,952	18,628,675	723,410	3,980,277	76,023
Fair Value Through Profit or Loss	14,254,420	-	-	14,254,420	-
	<u>\$ 42,834,135</u>	<u>\$ 24,599,438</u>	<u>\$ 723,410</u>	<u>\$ 18,234,697</u>	<u>\$ 76,023</u>

Credit ratings of the SPPI financial assets are disclosed within Note 5.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

7. INVESTMENT IN ASSOCIATE

Effective September 7, 2020, BFH sold its 20% equity interest in Star General Insurance Agents & Brokers (Grand Bahama) Limited (“Star General”) through a Share Purchase Agreement with Star General for consideration of \$650,000. As at the balance sheet date \$325,000 of the consideration was received, with the outstanding balance to be received no later than June 30, 2021. The outstanding balance was presented within the caption sundry receivables and prepayments within the balance sheet.

Upon execution of the agreement, BFH recognized a loss on sale of investment of \$218,160.

	2020	2019
Balance at January 1	\$ 727,980	\$ 689,048
Share of net earnings for the year (Note 20)	140,180	38,932
Sale of investment in associate	(650,000)	-
Loss on sale of investment in associate	<u>(218,160)</u>	<u>-</u>
Balance at December 31	<u>\$ -</u>	<u>\$ 727,980</u>

Share of associate’s unaudited statement of financial position:

Total assets	\$ -	\$ 1,598,584
Total liabilities	<u>-</u>	<u>(978,604)</u>
Net assets	-	619,980
Goodwill	<u>-</u>	<u>108,000</u>
Carrying value of investment in associate	<u>\$ -</u>	<u>\$ 727,980</u>

Share of associate’s unaudited statement of comprehensive income:

Revenues	<u>\$ 503,467</u>	<u>\$ 811,673</u>
Net income	<u>\$ 140,180</u>	<u>\$ 38,932</u>

Investment in associate includes \$Nil (2019: \$108,000) in goodwill.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

8. TRADE ACCOUNTS RECEIVABLE, NET

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

- amounts receivable from insurance agents that have signed agency agreements with the Group insurers (“insurer trade receivables”),
- clients of the Group’s agency subsidiaries (“policyholders’ receivables”), and
- amounts receivable from reinsurers based on the benefits the Group is entitled to under its reinsurance contracts held (“reinsurers’ receivables”).

	2020	2019
Insurer trade receivables	\$ 16,593,514	\$ 16,945,293
Policyholders' receivables	13,468,198	11,293,723
Reinsurers' receivables	<u>1,585,168</u>	<u>692,901</u>
	<u>31,646,880</u>	<u>28,931,917</u>
Provision for bad debts:		
Balance at January 1	949,411	1,094,537
Increase in provision for the year	325,066	144,347
Bad debt written off during the year	<u>(123,901)</u>	<u>(289,473)</u>
Balance at December 31	<u>1,150,576</u>	<u>949,411</u>
Trade accounts receivable, net	<u>\$ 30,496,304</u>	<u>\$ 27,982,506</u>

Ageing of trade accounts receivable, net is as follows:

	2020	2019
Less than 3 months	\$ 21,385,717	\$ 22,158,863
3-6 months	4,907,232	3,774,601
6-9 months	3,410,289	1,531,751
9 months - 1 year	<u>793,066</u>	<u>517,291</u>
	<u>\$ 30,496,304</u>	<u>\$ 27,982,506</u>

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

9. DEFERRED/UNEARNED PREMIUMS AND COMMISSIONS

	<u>Insurance Assets</u>		<u>Insurance Liabilities</u>	
	<u>Deferred Reinsurance Premiums</u>	<u>Deferred Commission Costs</u>	<u>Unearned Premiums</u>	<u>Unearned Commission Income</u>
Balance at December 31, 2018	\$ 34,467,074	\$ 5,104,588	\$ (49,016,075)	\$ (8,880,424)
Movement during the year	<u>1,719,436</u>	<u>(43,438)</u>	<u>(2,287,975)</u>	<u>(420,509)</u>
Balance at December 31, 2019	36,186,510	5,061,150	(51,304,050)	(9,300,933)
Movement during the year	<u>639,302</u>	<u>(596,712)</u>	<u>1,030,864</u>	<u>(19,690)</u>
Balance at December 31, 2020	<u>\$ 36,825,812</u>	<u>\$ 4,464,438</u>	<u>\$ (50,273,186)</u>	<u>\$ (9,320,623)</u>

10. UNPAID CLAIMS AND CLAIMS INCURRED

	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
Unpaid claims at December 31, 2018	\$ 51,917,644	\$ (33,587,632)	\$ 18,330,012
Claims incurred, arising from current year claims	407,034,225	(368,084,705)	38,949,520
Claims incurred, arising from prior year claims	6,790,098	(5,847,813)	942,285.00
Claims paid, current year	(208,795,873)	176,663,091	(32,132,782)
Claims paid, prior years	<u>(12,708,950)</u>	<u>7,594,997</u>	<u>(5,113,953)</u>
Unpaid claims at December 31, 2019	244,237,144	(223,262,062)	20,975,082
Claims incurred, arising from current year claims	45,071,663	(14,933,323)	30,138,340
Claims incurred, arising from prior year claims	(18,114,511)	16,671,080	(1,443,431)
Claims paid, current year	(32,064,809)	7,809,006	(24,255,803)
Claims paid, prior years	<u>(181,354,566)</u>	<u>174,920,054</u>	<u>(6,434,512)</u>
Unpaid claims at December 31, 2020	<u>\$ 57,774,921</u>	<u>\$ (38,795,245)</u>	<u>\$ 18,979,676</u>

The tables on the following page shows the development of claims over a period of time on a gross basis, and also shows the cumulative incurred claims, including both notified and IBNR claims for each successive accident year

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

10. UNPAID CLAIMS AND CLAIMS INCURRED (CONTINUED)

	2014	2015	2016	P&C 2017	2018	2019	2020	Total
Gross ultimate claims incurred at end of reporting year	\$ 23,695,599	\$ 30,382,165	\$ 113,514,913	\$ 22,918,793	\$ 32,646,833	\$ 387,033,518	\$ 21,010,694	
One year later	23,168,363	29,418,761	107,507,658	28,187,490	35,949,789	371,918,953	-	
Two years later	23,851,734	27,598,709	107,348,016	31,078,344	32,797,630	-	-	
Three years later	22,275,874	28,352,746	107,137,970	30,769,721	-	-	-	
Four years later	22,784,680	28,011,825	106,803,189	-	-	-	-	
Five years later	23,512,205	28,269,702	-	-	-	-	-	
Six years later	23,678,982	-	-	-	-	-	-	
Total incurred to date	23,678,982	28,269,702	106,803,189	30,769,721	32,797,630	371,918,953	21,010,694	
Cumulative payments to date	(21,353,151)	(25,345,575)	(102,128,117)	(25,201,018)	(24,496,188)	(360,017,185)	(10,911,977)	
Liability included in the consolidated statement of financial position	2,325,831	2,924,127	4,675,072	5,568,703	8,301,442	11,901,768	10,098,717	45,795,659
Reserves for prior years								8,775,524
Total unpaid claims for P&C business including amount recoverable from reinsurer								\$ 54,571,183

	2014	2015	2016	H&L 2017	2018	2019	2020	Total
Gross ultimate claims incurred at end of reporting year	\$ 16,369,190	\$ 17,853,743	\$ 18,638,992	\$ 19,645,726	\$ 19,747,056	\$ 21,295,643	\$ 24,060,971	
One year later	15,957,295	18,164,801	17,974,956	18,529,456	19,388,453	20,888,892	-	
Total incurred to date	15,957,295	18,164,801	17,974,956	18,529,456	19,388,453	20,888,892	24,060,971	
Cumulative payments to date	(15,957,295)	(18,164,801)	(17,974,956)	(18,529,456)	(19,388,453)	(20,888,892)	(21,152,832)	
Liability included in the consolidated statement of financial position	-	-	-	-	-	-	2,908,139	2,908,139
Reserves for prior years								295,599
Total unpaid claims for H&L business including amount recoverable from reinsurer								\$ 3,203,738
Total unpaid claims including amount recoverable from reinsurer in the consolidated statement of financial position								\$ 57,774,921

Comprises:

Specific claim reserves	\$ 41,648,407
Claims incurred but not reported	16,126,514
	<u>\$ 57,774,921</u>

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

11. PROPERTY AND EQUIPMENT

2020	Land & Buildings	Furniture and Equipment	Leasehold Improvements and Others	Motor Vehicles	Total
COST/VALUATION:					
At January 1, 2020	\$ 23,817,387	\$ 2,783,287	\$ 1,485,887	\$ 282,265	\$ 28,368,826
Additions	262,216	410,943	41,227	10,589	724,975
Disposals/Transfers	-	-	-	(38,215)	(38,215)
At December 31, 2020	<u>24,079,603</u>	<u>3,194,230</u>	<u>1,527,114</u>	<u>254,639</u>	<u>29,055,586</u>
ACCUMULATED DEPRECIATION:					
At January 1, 2020	2,380,658	1,994,993	738,558	234,975	5,349,184
Charge for the year	487,437	407,207	86,751	14,541	995,936
Disposals	-	-	-	(38,215)	(38,215)
At December 31, 2020	<u>2,868,095</u>	<u>2,402,200</u>	<u>825,309</u>	<u>211,301</u>	<u>6,306,905</u>
Carrying amount 2020	<u>\$ 21,211,508</u>	<u>\$ 792,030</u>	<u>\$ 701,805</u>	<u>\$ 43,338</u>	<u>\$ 22,748,681</u>

2019	Land & Buildings	Furniture and Equipment	Leasehold Improvements and Others	Motor Vehicles	Total
COST/VALUATION:					
At January 1, 2019	\$ 23,345,850	\$ 2,523,809	\$ 1,480,578	\$ 282,265	\$ 27,632,502
Additions	155,920	267,548	5,309	-	428,777
Building Contract adjustment	(180,000)	-	-	-	(180,000)
Disposals/Transfers	-	(8,070)	-	-	(8,070)
Revaluation of Land and Buildings	<u>495,617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>495,617</u>
At December 31, 2019	<u>23,817,387</u>	<u>2,783,287</u>	<u>1,485,887</u>	<u>282,265</u>	<u>28,368,826</u>
ACCUMULATED DEPRECIATION:					
At January 1, 2019	1,858,025	1,634,256	651,484	221,669	4,365,434
Charge for the year	522,633	360,737	87,074	13,306	983,750
Disposals	-	-	-	-	-
At December 31, 2019	<u>2,380,658</u>	<u>1,994,993</u>	<u>738,558</u>	<u>234,975</u>	<u>5,349,184</u>
Carrying amount 2019	<u>\$ 21,436,729</u>	<u>\$ 788,294</u>	<u>\$ 747,329</u>	<u>\$ 47,290</u>	<u>\$ 23,019,642</u>

The CFI building final contract sum, with the developer, was finalized during 2019. The building costs at December 31, 2018 included an estimate of the final payment to the developer, which was based on the estimates provided at the time. The final settlement in 2019 resulted in an adjustment of \$180,000 which has been reflected above.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

11. PROPERTY AND EQUIPMENT (CONTINUED)

During the year, management revisited the classification of its computer software. Based on management's assessment, computer software should be presented as intangible assets and not property and equipment, as previously presented, as this represent acquired software licenses that are not integral part of the computer hardware. In 2019, the carrying amount of computer software included under 'Property and Equipment' was \$899,642. Refer to Note 19.

In 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. There has been no change in the valuation technique or market inputs and assumptions during the year. The fair value measurement of the Group'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.

There were no transfers between the various levels during the year.

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

<u>Estimate/Assumption</u>	<u>Change</u>	<u>Impact on fair value</u>
Rental Revenue (\$27-\$59/sq. ft)	5.00%/-5.00%	\$1,045,943/(\$1,045,957)
Vacancy rates (5%)	5.00%/-5.00%	(\$1,101,007)/\$1,100,993
Discount rate (8.25%-9%)	1.00%/-1.00%	(\$2,159,092)/\$2,727,713

The net book value of the land and buildings, excluding effects of revaluations, would have been \$4,673,487 (2019: \$4,673,487) and \$14,580,067 (2019: \$15,217,516) respectively. The net revaluation of land and buildings of \$495,617 reported in 2019 comprised revaluation gains of \$1,905,353 (Note 17) and losses of \$1,409,736 (Note 20).

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

12. LEASES

The Company leases office premises and vehicles. The leases typically run for a period of three to five years, with an option to renew the lease after that date. For some leases, payments are renegotiated every three to five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

Information about leases for which the Group is a lessee is presented below.

Right-of-use asset

	Office premises	Vehicles	Total
Balance at January 1, 2019	\$ 1,263,219	\$ 76,863	\$ 1,340,082
Depreciation charge for the year	(249,659)	(19,216)	(268,875)
Balance at December 31, 2019	1,013,560	57,647	1,071,207
Depreciation charge for the year	(137,827)	(19,216)	(157,043)
Additions	245,941	-	245,941
Disposals	(382,941)	-	(382,941)
Balance at December 31, 2020	\$ 738,733	\$ 38,431	\$ 777,164

The depreciation charge attributable to the right of use asset is presented within 'Depreciation and amortization of intangible assets' within the Statement of Profit or Loss.

At December 31, 2020, the future minimum lease payments under non-cancellable operating leases were payable as follows.

	2020	2019
Maturity analysis – Contractual undiscounted cash flows		
Less than one year	\$ 246,145	\$ 267,010
Between one and five years	663,297	929,239
Total undiscounted lease liabilities at December 31	\$ 909,442	\$ 1,196,249

Lease payments are presented with the financing section of the Statement of Cash Flows. Interest expense on the lease liability for the year ended December 31, 2020 amounted to \$59,856 (2019: \$59,326).

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

12. LEASES (CONTINUED)

Extension options

Some leases of office premises contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at the lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. These extensions have been factored in the lease term in determining the lease liability in the statement of financial position.

13. INTANGIBLE ASSETS AND GOODWILL

The table below summarizes the Group's goodwill and intangible assets:

2020	<u>Goodwill</u>	<u>Customer relationships</u>	<u>Non-compete agreements</u>	<u>Computer Software</u>	<u>Total</u>
COST					
At January 1, 2020	\$2,650,810	\$ 5,228,199	\$ 39,590	\$ 6,105,101	\$14,023,700
Additions	-	-	-	2,925,000	2,925,000
Balance at December 31, 2020	2,650,810	5,228,199	39,590	9,030,101	16,948,700
ACCUMULATED AMORTISATION:					
At January 1, 2020	-	1,634,077	7,918	5,218,055	6,860,050
Amortization	-	462,018	7,918	493,036	962,972
Balance at December 31, 2020	-	2,096,095	15,836	5,711,091	7,823,022
Carrying amount 2020	<u>\$2,650,810</u>	<u>\$ 3,132,104</u>	<u>\$ 23,754</u>	<u>\$ 3,319,010</u>	<u>\$ 9,125,678</u>
2019	<u>Goodwill</u>	<u>Customer relationships</u>	<u>Non-compete agreements</u>	<u>Computer Software</u>	<u>Total</u>
COST					
At January 1, 2019	\$2,650,810	\$ 5,228,199	\$ 39,590	\$ 6,105,101	\$14,023,700
Additions	-	-	-	-	-
Balance at December 31, 2019	2,650,810	5,228,199	39,590	6,105,101	14,023,700
ACCUMULATED AMORTISATION:					
At January 1, 2019	-	1,278,507	-	4,937,501	6,216,008
Amortization	-	355,570	7,918	280,554	644,042
Balance at December 31, 2019	-	1,634,077	7,918	5,218,055	6,860,050
Carrying amount 2019	<u>\$2,650,810</u>	<u>\$ 3,594,122</u>	<u>\$ 31,672</u>	<u>\$ 887,046</u>	<u>\$ 7,163,650</u>

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) *(Expressed in Bahamian dollars)*

13. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

In prior years, the intangible assets table above included a separate column for workforce of \$400,000, which should have been included in the goodwill column. The figures as at January 1, 2020 and 2019 in the above tables have been amended to reflect this revision by increasing goodwill from \$2,250,810 to \$2,650,810.

Refer to Note 19 for the revisions made to the 2019 comparative figures for the classification of computer software costs to conform with the presentation adopted in the current year.

Intangible assets with indefinite lives and goodwill acquired through business combinations have been allocated to a single cash-generating unit for impairment testing as follows:

	2020	2019
Cayman's cash-generating unit	<u>2,650,810</u>	<u>2,650,810</u>
	<u>\$ 2,650,810</u>	<u>\$ 2,650,810</u>

The Group performed its annual impairment test as at December 31, 2020. The recoverable amounts of Cayman's cash-generating unit has been determined by the fair value less costs to sell calculation based on a discounted cash flow model using a 5 year cash flow forecast, and incorporating a Catastrophe event every 3 years. The discount rate and premium growth rate used in the cash flow model was 12.5% (2019: 10.8%) and 3% (2019: 2.6%) respectively. As the recoverable amounts exceeded the carrying amounts, management did not identify any impairment for the cash-generating unit.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

14. BONDS PAYABLE

On October 15, 2010, the Group effected a private offering of Series II Redeemable Cumulative Variable Rate Corporate Bonds (“the bonds”), which bear interest at a rate of B\$ prime plus 2.00% per annum. The net proceeds were used for general corporate purposes. The bonds rank equally among themselves and with all other existing and future unsubordinated and unsecured debt of the Company. The bonds rank senior to the Company’s existing and all future preference and ordinary shares. The carrying value of bonds payable is estimated to approximate its fair value which is derived from secondary market prices and accordingly is classified in the fair value hierarchy as Level 2.

	2020	2019
Series II Corporate Bonds		
\$7,500,000 at B\$ prime rate + 2.00%, presently 6.25% (2019: 6.25%) per annum - Due 2025	\$ 7,500,000	\$ 7,500,000
Accrued interest	<u>116,866</u>	<u>116,866</u>
Total	<u>\$ 7,616,866</u>	<u>\$ 7,616,866</u>

15. SHARE CAPITAL

The Company’s share capital is comprised as follows:

	2020	2019
Common shares		
Authorized: 45,000,000 (2019: 45,000,000) at \$0.01 each		
Issued and fully paid: 36,511,589 (2019: 36,511,589) par value \$0.01 per share	<u>\$ 365,116</u>	<u>\$ 365,116</u>
Preference shares		
Authorized: 5,000,000 (2019: 5,000,000) at \$1.00 each		
Issued and fully paid: 5,000,000 (2019: 5,000,000) par value \$1.00 per share	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

The calculation of basic earnings per share is as follows:

	2020	2019
Profit/(loss) for the year attributable to owners of the Company	\$ 4,626,907	\$ (5,549,923)
Preference shares dividend paid	<u>(350,000)</u>	<u>(350,000)</u>
Profit/(loss) for the year attributable to common shareholders	<u>4,276,907</u>	<u>(5,899,923)</u>
Weighted average number of common shares outstanding	<u>36,511,589</u>	<u>36,511,589</u>
Basic and diluted earnings/(loss) per common share	<u>\$ 0.12</u>	<u>\$ (0.16)</u>

There were no transactions that would dilute earnings per share.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

15. SHARE CAPITAL (CONTINUED)

Dividends are accounted for in the period in which they are declared by the Group's Board of Directors. During the year, dividends of \$0.07 (2019: \$0.08) per common share [total dividends \$2,555,810 (2019: \$2,920,927)] were declared and subsequently paid.

The preference shares are non-convertible, non-voting, cumulative, redeemable "A" with a dividend rate of 7% per annum. These shares are redeemable at the option of the Company. . The preference shares rank, as to payment of a dividend and capital, ahead of the Company's ordinary share capital. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares. The Company does not have a contractual obligation to deliver cash or other financial assets to the preference shareholders, and therefore the directors may make dividend payments at their discretion.

During 2019 & 2020, BFHIL acquired nil shares from minority shareholders resulting in no change in percentage holdings.

16. GENERAL RESERVE

The Group has established a general reserve from retained earnings in the amount of \$4,000,000 (2019: \$4,000,000), which the Board of Directors have determined is not available for distribution.

17. REVALUATION RESERVE

	Land & Buildings	AFS Investments	Total
Balance at December 31, 2018	\$ 3,514,743	\$ (25,465)	\$ 3,489,278
Revaluation of land & buildings (Note 11)	1,905,353	-	1,905,353
Net increase in fair value of AFS investments	<u>-</u>	<u>799,433</u>	<u>799,433</u>
Other comprehensive loss	<u>1,905,353</u>	<u>799,433</u>	<u>2,704,786</u>
Balance at December 31, 2019	5,420,096	773,968	6,194,064
Net increase in fair value of AFS investments	<u>-</u>	<u>352,761</u>	<u>352,761</u>
Other comprehensive income	<u>-</u>	<u>352,761</u>	<u>352,761</u>
Balance at December 31, 2020	<u>\$ 5,420,096</u>	<u>\$ 1,126,729</u>	<u>\$ 6,546,825</u>

In accordance with the Group's accounting policy, freehold land and buildings are subject to a revaluation exercise that is performed by an independent professional appraiser every three years. Freehold land and buildings were independently valued in 2019. The next appraisal is due in 2022 or when the fair value of a revalued asset differs materially from its carrying amount due to the current economic condition, whichever is earlier.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

18. NON-CONTROLLING INTEREST

The following table summarises the information relating to Cayman First Insurance which is the Group's sole subsidiary with a material non-controlling interest ("NCI"), before any intra-group eliminations.

	2020	2019
NCI percentage	<u>12.30%</u>	<u>12.30%</u>
Total assets	\$ 69,687,601	\$ 65,331,332
Total liabilities	33,046,885	29,910,158
Net assets	36,640,716	35,421,174
Gross Premiums Written	\$ 58,984,937	\$ 57,986,768
Net underwriting income	11,382,676	13,361,120
Total comprehensive income	2,899,542	5,018,768
Cashflows from operating activities	\$ 2,534,360	\$ 7,791,271
Cashflows from investment activities	2,926,802	1,616,874
Cashflows (used in) financing activities	(1,725,115)	(3,044,670)

19. REVISION OF CLASSIFICATION OF COMPUTER SOFTWARE

During the year, management revisited the classification of its computer software. Based on management's assessment, computer software should be presented as intangible assets and not property and equipment, as previously presented, as this represents acquired software licenses that are not an integral part of the computer hardware.

As a result, management reclassified the computer software with a carrying amount of \$5,485,139 and accumulated amortisation of \$4,304,942, as of January 1, 2019, to intangible assets. The corresponding figures for 2019 have been reclassified to conform to current year presentation. See Notes 11 and 13.

The adjustment to revise the classification is outlined below:

<u>Statement of financial position items:</u>	<u>As at December 31, 2019</u>	<u>Adjustment</u>	<u>As at December 31, 2019</u>
	As previously reported		Revised
Property and equipment	\$23,906,688	(\$887,046)	\$23,019,642
Intangible assets and goodwill	\$6,276,604	887,046	\$7,163,650

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

20. OTHER INCOME, NET

	2020	2019
Interest income - loans and receivables	\$ 316,451	\$ 372,702
Interest income - available for sale	803,670	912,424
Interest income - bank deposit	4,106	6,659
Dividend income - equity securities	250,313	316,641
Realized gains on sales of investments (Note 6)	49,270	-
Revaluation of land and buildings (Note 11)	-	(1,409,736)
Share of net earnings from associate (Note 7)	140,180	38,932
Loss on sale of investment in associate	(218,160)	-
Sub-lease income	33,600	33,600
Amortization of premiums and discounts on bonds (Note 6)	(73,778)	(94,086)
Gain on disposal of property and equipment	4,000	2,840
Other income	<u>11,761</u>	<u>110,852</u>
Total	<u>\$ 1,321,413</u>	<u>\$ 290,828</u>

21. PENSION PLAN

Employees of the Group participate in defined contribution plans registered in The Bahamas and in the Cayman Islands. These plans are administered by independent administrators and trustees and membership is mandatory for all eligible employees. Under these plans, the Group paid contributions of 3% - 5% per annum of base salary. Contributions under these plans totalled \$451,335 (2019: \$500,079) and are included in salaries, benefits and bonuses in the consolidated statement of profit or loss.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED) (Expressed in Bahamian dollars)

22. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances are as follows:

	2020	2019
Gross premiums written - associate	\$ 5,263,279	\$ 5,499,957
Commission expense - associate	\$ 918,517	\$ 809,413
Trade accounts receivable - associate	\$ -	\$ 1,162,198

No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties. Key management personnel include members of the Group's management team having authority and responsibility for planning, directing and controlling the activities of the Group's operation. Compensation to key management personnel is included in salaries, benefits and bonuses and compensation to directors is included in the consolidated statement of profit or loss. The receivables from directors and key management personnel are included in sundry receivables and prepayments in the consolidated statement of financial position and are as follows:

	2020	2019
Short-term benefits	\$ 2,038,449	\$ 2,338,866
Post employment benefits	81,772	80,983
Total	\$ 2,120,221	\$ 2,419,849
Commission expense	\$ 206,319	\$ 214,174
Receivables from key management personnel	\$ 16,234	\$ 32,062

23. CONTINGENCIES

In the normal course of its business, the Group is involved in various legal proceedings arising out of and incidental to its insurance operations. The Group is of the opinion that litigation arising from these legal proceedings will not have a significant impact on the financial position, results of operations or cash flows of the Group.

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

24. SEGMENTED INFORMATION

In accordance with IFRS 8 Operating Segments, the Group has identified the Chief Operating Decision Maker as the Board of Directors. Key decisions on assessing performance and allocation of resources are reviewed by the Board or its sub-committees.

The Group's operations are segmented into the following business segments by geographic location:

- General Insurance / Property and Casualty ("P&C")
- Health and Life ("H&L")

The segment results for the years ended December 31, 2020 and 2019 are as follows:

	Bahamas	Cayman		Total
	P&C \$	P&C \$	H&L \$	
2020				
Net underwriting income	21,684,362	6,576,508	4,806,169	33,067,039
Depreciation of property & equipment	589,077	233,944	172,915	995,936
Depreciation of right of use asset	113,646	24,953	18,444	157,043
Amortization of intangible assets	904,994	16,560	41,418	962,972
Segment profit for the year	2,298,908	1,556,488	1,098,053	4,953,449
Total segment assets	156,958,960	48,505,474	21,182,128	226,646,562
Total segment liabilities	129,078,904	28,945,747	4,101,138	162,125,789
Capital expenditure	3,519,920	60,407	69,648	3,649,975
	Bahamas	Cayman		Total
	P&C \$	P&C \$	H&L \$	\$
2019				
Net underwriting income	7,256,382	5,086,488	8,274,633	20,617,503
Depreciation of property & equipment	812,346	237,278	214,680	1,264,304
Depreciation of right of use asset	225,102	22,981	20,792	268,875
Amortization of intangible assets	308,288	16,560	38,640	363,488
Segment (loss)/profit for the year	(8,897,228)	97,496	3,719,326	(5,080,406)
Total segment assets	384,900,944	42,773,552	22,557,780	450,232,276
Total segment liabilities	357,995,083	25,844,891	4,065,268	387,905,242
Capital expenditure	280,091	78,060	70,626	428,777

BAHAMAS FIRST HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

(Expressed in Bahamian dollars)

25. IMPACT OF COVID-19

The spread of coronavirus (“COVID-19”) continues to cause significant volatility in the territories in which the Group operates as well as the global community. The various government responses to restrict domestic and international travel and the increased restrictions on businesses, presents new challenges to the economic environment of the Group. Some uncertainty remains as to when the economic environment will improve and so it is difficult to measure the precise impact on the Group. However, the expectation is that there could be a negative impact on premiums, health business loss ratios and the related timing of receipt of cashflows and valuation of equity securities. Note 5 provides sensitivity analyses around price risk, interest rates loss ratios and underwriting results for consideration.

The Group has however prepared an assessment of its operating and cash flow forecasts for calendar year 2021 and has concluded that it has sufficient equity and liquidity to meet its regulatory capital requirement and obligations as they become due.

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