

BAHAMAS FIRST HOLDINGS LIMITED

# Quarterly Report on Unaudited Results

For the 3 Months Ended March 31, 2023

## Disclaimers

This document includes forward-looking statements, assumptions, and information about the financial condition, results, business, strategy, plans and objectives of Bahamas First Holdings Limited (BFH), including in relation to BFH's current or future projects. It should be noted that the achievement of these objectives, forward-looking statements, assumptions and information is dependent on circumstances and facts that arise in the future. No guarantee can be given regarding the achievement of these forward-looking statements, assumptions and information. These forward-looking statements, assumptions and information are not guarantees of future performance. Forward-looking statements, assumptions and information (including on objectives) may be impacted by known or unknown risks, identified or unidentified uncertainties and other factors that may significantly alter the future results, performance and accomplishments planned or expected by BFH.

Therefore, any assessments, any assumptions and, more generally, any figures presented in this report will necessarily be estimates based on evolving analyses, and encompass a wide range of theoretical hypotheses, which are highly evolutive. These points of attention on forward-looking statements are all the more essential that the adoption of IFRS 17, which is a new accounting standard, results in significant accounting changes for BFH – the impact of which may not be fully assessed. IFRS 17 is a new accounting standard applicable to insurance and reinsurance contracts. IFRS 17 replaced IFRS 4 on January 1, 2023. The adoption of IFRS 17 results in significant accounting changes for BFH. Any assessments, assumptions, estimates or expectations under or relating to IFRS 17 in this document reflect BFH's current view of the impact of IFRS 17. No guarantee can be given regarding their accuracy; they are subject to changes, which may be significant, in the course of 2023. Accordingly, no undue reliance should be placed on such assessments, assumptions, estimates or expectations. The financial information for the first quarter of 2023 included in this document is unaudited.

# Report of the President & CEO

on Unaudited Results for the 3 months ended March 31, 2023

Today, we are reporting the results of our financial performance for Q1 2023 under a new accounting standard. This is the first time, our reporting is in accordance with the International Financial Reporting Standard 17 – Insurance Contracts (“IFRS 17”), which is significantly different from prior periods.

The presentation of the consolidated statement of financial position and consolidated statement of comprehensive income have seen substantial changes under the new standard and we have expanded our note disclosures to clarify what the new financial statement captions represent.

In the statement of financial position, we reported a material adjustment to retained earnings to reflect the impact of new accounting standards, most notably IFRS 17. The opening retained earnings adjustment captures the cumulative effect of changes in the recognition and measurement of insurance contract liabilities, as well as any associated changes in the recognition of related assets, liabilities, income and expenses. It is noteworthy that the presentation is more concise. Reinsurance contract assets include captions formerly referred to as deferred reinsurance premium, unearned commission income, unpaid claims recoverable from reinsurers and reinsurance balances payable. Insurance contract liabilities include captions formerly referred to as unpaid claims, unearned premiums, deferred commission costs and non-broker trade receivables.

In the consolidated statement of comprehensive income, we note that insurance revenue is primarily gross premium revenue with new measurement practices. Insurance services expenses include gross incurred claim changes (which now reflect discounting plus an additional risk adjustment), commission expenses and other acquisition costs. Net expenses from reinsurance contracts held represent all reinsurance contract related transactions.

For Q1 2023, we are reporting a total comprehensive loss of \$2.6m in the consolidated statement of comprehensive income, in comparison to a loss of \$1.7m in the prior year. The increased loss is attributed to a larger deferral of premiums within insurance revenue and higher claims loss ratios within insurance services expenses. These movements were offset by more favourable investment returns.

Let us analyze these three key components:

## Insurance Revenue

During Q1, gross written premium increased by 5.2% against prior year on the old basis of accounting, as we experienced growth in premiums across all of our major lines of business. This growth was generated by the combination of rate increases and organic expansion. However, under the new accounting standard, insurance revenue decreased by 2.3% from the prior year, primarily as a result of new seasonal adjustments, which resulted in a larger deferral in revenue recognition to later in the year.

## Insurance Service Expenses

During Q1 2023, under the new standard, we are reporting insurance service expenses of \$20.5m, a 14.0% increase over the prior year’s total of \$18.0m. While we continue to experience higher loss ratios from the Cayman motor and health lines of business, the higher reported insurance service expense is also driven by the new methodology of determining claim liabilities, as interest rates declined during the first quarter of 2023 resulting in an adverse discounting impact.

## Investment and Other Income & Other Comprehensive Income

During Q1 2022, we reported unrealized losses on the Commonwealth Bank equity holdings of \$1.2m and on the bond portfolio of \$0.9m, which reversed to a combined \$0.2m unrealized gain during the current period.

We appreciate that the new presentation format in this report makes historical comparison more difficult, so we have disclosed below what would have been reported for total equity and comprehensive income using the former IFRS 4 standard.

	31-Mar-23	31-Dec-22
Total equity per IFRS 4	67,766,182	68,877,955
Total equity per IFRS 17	71,149,542	73,877,820

  

	31-Mar-23	31-Mar-22
Total comprehensive loss per IFRS 4	(1,024,276)	(1,083,993)
Total comprehensive loss per IFRS 17	(2,640,778)	(1,731,023)

# Report of the President & CEO

on Unaudited Results for the 3 months ended March 31, 2023

When we compare the financial position and performance between the current and prior periods using the former standard, we see no material change. This demonstrates that the significant changes in the accompanying statements are attributed to the changes in measurement under the new standard. We trust that the additional information provided in this report will help the reader to gain a better understanding of the key changes arising from IFRS 17 and their relationship to historical results.

As previously disclosed, BFH's Cayman subsidiary, Cayman First Insurance Ltd (CFI), experienced delays in reporting to its regulator in Cayman as a result of the Group's implementation of a new policy and claim processing system during 2022, which affected its Health and Life segment (H&L). These problems, which have proved both difficult and, as a result, slow to resolve, are still continuing. The Group is monitoring the impact of the resultant service issues on customer retention.

The Group has employed additional resources to advise on the origin and handling of the problems both from a technical and wider perspective and further to advise on appropriate steps to ensure that the H&L's systems are robust and resilient. We plan to provide a further update on the status of remediation efforts in the 2nd quarter report.

On behalf of the Board of Directors of BFH, I again wish to thank our shareholders and customers for their continued support. To our dedicated and hardworking staff, we appreciate all your efforts during this difficult time, and we will continue to support you.

**Patrick G Ward**  
Group President & CEO

## Financial Summary of Unaudited Results

AS AT MARCH 31, 2023  
(Expressed in Bahamian dollars)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	As at:	
	31-Mar-23	31-Dec-22 (Note 2)
Cash and investments	62,209,461	64,828,340
Broker receivables	20,282,324	19,031,026
Reinsurance contract assets	57,410,276	50,606,250
Property and equipment	25,134,591	25,242,703
Intangible assets and goodwill	8,204,757	8,419,092
Other assets	3,579,751	2,797,862
<b>Total assets</b>	<b>176,821,160</b>	<b>170,925,273</b>
Insurance contract liabilities	95,410,451	88,508,008
Bonds payable	7,733,733	7,619,435
Other liabilities	2,527,434	920,010
<b>Total liabilities</b>	<b>105,671,618</b>	<b>97,047,453</b>
Total equity attributable to owners of the company	66,749,083	69,321,368
Non-controlling interest	4,400,459	4,556,452
<b>Total equity</b>	<b>71,149,542</b>	<b>73,877,820</b>
<b>Total liabilities and equity</b>	<b>176,821,160</b>	<b>170,925,273</b>

## Financial Summary of Unaudited Results

FOR THE 3 MONTHS ENDED  
MARCH 31, 2023  
(Expressed in Bahamian dollars)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	For the 3 Months Ended	
	31-Mar-23	31-Mar-22 (Note 2)
<b>Insurance revenue</b>	<b>28,813,287</b>	<b>29,499,769</b>
Insurance service expenses	(20,499,360)	(17,984,493)
Net expenses from reinsurance contracts held	(8,153,725)	(8,422,223)
<b>Insurance service result</b>	<b>160,202</b>	<b>3,093,053</b>
Finance (expenses)/income from insurance contracts issued	(301,708)	30,695
Finance income from reinsurance contracts held	189,012	5,360
<b>Net insurance finance (expenses)/income</b>	<b>(112,696)</b>	<b>36,055</b>
Investment and other income/(loss), net	280,006	(779,707)
Other expenses	(3,153,183)	(3,174,596)
<b>Loss for the period</b>	<b>(2,825,671)</b>	<b>(825,195)</b>
Other comprehensive income/(loss) for the period	184,893	(905,828)
<b>Total comprehensive loss</b>	<b>(2,640,778)</b>	<b>(1,731,023)</b>
<b>Attributable to:</b>		
Owners of the company	(2,484,785)	(1,764,046)
Non-Controlling Interest	(155,993)	33,023
	<b>(2,640,778)</b>	<b>(1,731,023)</b>
Loss per common share (Note 5)	\$ (0.08)	\$ (0.03)

## Financial Summary of Unaudited Results

FOR THE 3 MONTHS ENDED  
MARCH 31, 2023  
(Expressed in Bahamian dollars)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	For the 3 Months Ended	
	31-Mar-23	31-Mar-22 (Note 2)
<b>Common shares, Preference shares, Contributed surplus and General reserve</b>		
Balance at beginning and end of period	24,291,275	24,291,275
<b>Revaluation reserve</b>		
Balance at beginning of period	6,673,564	5,691,207
Other comprehensive income/(loss)	184,893	(905,828)
<b>Balance at end of period</b>	<b>6,858,457</b>	<b>4,785,379</b>
<b>Retained earnings</b>		
Balance at December 31, 2022 and 2021 as previously reported	33,620,992	31,480,443
Adjustment on initial application of IFRS 9 and 17 (Note 2)	4,735,537	7,507,812
<b>Balance at January 1, 2023 and 2022</b>	<b>38,356,529</b>	<b>38,988,255</b>
Total comprehensive loss	(2,669,678)	(858,218)
Preference share dividends	(87,500)	(87,500)
<b>Balance at end of period</b>	<b>35,599,351</b>	<b>38,042,537</b>
<b>Non-controlling interest</b>		
Balance at December 31, 2022 and 2021 as previously reported	4,292,124	4,184,266
Adjustment on initial application of IFRS 9 and 17 (Note 2)	264,328	339,163
<b>Balance at January 1, 2023 and 2022</b>	<b>4,566,452</b>	<b>4,523,429</b>
Total comprehensive (loss)/income	(155,993)	33,023
<b>Balance at end of period</b>	<b>4,400,459</b>	<b>4,556,452</b>
<b>Equity at end of period</b>	<b>71,149,542</b>	<b>71,675,643</b>

## Financial Summary of Unaudited Results

FOR THE 3 MONTHS ENDED  
MARCH 31, 2023  
(Expressed in Bahamian dollars)

CONSOLIDATED STATEMENT OF CASH FLOWS	For the 3 Months Ended	
	31-Mar-23	31-Mar-22
Net cash (used in)/from operating activities	(2,371,422)	2,540,077
Net cash from investing activities	350,679	375,704
Net cash used in financing activities	(165,347)	(154,545)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,186,090)</b>	<b>2,761,236</b>
Cash and cash equivalents at the beginning of the period	33,636,381	21,276,044
<b>Cash and cash equivalents at the end of the period</b>	<b>31,450,291</b>	<b>24,037,280</b>



# Selected Explanatory Notes to the Unaudited Financial Results

For the 3 Months Ended March 31, 2023

## 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 unaudited financial results 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”)

### Claims servicing company

- First Response Limited (“FRL”)

### 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial results have been prepared in accordance with IAS 34 Interim Financial Reporting (“IAS 34”), using the accounting policies adopted in the last annual financial statements for the year ended December 31, 2022 except for the adoption of IFRS 9 – Financial Instruments and IFRS 17 – Insurance Contracts during the current reporting period. The Group has consistently applied the same accounting policies through all periods presented. These interim unaudited consolidated financial results should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31, 2022.

### IFRS 9

The Group has adopted IFRS 9 for the first time for the interim period ended March 31, 2023. The adoption of IFRS 9 has resulted in changes to the measurement and recognition of financial instruments. As a first-time adopter, the Group has applied the following practical expedients:

- Use of the modified retrospective approach, which means that the cumulative effect of initial application is recognized as an adjustment to the opening balance of retained earnings at January 1, 2023.
- Exemption from restating comparative information.

# Selected Explanatory Notes to the Unaudited Financial Results (Continued)

For the 3 Months Ended March 31, 2023

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### IFRS 9 (continued)

The adoption of IFRS 9 has resulted in the following adjustments to the financial statements:

- Election to present changes in fair value of equity instruments that are not held for trading in other comprehensive income.
- Impairment losses on financial instruments have shifted from an incurred credit loss model to an expected credit loss model.

### IFRS 17

The Group has adopted IFRS 17 for the first time for the interim period ended March 31, 2023. IFRS 17 requires insurers to recognize insurance contract revenue and expenses in a way that reflects the timing of transfer of insurance risk from the insurer to the policyholder. The Group has applied IFRS 17 retrospectively, with the cumulative effect of the transition recognized as an adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented. The transition date was January 1, 2022.

The standard introduces new financial statement presentation captions that differ from previous presented statements. Below we have outlined the new captions:

#### Statement of Financial Position

- Insurance contract assets/liabilities: The financial obligation to the policy owners of insurance contracts written, which includes a liability for claims that have been incurred as of the reporting date but have not yet been settled (liability for incurred claims), a liability for the remaining obligations on contracts (liability for remaining coverage), as well as the expenses that are expected to be required to fulfill the obligations of the insurance contracts. These liabilities are measured as the present value of the expected cash flows for claims payments, using an appropriate discount rate and risk adjustment.

- Reinsurance contract assets/liabilities: Represent the amount an insurer expects to recover from a reinsurer under a reinsurance contract. This asset is initially measured as the present value of the expected cash flows from the reinsurer, using an appropriate discount rate and risk adjustment.

#### Statement of comprehensive income

- Insurance contract revenue: Insurance revenue represents the amount of premium allocated to the services provided in the period. For insurance contracts with significant seasonality, the premiums allocated to each period will be proportional to the expected seasonality (refer to Note 3). Insurance revenue is net of any transaction-based taxes such as premium tax.
- Insurance contract expenses: This caption represents the expenses associated with fulfilling insurance contracts, such as claims, commissions, policy acquisition costs and general expenses that are directly attributable to providing insurance contract services..
- Net expenses from reinsurance contracts held: Refer to the expenses incurred by an insurer after taking into account the recoveries expected to be received from reinsurers under reinsurance contracts held.
- Finance expenses from insurance contracts issued and finance income from reinsurance contracts held: The insurance finance expense and reinsurance finance income represent the changes in the insurance liability for incurred claims and the reinsurance asset for incurred claims that are related to changes in economic and financial assumptions. Specifically, the amounts represent the effect of interest accretion and changes in the current discount rates.

# Selected Explanatory Notes to the Unaudited Financial Results (Continued)

For the 3 Months Ended March 31, 2023

## 3. MEASUREMENT

The Group measures insurance liabilities/assets and reinsurance assets/liabilities for portfolios of contracts, as per the requirements of IFRS 17. Portfolios of contracts contain contracts with similar risks that are managed together and must be separate for insurance contracts written and reinsurance contracts held. The Group has always managed insurance contracts and reinsurance contracts using product lines, which meet the above portfolio criteria, and these have been used to define portfolios for IFRS 17. Portfolios are further separated into groups of contracts, such that contracts are separated based on their expected profitability, and that no contracts included in a group are issued more than 12 months apart.

The Group has applied the Premium Allocation Approach (“PAA”) to all insurance and reinsurance contracts. The PAA is a simplified measurement model relative to the General Model that is intended for short-term insurance and reinsurance contracts. The Group assumes that no contracts are onerous unless facts and circumstances indicate otherwise.

The Group has identified insurance acquisition expenses as all expenses that arise from activities related to selling, underwriting, and starting groups of insurance contracts. The Group has elected to defer the recognition of insurance acquisition expenses and recognize them over the coverage period of insurance contracts.

The Group does not adjust the liability for remaining coverage (“LRC”) to reflect the time value of money. The Group has adjusted the liability for incurred claims (“LIC”) for the time value of money for all portfolios with the exception of the Health portfolio where the settlement time for claims is less than twelve months. The adjustment for time value of money is calculated using discount rates that are current and specific to the country of the liability. The discount rates reflect the characteristics of the expected insurance liability cash flows. There is significant judgement in the determination of the discount rates.

For insurance liabilities in the Bahamas, the Group has used a top-down approach to determine discount rates, which adjusts the yields on Government of The Bahamas bonds for the credit spread associated with the possibility of default. For insurance liabilities in the Cayman Islands, the Group has used a bottom-up approach which adjusts the US treasury yields for an illiquidity premium consistent with the illiquidity of the insurance liabilities. The Group does not expect insurance liability cash flows to occur beyond the duration when observable market prices become unobservable, and thus the Group has not made any assumptions about yields in the unobservable period.

The Group includes within the LIC an explicit Risk Adjustment for Non-Financial Risk (“RA”). The RA represents the compensation required by the Group for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk as the Group fulfils the insurance contract obligations. There is no RA within the LRC unless a group of contracts has been identified as being onerous. The RA for groups of reinsurance contracts represents the amount of risk transferred from the Group to the reinsurer. The Group has determined the RA using a confidence level approach using a target confidence level of 75%.

### Seasonality

The Property and Casualty insurance business is seasonal in nature with the bulk of the catastrophe insurance revenue being recognized during the hurricane months of June to November. The insurance service result is driven mainly by claims associated with weather conditions and may vary significantly between quarters. Profit Commission earned from reinsurers and paid to agents are significantly impacted by natural catastrophes and is therefore recorded only in the fourth quarter.

# Selected Explanatory Notes to the Unaudited Financial Results (Continued)

For the 3 Months Ended March 31, 2023

## 4. SEGMENTED INFORMATION

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 interim periods are noted in the table displayed ►

	BAHAMAS		CAYMAN	
	P&C	P&C	H&L	TOTAL
	\$	\$	\$	\$
<b>For The 3 Months Ended 31-Mar-23</b>				
Insurance service result	1,249,456	(751,390)	(337,864)	160,202
Loss	(1,434,588)	(948,924)	(442,159)	(2,825,671)
Capital expenditure	112,830	16,385	96,616	225,831
<b>As at 31-Mar-23</b>				
Total assets	112,290,737	40,587,760	23,942,663	176,821,160
Total liabilities	76,917,281	22,046,183	6,708,154	105,671,618
<b>For The 3 Months Ended 31-Mar-22</b>				
Insurance service result	2,087,640	603,877	401,536	3,093,053
(Loss)/profit (Note 2)	(1,630,579)	540,801	264,583	(825,195)
Capital expenditure	721,902	9,870	88,509	820,281
<b>As at 31-Dec-22</b>				
Total assets (Note 2)	103,676,128	41,634,861	25,614,284	170,925,273
Total liabilities (Note 2)	66,842,632	19,397,352	10,807,469	97,047,453

# Selected Explanatory Notes to the Unaudited Financial Results (Continued)

For the 3 Months Ended March 31, 2023

## 5. EARNINGS PER COMMON SHARE

	2023	2022
	\$	\$
<b>3 months Ended 31-Mar</b>		
Loss for the period attributable to owners of the company	(2,654,551)	(924,267)
Preference shares dividend paid	(87,500)	(87,500)
Loss for the period attributable to common shareholders	(2,742,051)	(1,011,767)
Weighted average number of common shares outstanding	36,511,589	36,511,589
<b>Basic and diluted loss per common share</b>	<b>(0.08)</b>	<b>(0.03)</b>

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