

AUDITED FINANCIAL STATEMENTS

Bermuda First Investment Company Limited

Year Ended June 30, 2016

With Report of Independent Auditors

Bermuda First Investment Company Limited

Audited Financial Statements

Year Ended June 30, 2016

**Contents**

Report of Independent Auditors.....	1
Audited Financial Statements	
Statement of Financial Position .....	3
Statement of Changes in Shareholders' Equity (Deficit).....	4
Statement of Comprehensive Income (Loss).....	5
Statement of Cash Flows .....	6
Notes to Financial Statements.....	7



Ernst & Young Ltd.  
3 Bermudiana Road  
Hamilton HM 08, Bermuda  
P.O. Box 463  
Hamilton HM BX, Bermuda

Tel: +1 441 295 7000  
Fax: +1 441 295 5193  
www.ey.com/bermuda

## Report of Independent Auditors

The Board of Directors  
Bermuda First Investment Company Limited

We have audited the accompanying financial statements of Bermuda First Investment Company Limited, which comprise the statement of financial position as at June 30, 2016, the statement of changes in shareholders' equity, the statement of comprehensive income, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## **Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Bermuda First Investment Company Limited as at June 30, 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

*Ernst & Young Ltd.*

October 21, 2016

Bermuda First Investment Company Limited

Statement of Financial Position  
(Expressed in Bermuda Dollars)

June 30, 2016

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Cash	\$ 861,711	\$ 15,560
Investments – at fair value through profit or loss (Note 3)	25,182,882	23,464,113
Dividends receivable	101,061	90,848
Prepayments and other assets	8,602	5,962
Total assets	<u>\$ 26,154,256</u>	<u>\$ 23,576,483</u>
<b>Liabilities</b>		
Interest payable (Notes 9 and 10)	\$ 281,681	\$ 383,900
Accounts payable and accrued expenses (Note 4)	79,248	72,894
Loans (Note 10)	5,000,000	6,350,000
Loan notes (Notes 4 and 9)	18,778,693	18,462,855
Total liabilities	<u>24,139,622</u>	<u>25,269,649</u>
<b>Shareholders' equity/(deficit)</b>		
Share capital (Notes 4 and 6)	20,079	20,079
Share premium	20,059,071	20,059,071
Accumulated deficit	(18,064,516)	(21,772,316)
Total equity (deficit)	<u>2,014,634</u>	<u>(1,693,166)</u>
Total liabilities and shareholders' equity/(deficit)	<u>\$ 26,154,256</u>	<u>\$ 23,576,483</u>

See accompanying notes.

Bermuda First Investment Company Limited

Statement of Changes in Shareholders' Equity (Deficit)  
(Expressed in Bermuda Dollars)

Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	\$ (1,693,166)	\$ 8,931,177
Issue of share capital (Note 6)	–	333
Share premium on issuance of share capital (Note 6)	–	332,827
Dividends (Note 8)	–	(394,927)
Net profit (loss) for the year	<b>3,707,800</b>	(10,562,576)
Balance at end of year	<b><u>\$ 2,014,634</u></b>	<b><u>\$ (1,693,166)</u></b>

See accompanying notes.

Bermuda First Investment Company Limited

Statement of Comprehensive Income (Loss)  
(Expressed in Bermuda Dollars)

Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
<b>Investment income</b>		
Dividend income	\$ 4,091,576	\$ 505,760
Interest income	16	–
	<u>4,091,592</u>	<u>505,760</u>
<b>Expenses</b>		
Interest expense (Notes 9 and 10)	1,509,057	1,430,337
Management fee (Note 4)	127,176	130,499
Directors' fees	36,000	36,000
Audit fees	27,500	27,500
Custodian fees (Notes 4 and 11)	51,735	15,000
BSX listing fees	8,500	14,328
Administration fees (Note 4)	11,500	10,000
Listing sponsor fees (Note 4)	–	5,000
Corporate secretarial fees (Note 4)	3,500	3,832
Legal fees	623	1,506
Other operating expenses	57,489	41,587
	<u>1,833,080</u>	<u>1,715,589</u>
Net investment income (loss)	<u>2,258,512</u>	<u>(1,209,829)</u>
<b>Net realised loss and change in unrealised gain (loss) on investments</b>		
Net realised loss on investments – at fair value through profit or loss	(540)	(28,918)
Net change in unrealised gain (loss) on investments – at fair value through profit or loss	1,449,828	(9,323,829)
	<u>1,449,288</u>	<u>(9,352,747)</u>
Net profit (loss) for the year	<u>\$ 3,707,800</u>	<u>\$ (10,562,576)</u>
<b>Earnings per share</b>		
Basic (Note 7)	\$ 1.85	\$ (5.28)
Fully diluted (Note 7)	\$ 1.85	\$ (5.28)

See accompanying notes.

## Bermuda First Investment Company Limited

### Statement of Cash Flows (Expressed in Bermuda Dollars)

Year Ended June 30, 2016

	2016	2015
<b>Operating activities</b>		
Net profit (loss) for the year	\$ 3,707,800	\$ (10,562,576)
Adjustment to reconcile net profit (loss) for the year to net cash provided by (used in) operating activities:		
Purchases of investments – at fair value through profit or loss	(311,436)	(1,847,337)
Sale of investments – at fair value through profit or loss	41,955	541,912
Net realised loss on investments – at fair value through profit or loss	540	28,918
Net change in unrealised (gain) loss on investments – at fair value through profit or loss	(1,449,828)	9,323,829
Net changes in operating assets and liabilities:		
Dividends receivable	(10,213)	400,311
Prepayments and other assets	(2,640)	(2,839)
Interest payable	(102,219)	126,553
Accounts payable and accrued expenses	6,354	(9,398)
Net cash provided by (used in) operating activities	1,880,313	(2,000,627)
<b>Financing activities</b>		
Proceeds from loans	130,000	1,350,000
Issuance of loan notes	315,838	1,320,655
Payment of loans	(1,480,000)	(100,000)
Dividends paid	–	(61,767)
Net cash (used in) provided by financing activities	(1,034,162)	2,508,888
Net change in cash and cash equivalents	846,151	508,261
Cash and cash equivalents at beginning of year	15,560	(492,701)
Cash and cash equivalents at end of year	\$ 861,711	\$ 15,560
Cash and cash equivalents consist of:		
Cash	\$ 861,711	\$ 15,560
<b>Supplemental cash flow information</b>		
Interest paid	\$ 1,295,438	\$ 483,129
Dividends received	\$ 4,081,363	\$ 906,071
<b>Non-cash transactions</b>		
Shares issued through dividend reinvestment (Note 8)	\$ –	\$ 333,160

See accompanying notes.



# Bermuda First Investment Company Limited

## Notes to Financial Statements *(Expressed in Bermuda Dollars)*

June 30, 2016

### **1. Corporate Information**

Bermuda First Investment Company Limited (the Company) was incorporated as an exempted company under the laws of Bermuda on September 13, 2012. The Company commenced operations on October 9, 2012. Its registered address is at Bermuda Commercial Bank Building, 34 Bermudiana Road, Hamilton HM 11, Bermuda.

The Company carries on business as an exempt investment holding company with the objective of maximising shareholder value as measured by total return which includes both dividends received from its investments and capital appreciation of those assets. To achieve its investment objective, the Company invests in Bermuda companies listed on the Bermuda Stock Exchange (BSX). The Company's investment manager is ICM Limited (Investment Manager), a Bermuda-based fund manager and corporate finance advisor.

The Company's shares and loan notes are both listed on the BSX.

The financial statements of the Company were authorized for issue in accordance with a resolution of the Board of Directors (the Board) on October 21, 2016.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Preparation**

These financial statements are prepared under the historical cost convention modified to include the fair valuation of financial assets and liabilities. These financial statements, except for cash flow information, are prepared using the accrual basis of accounting.

These financial statements are presented in Bermuda dollars and all values are rounded to the nearest dollar.

#### **Statement of Compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

#### **2. Summary of Significant Accounting Policies (continued)**

The following are the significant accounting and reporting policies adopted by the Company:

##### **Use of Accounting Judgments, Estimates, and Assumptions**

The preparation of financial statements in accordance with IFRS, requires management to make judgments, estimates, and assumptions that affect the reported amounts and disclosures made in these financial statements and accompanying notes. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in the future.

##### **Investment Entity**

The Company has been deemed to meet the definition of an investment entity under IFRS 10 as the following conditions exist:

- a) The Company obtained funds for the purpose of providing shareholders with investment management services.
- b) The Company's business purpose, which was communicated directly to shareholders, is investing solely for returns from capital appreciation and investment income.
- c) The performance of investments made are measured and evaluated on a fair value basis.

##### **Financial Assets and Liabilities at Fair Value Through Profit or Loss**

###### **(a) Classification**

This category is comprised of investments – at fair value through profit or loss and is sub-divided into: (i) financial assets and liabilities held for trading and (ii) financial instruments designated by management at fair value through profit or loss at initial recognition. Financial assets and liabilities held for trading are acquired or incurred principally for the purpose of selling and/or repurchasing in the short term. This category includes equity instruments.

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Financial Assets and Liabilities at Fair Value Through Profit or Loss (continued)**

###### **(a) Classification (continued)**

Financial instruments are designated by management at fair value through profit or loss at initial recognition on the basis that they are a part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Company, as set out in the Company's prospectus.

###### **(b) Recognition**

The Company recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

###### **(c) Initial Measurement**

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

###### **(d) Subsequent Measurement**

After initial measurement, the Company measures financial instruments, which are classified as at fair value through profit or loss, at their fair values. Subsequent changes in the fair value of those financial instruments are recorded in net change in unrealised gains or losses on investments – at fair value through profit or loss in the statement of comprehensive income (loss).

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **(e) Derecognition**

Financial assets are derecognised when the Company has transferred substantially all the risks and rewards of those assets or the right to receive those assets has expired.

Financial liabilities are derecognised when the obligations of the Company under those liabilities are discharged, cancelled, or expire.

##### **Impairment of Financial Assets-Other Than Investments at Fair Value Through Profit or Loss**

The Company assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event), and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The losses arising from impairment are recognised in the statement of comprehensive income (loss) in other operating expenses.

If there is objective evidence that an impairment loss has been incurred, the financial asset is written down to its realisable value, with the impairment loss being recognised in the statement of comprehensive income (loss). Any subsequent increase in the fair value of such assets that can be objectively related to an event that occurred after the impairment was recognised will result in a reversal of the impairment loss in the period in which the event occurs.

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued)

*(Expressed in Bermuda Dollars)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Investment Transactions and Valuation**

Investment transactions are accounted for on a trade date basis. Realised gains and losses are calculated on a first in-first out (FIFO) basis. Assets are initially recognised at their purchase price. Both realised and changes in unrealised gains and losses, net of foreign exchange, are included in the statement of comprehensive income (loss).

The Company follows the below valuation methodology:

1. The fair value of financial instruments traded at the reporting date, is based on an average of the bid and ask from quoted market prices without any deduction for transaction costs.
2. If the ask price is not available, the bid price is used.
3. If the bid price is not available, the last trade price is used.

As a result of the illiquid nature of the portfolio (whether due to a lack of an active market or the Company holding a significant number of shares), there could be a large spread between the average of the bid and ask prices compared to the last trade price and the differences could be material.

The Company may from time to time, invest in financial instruments that are not traded in an active market. The fair value of these financial instruments is determined based on observable inputs, such as current interest or currency rates, or in case of no observable inputs, fair value is determined using appropriate valuation techniques. Fair values of such investments may differ from the values that would have been used had a ready market for these investments existed, and the differences could be material.

# Bermuda First Investment Company Limited

## Notes to Financial Statements (continued)

*(Expressed in Bermuda Dollars)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Translation of Foreign Currencies**

##### *Functional and Presentational Currency*

The primary objective of the Company is to generate returns in Bermuda dollars, its capital-raising currency. The liquidity of the Company is managed on a day-to-day basis in Bermuda dollars. The Company's performance is also evaluated in Bermuda dollars.

Therefore, as Bermuda dollars is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions, management has assessed that the Company's functional and presentational currency is Bermuda dollars.

##### *Transactions and Balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at period-end exchange rates of monetary assets and liabilities, denominated in foreign currencies, are recognised in the statement of comprehensive income (loss) as part of net change in unrealised gains on investments - at fair value through profit or loss.

#### **Cash and Cash Equivalents**

Cash and cash equivalents in the statement of cash flows comprise of cash at bank, including any demand and term deposits, which are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in value, and have original maturities of three months or less.

At June 30, 2016, the cash amount included a cash balance of \$777,677 (2015 – \$15,560) in the statement of financial position, which was held with Bermuda Commercial Bank Limited (BCB or the Custodian).

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued)

*(Expressed in Bermuda Dollars)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Dividend Distribution**

Dividend distributions are at the discretion of the Company. A dividend distribution to the Company's shareholders is accounted for as a deduction from the Company's distributable income to shareholders. A proposed dividend is recognised as a liability in the period in which it is declared by the Board.

##### **Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

##### **Basic and Fully Diluted Earnings Per Share**

Basic earnings per share is calculated by dividing the net earnings for the period attributable to the Company's shareholders by the number of common shares outstanding.

Diluted earnings per share is calculated by dividing the net earnings for the period by the weighted average number of shares during the period plus the weighted average number of shares that would have been issued on the conversion of all the dilutive potential shares into shares during the period.

##### **Dividend Income**

Dividend income is recognised when the Company's right to receive the payment is established.

##### **Interest Income and Expense**

Interest income and expense are recognised in the statement of comprehensive income (loss) on an accrual basis, in line with the contractual terms, calculated using the effective interest (EIR) method.

##### **Expenses**

All expenses are recognised in the statement of comprehensive income (loss) on an accrual basis.

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **New Standards, Interpretations, Amendments to Published Standards Relevant to the Company**

The following new standard that is not yet effective will be relevant for the Company:

##### *IFRS 9 – Financial Instruments – Classification and Measurement*

In November 2009, the IASB issued IFRS 9, *Financial Instruments*, which introduced new requirements for the classification and measurement of financial instruments. IFRS 9 is the IASB's planned replacement of IAS 39 *Financial Instruments: Recognition and Measurement* with a less complex and improved standard for financial instruments. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 is subject to European Union endorsement, the timing of which is uncertain. The impact of IFRS 9 may also change as a consequence of further developments resulting from the IASB's project to replace IAS 39. The Company continues to monitor developments relating to IFRS 9, but in the absence of a finalised standard it is not practical to quantify the impact of IFRS 9, on the Company's financial statements.

#### **3. Investments – at Fair Value Through Profit or Loss**

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Valuation techniques for inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly or quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 – Valuation techniques for inputs are unobservable inputs for the asset or liability.



Bermuda First Investment Company Limited

Notes to Financial Statements (continued)  
(Expressed in Bermuda Dollars)

**3. Investments – at Fair Value Through Profit or Loss (continued)**

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of reporting period.

As at June 30, 2016, the Company held the following classes of financial instruments measured at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Investments – at fair value through profit and loss – held for trading				
Equity shares	\$ –	\$ 25,182,882	\$ –	\$ 25,182,882
	<u>\$ –</u>	<u>\$ 25,182,882</u>	<u>\$ –</u>	<u>\$ 25,182,882</u>

As at June 30, 2015, the Company held the following classes of financial instruments measured at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Investments – at fair value through profit and loss – held for trading				
Equity shares	\$ –	\$ 23,464,113	\$ –	\$ 23,464,113
	<u>\$ –</u>	<u>\$ 23,464,113</u>	<u>\$ –</u>	<u>\$ 23,464,113</u>

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

#### **4. Related Parties**

As of June 30, 2016, BCB is a significant investor of the Company, holding 15.38% (2015 – 15.38%) equity interest for 308,835 (2015 – 308,835) shares and 41.72% (2015 – 42.44%) of issued loan notes of \$7,834,908 (2015 – \$7,834,908). BCB also serves as the Company's Custodian. Refer also to Note 11.

As of June 30, 2016, UIL Limited (Utilico) is also a significant investor of the Company, holding 78.81% (2015 – 78.81%) equity interest for 1,582,360 (2015 – 1,582,360) shares and 57.75% (2015 – 57.02%) of issued loan notes of \$10,843,785 (2015 – \$10,527,947). Utilico's investment manager is also the Company's Investment Manager.

Refer to Note 8 for the dividends declared and paid to Utilico and BCB.

BCB's subsidiaries also serve as the Company's administrator and registrar and transfer agent and corporate secretary. The Company's Investment Manager is also the investment advisor of BCB. The Investment Manager, Custodian, and Administrator each maintain separate business units, roles and responsibilities to ensure segregation between different functions. The details of the fees paid to these entities are as follows:

#### **Management Fees and Performance Fees**

The Company pays the Investment Manager for its investment management services a management fee based on the gross asset value of the portfolio of 0.50% (2015 – 0.50%) per annum, payable quarterly in arrears. Management fees for the year amounted to \$127,176 (2015 – \$130,499), of which \$32,373 (2015 – \$29,269) remained outstanding and is included under the accounts payable and accrued expenses account in the statement of financial position at June 30, 2016.

The Investment Manager may be paid additional performance fees at the discretion of the Company, as approved by the Board of Directors. No performance fees were paid during the year (2015 – none).

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

#### **4. Related Parties (continued)**

##### **Administration Fees and Corporate Secretarial Fees**

Up to March 31, 2016, the Company pays BCB Asset Management Limited for its administration and registrar and transfer agency services (Administrator) a fixed administration fee of \$10,000 (2015 – \$10,000) per annum, payable quarterly in arrears. Effective April 1, 2016, ICM Corporate Services (Pty) Ltd became the Administrator of the Company. The Company pays ICM Corporate Services (Pty) Ltd a fixed administration fee of \$16,000 per annum, payable quarterly in arrears. In addition, the Administrator provides certain other services to the Company which will be charged for, at the Administrator's normal commercial rates from time to time. Administration fees for the year amounted to \$11,500 (2015 – \$10,000), of which \$4,000 (2015 – \$2,500) remained outstanding and is included under the accounts payable and accrued expenses account in the statement of financial position at June 30, 2016.

The Company also pays BCB Charter Corporate Services Limited (the Corporate Secretary), for its corporate secretarial services, a fixed fee of \$3,500 (2015 – \$3,500) per annum, payable quarterly in arrears. Corporate secretarial fees for the year amounted to \$3,500 (2015 – \$3,832), of which \$2,625 (2015 – \$875) remained outstanding and is included under the accounts payable and accrued expenses account in the statement of financial position at June 30, 2016.

##### **Listing Sponsor Fees**

The Company also pays the Administrator for its services. Listing fees for the year in the statement of comprehensive income (loss), amounted to nil (2015 – \$5,000), and none of which remained outstanding at June 30, 2016 (2015 – none).

##### **Custodian Fees**

The Company pays the Custodian, for its custodian services, a custodian fee of \$15,000 (2015 – \$15,000) per annum, payable quarterly in arrears. The Custodian is also reimbursed for all reasonable out-of-pocket expenses incurred on behalf of the Company, if any. Custodian fees for the year amounted to \$15,000 (2015 – \$15,000), of which \$3,750 (2015 – \$3,750) remained outstanding and is included under the accounts payable and accrued expenses in the statement of financial position at June 30, 2016. Refer to Note 11 for other custodian fees.

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

#### **5. Financial Risk Management**

##### **Overall Risk Management**

In order to achieve the Company's investment objective, the Company seeks to take on a certain level of financial risk. The Company's investment activities expose it to various types of financial risks such as market risk, price risk, credit risk, and liquidity risk.

Risk management can be segregated into pre-investment and post-investment risk management. Pre-investment risk management involves determining asset allocation and portfolio construction. Thereafter, risk management involves conducting risk and return analyses; monitoring the relevant Company-specific portfolio restrictions and investment guidelines; managing credit, liquidity risks, and making relevant adjustments to asset allocation; and portfolio construction.

##### **Capital Management**

The Company invests the majority of its capital in what management believes to be under-valued Bermuda equities as set forth in its prospectus. On a periodic basis, the Investment Manager monitors the Company's investment and cash position, and future cash flow from various transactions, which can be from the Company's operating expenses, and shareholder transactions to maintain the Company's operations.

##### **Market Risk**

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate, due to changes in market variables such as equity prices and market volatility. The Company is exposed to the Bermuda market through its investments.

##### **Concentration Risk**

As of June 30, 2016, the investment portfolio of the Company is concentrated in two (2015 – two) listed companies in Bermuda with a total fair value of \$21,588,901 (2015 – \$20,186,330) or 86% (2015 – 86%) of total investments.

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

#### **5. Financial Risk Management (continued)**

##### **Price Risk**

Price risk is the risk that the price of a financial instrument will fluctuate due to changes in market conditions influencing, directly or indirectly, the value of the instrument. The Company is exposed to price risk from its investments. Price risk is managed through the overall risk management processes described above. A 15% (2015 – 15%) movement in fair values of its investments would impact the Company's net income by an increase or decrease of \$3,777,432 (2015 – \$3,519,617). 15% was estimated by management as an appropriate threshold for sensitivity testing based on an average price movement of the portfolio over a twelve-month period.

##### **Credit Risk**

Credit risk is the risk that an issuer or counterparty will be unable to meet a commitment that it has entered into with the Company.

The Company's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event that the counterparties fail to perform their obligations as of yearend in relation to each class of recognised financial assets, is the carrying amount of those assets in the statement of financial position.

The Investment Manager performs due diligence on all counterparties before they become a service provider or counterparty to the Company, and credit quality checks are part of this process. The credit quality of the Company's banks, brokers, guarantor, and any lenders is regularly monitored, and factored into allocation decisions.

##### **Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not significantly exposed to interest rate risk, which only applies to cash at bank. The Company's loan note is based on fixed interest thus, not susceptible to interest rate fluctuations.

Bermuda First Investment Company Limited

Notes to Financial Statements (continued)  
*(Expressed in Bermuda Dollars)*

**5. Financial Risk Management (continued)**

**Liquidity Risk**

Liquidity risk is the risk that the Company may be unable to generate or obtain sufficient funds in a timely and cost-effective manner to meet its commitments as they come due. To limit this risk, management has adopted a policy of managing assets with liquidity in mind, and of monitoring future cash flows and liquidity on a regular basis.

**Maturity Profile**

The maturity profile of the Company's assets and liabilities at June 30, 2016, is as follows:

	<b>Within 1 Year</b>	<b>2-5 Years</b>	<b>5-10 Years</b>	<b>Total</b>
<b>Assets</b>				
Cash	\$ 861,711	\$ –	\$ –	\$ 861,711
Investments – at fair value through profit or loss	25,182,882	–	–	25,182,882
Dividends receivable	101,061	–	–	101,061
Prepayments and other assets	8,602	–	–	8,602
	<u>\$ 26,154,256</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 26,154,256</u>
<b>Liabilities</b>				
Interest payable	\$ 281,681	\$ –	\$ –	\$ 281,681
Accounts payable and accrued expenses	79,248	–	–	79,248
Loans	5,000,000	–	–	5,000,000
Loan notes	–	18,778,693	–	18,778,693
	<u>\$ 5,360,929</u>	<u>\$ 18,778,693</u>	<u>\$ –</u>	<u>\$ 24,139,622</u>
<b>Net assets (liabilities)</b>	<u>\$ 20,793,327</u>	<u>\$ (18,778,693)</u>	<u>\$ –</u>	<u>\$ 2,014,634</u>

Bermuda First Investment Company Limited

Notes to Financial Statements (continued)  
(Expressed in Bermuda Dollars)

**5. Financial Risk Management (continued)**

**Maturity Profile (continued)**

The maturity profile of the Company's assets and liabilities at June 30, 2015, was as follows:

	<u>Within 1 year</u>	<u>2-5 Years</u>	<u>5-10 Year</u>	<u>Total</u>
<b>Assets</b>				
Cash	\$ 15,560	\$ –	\$ –	\$ 15,560
Investments – at fair value				
through profit or loss	23,464,113	–	–	23,464,113
Dividends receivable	90,848	–	–	90,848
Prepayments and other assets	5,962	–	–	5,962
	<u>\$ 23,576,483</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 23,576,483</u>
<b>Liabilities</b>				
Interest payable	\$ 383,900	\$ –	\$ –	\$ 383,900
Accounts payable and accrued expenses	72,894	–	–	72,894
Loans	1,350,000	5,000,000	–	6,350,000
Loan notes	–	18,462,855	–	18,462,855
	<u>\$ 1,806,794</u>	<u>\$ 23,462,855</u>	<u>\$ –</u>	<u>\$ 25,269,649</u>
<b>Net assets (liabilities)</b>	<u>\$ 21,769,689</u>	<u>\$ (23,462,855)</u>	<u>\$ –</u>	<u>\$ (1,693,166)</u>

The above maturity profile is based on management's estimate. As a result of the illiquid nature (whether due to a lack of an active market or the Company holding a significant number of shares), there is a risk that the Company may be unable to liquidate all of its investments within one year.

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued) (Expressed in Bermuda Dollars)

#### 5. Financial Risk Management (continued)

##### Offsetting of Recognized Financial Assets and Financial Liabilities

In 2015, the Company entered into a custodian agreement with JP Morgan Chase Bank, N.A. (JP Morgan) that provides the Company the right to set off financial assets and financial liabilities. The table below presents the fair value of financial assets and liabilities with JP Morgan on a gross and net bases as presented in the statement of financial position as of June 30, 2016.

	2016		2015	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Gross amounts of recognized financial assets/financial liabilities				
Investments – at fair value through profit or loss	\$ 5,442,042	\$ –	\$ 9,574,033	\$ –
Cash	69	–	775	–
	5,442,111	–	9,574,808	–
Amounts that have been offset in the statement of financial position	–	–	–	–
Net amounts of financial assets/financial liabilities presented in the statement of financial position	5,442,111	–	9,574,808	–
Amounts not offset in the statement of financial position:				
Cash collateral	–	–	–	–
Net amounts	\$ 5,442,111	\$ –	\$ 9,574,808	\$ –

There were no other master netting agreements in place as of June 30, 2016 (2015 – none).

#### 6. Equity

The Company's authorised share capital is \$100,000 divided into 10,000,000 ordinary shares having a par value of \$0.01 each.

Each shareholder is entitled to enjoy all rights attached to each share including voting rights and dividends. In the event of liquidation of the Company, the shareholders are entitled to the surplus assets of the Company.



Bermuda First Investment Company Limited

Notes to Financial Statements (continued)  
*(Expressed in Bermuda Dollars)*

**6. Equity (continued)**

On September 30, 2014, 33,316 new shares were issued (\$333,160) as part of the dividend reinvestment plan. Refer to Note 8 for further details on the dividends reinvested.

As of June 30, 2016 and 2015, the shares issued and outstanding are as follows:

	2016		2015	
	Shares	Amount	Shares	Amount
Shares, beginning of year	2,007,915	\$ 20,079,150	1,974,599	\$ 19,745,990
Shares issued	–	–	33,316	333,160
Shares redeemed	–	–	–	–
Shares, end of year	<b>2,007,915</b>	<b>\$ 20,079,150</b>	2,007,915	\$ 20,079,150

**7. Earnings Per Share**

The following table presents the computation of basic and diluted earnings per share:

	2016		
	Net Earnings	Weighted Average Shares	Earnings Per Share
Basic earnings per share	\$ 3,707,800	2,007,915	\$ 1.85
Diluted earnings per share	\$ 3,707,800	2,007,915	\$ 1.85

  

	2015		
	Net Earnings	Weighted Average Shares	Earnings Per Share
Basic earnings per share	\$ (10,562,576)	1,999,335	\$ (5.28)
Diluted earnings per share	\$ (10,562,576)	1,999,335	\$ (5.28)

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued)

*(Expressed in Bermuda Dollars)*

#### **8. Dividends**

It is the intention of the Company to distribute income to shareholders by way of dividend payments. Distributions will be paid to shareholders on a semi-annual basis, unless otherwise specified, and subject to the discretion of the Board.

On September 18, 2014, the Board declared dividends of \$394,927 (\$0.20 per share), payable to shareholders of record as at October 2, 2014. As part of the dividend reinvestment plan, 33,316 new shares were issued representing 84% (\$333,160) of the dividend declared on September 30, 2014.

#### **9. Loan Notes**

On October 9, 2012, the Company issued and subsequently listed on the BSX \$17,142,200 loan notes of a par value of \$1.00 per note (Loan Notes), which represents 100% of the issued Loan Notes of the Company. The Company can create up to \$40 million loan notes. The Loan Notes rank pari passu equally and ratably with each other without discrimination or preference. All Loan Notes not previously purchased and cancelled will be redeemed by the Company on September 30, 2019, at their nominal amount. On June 3, 2013, the Board and its loan note holders approved the amendment of the interest rate on the Loan Notes to 6% from 5%, with effect on July 1, 2013. The interest on the Loan Notes is paid semi-annually at 6% per annum. Interest expense relating to the Loan Notes for the year amounted to \$1,121,984 (2015 – \$1,060,023), of which \$281,681 (2015 – \$276,943) remained outstanding at June 30, 2016. At June 30, 2016 and 2015, holders of the Loan Notes are the major shareholders of the Company.

On October 1, 2013, Utilico sold 100,000 Loan Notes to an employee of BCB at a value of \$1.00 per note. On January 13, 2014, Utilico sold 1,500,000 Loan Notes to BCB at a value of \$1.00 per note.

On February 26, 2015, the Board closed its overdraft facility amounting to \$500,000 with BCB, including interest payable amounting to \$21,000, prior to its termination date and in return, issued 100% of the debt and interest in the form of Loan Notes.

On September 21, 2015, the Board and its loan note holders also agreed to convert interest amounting to \$315,838 (2015 – \$799,655) into Loan Notes.

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued)

*(Expressed in Bermuda Dollars)*

#### **10. Loans**

On July 24, 2013, the Company signed a revolving credit facility of up to a maximum principal amount of \$5,000,000 with The Bank of N.T. Butterfield & Son Limited (the Bank) which expired on July 31, 2014. The credit facility was extended to July 31, 2017. The interest on the credit facility is paid monthly in arrears at 1.5% per annum (2015 – 1.5% per annum) above the Bank's Bermuda Dollar Base Rate of 3.75% (2015 – 3.75%). Interest expense relating to the credit facility for the year amounted to \$269,731 (2015 – \$262,500), of which none (2015 – \$20,143) remained outstanding at June 30, 2016. As security for the credit facility, the Company pledged investments with a fair value of \$19,560,420 (2015 – \$13,865,000) as collateral.

On August 28, 2014, the Company signed a loan facility with a principal amount of \$1,000,000 with Utilico which expired on June 30, 2015. The interest on the loan facility with Utilico is payable at maturity at 10% per annum. On September 24, 2014, the Company also signed a loan facility with a principal amount of \$1,000,000 with VIX Investments Limited (VIX). The interest on the loan facility with VIX is payable at maturity at 6% per annum. On October 30, 2014, the loan facility between the Company and VIX was novated by VIX to one of its shareholders, Utilico. Pursuant to a supplemental agreement, the Company and Utilico agreed on October 30, 2014 that the principal amount of the loan facility with Utilico be increased to \$1,500,000. The total amount of drawdowns made by the Company from the loan facility with Utilico (including the previous loan facility with VIX Investments Limited) for the year ended June 30, 2016, amounted to \$1,430,000 (2015 – \$1,350,000). During the year ended June 30, 2016, the loan facility with Utilico was fully paid. Interest expense relating to the loan facility amounted to \$115,787 (2015 – \$86,814), of which none remained outstanding at June 30, 2016 (2015 – \$86,814).

On October 9, 2015, the Company signed a loan agreement with a principal amount of \$50,000 with ICM Limited with the amount payable on June 30, 2016. The interest on the loan with ICM Limited is 5% per annum. During the year ended June 30, 2016, the loan with ICM Limited was fully paid. Interest expense relating to the loan amounted to \$1,555 (2015 – none), of which none remained outstanding at June 30, 2016 (2015 – none).

## Bermuda First Investment Company Limited

### Notes to Financial Statements (continued)

*(Expressed in Bermuda Dollars)*

#### **11. Service Provider and Related Costs**

As disclosed in Note 5, JP Morgan provides custodian services to the Company effective March 31, 2015. For its services, JP Morgan receives payment for its services based on fees agreed from time to time, including reasonable out-of-pocket or incidental expenses. Custodian fees for services performed by JP Morgan for the year amounted to \$36,735 (2015 – none), of which none remained outstanding at June 30, 2016 (2015 – none).

#### **12. Taxation**

Under current Bermuda law, the Company is not obligated to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda, pursuant to the provisions of the Exempted Undertakings Tax Protection Act 1966, which exempts the Company from any such Bermuda taxes, at least until March 31, 2035.

#### **13. Subsequent Events**

Management has evaluated subsequent events from July 1, 2016 through October 21, 2016, the date the financial statements were available to be issued. Management has determined that there are no material events or transactions that would affect the Company's financial statements or require disclosures in the Company's financial statements through this date.