

Best's Rating Report



ISLAND HERITAGE INSURANCE COMPANY, LTD.

Grand Cayman, Cayman Islands



A

Ultimate Parent:
BF&M Limited

ISLAND HERITAGE INSURANCE COMPANY, LTD.

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AMB#: 086644

AIIN#: AA-3770237

Ultimate Parent#: 084104

BEST'S CREDIT RATING

Best's Financial Strength Rating: A

Outlook: Stable

Best's Financial Size Category: VII

RATING RATIONALE

Rating Rationale: The ratings reflect Island Heritage Insurance Company Limited's (Island Heritage) solid level of risk-adjusted capitaliza-

tion, favorable operating results, experienced management team and regional market expertise. In addition, the ratings recognize Island Heritage's common management and core principles with its parent, BF&M Limited. Partially offsetting these strengths are the company's geographic concentration, its substantial dependency on reinsurance, competitive operating markets and local regulatory risk.

Solid underwriting results along with strong five-year average combined ratios have helped the company produce favorable net income in each of the last five years. This has enabled Island Heritage to maintain strong risk-adjusted capitalization for its current business profile. The management team at Island Heritage has extensive knowledge of each island and maintains effective risk management strategies. The company focuses on the unique needs of the Caribbean property owner and designs its programs to provide the depth of cover needed. In addition, catastrophe risk is mitigated by Island Heritage's conservative reinsurance program, which protects the company's capital from both the frequency and severity of events. Island Heritage has parental

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support, and this affords the company access to the BF&M group's resources, including financial and investment management, information technology and reinsurance.

Island Heritage, like other regional insurers, has a substantial level of risk exposure because of its geographic concentration in the Caribbean. This exposes the company's operations to the effects of catastrophic events, which have been infrequent in recent years. However, the company's extensive reinsurance program keeps the losses from these inevitable natural events at a manageable level. Furthermore, the competitive landscape in Caribbean insurance markets will continue to pressure earnings and market share.

A.M. Best does not anticipate any positive Credit Rating action in the near time. Conversely however, negative Credit Rating action may occur if catastrophic weather events produce losses that materially weaken the balance sheet. Additionally, negative Credit Rating action may be taken if the overall financial strength of BF&M Limited, the ultimate parent, or BF&M General, its immediate parent, were to weaken or if there were a diminution in the explicit or implicit support provided to the company.

COMPARATIVE FINANCIAL AND OPERATING EXHIBIT

	USD (000) 2015	USD (000) 2014	USD (000) 2013	USD (000) 2012	USD (000) 2011
Gross premiums written	93,320	100,943	107,832	109,147	109,979
Net premiums written	27,207	29,760	44,091	19,703	13,255
Net investment income	395	521	577	422	417
Pretax income/(loss) from continuing operations	7,971	11,690	13,770	5,851	6,803
Total assets	124,987	124,207	123,353	130,646	140,160
Total policy reserves	48,394	52,239	51,817	53,748	56,255
Total equity	50,660	51,049	52,396	51,057	44,635

BUSINESS PROFILE

Island Heritage is a wholly owned subsidiary of BF&M Limited, a Bermuda based holding company whose shares are publicly traded on the Bermuda Stock Exchange (BSE). The company insures commercial and residential property, as well as a minimal amount of casualty and automobile, from its headquarters in the Cayman Islands. Additionally, it specializes in insuring buildings and homes of higher construction quality and has established a strong market presence throughout the Caribbean. Products are distributed through managing general agents (54%), banks (21%), brokers (15%) and on a direct basis (10%).

Approximately 56% of the company's book is homeowners, followed by commercial property (36%), automobile (5%) and liability (3%). The company's geographic spread is Cayman Islands (31%), Bahamas

(33%), U.S. Virgin Islands (21%), Turks and Caicos (5%) and other islands in the Caribbean (10%).

HISTORY

Since March 30, 2012, Island Heritage has been a wholly owned by BF&M Limited, a Bermuda based publicly traded holding company. Prior to that date the company was owned (60%) by Flagstone Reinsurance Holdings Ltd (Flagstone), a publicly traded company of the New York and Bermuda stock exchanges, ACE (10%) and Bank of Butterfield (28%), and management (2%). Effective July 24, 2015 the immediate parent was changed to BF&M General Insurance Company Limited, a wholly owned subsidiary of BF&M Limited.

The company was originally incorporated pursuant to the Companies Law of the Cayman Islands on January 4, 1996, as Island Heritage Company, Ltd. and subsequently changed its name to Island Heritage Insurance Company, Ltd. on April 2, 1996. The company was issued a Class A Insurance License by the Governor in Council of the Cayman Islands to carry on insurance business in the Cayman Islands and was subsequently authorized to transact business in Anguilla, Antigua, Bahamas, Barbados, British Virgin Islands, Dominica, Grenada, Netherlands Antilles, Caribbean Antilles, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Turks & Caicos Islands and the U.S. Virgin Islands.

Island Heritage has a wholly owned subsidiary; Island Heritage Insurance Company N.V., incorporated in the Netherlands Antilles during the year ended March 31, 1999.

As of December 31, 2014, shareholder's equity totaled USD 51.049 million comprised of USD 320,555 Class A ordinary shares, USD 21.405 million retained earnings and USD 29.324 million additional paid in capital.

MANAGEMENT

Management of Island Heritage reports to BF&M Limited's Group Chief Executive Officer, John Wight. Mr. Wight has been Group CEO and with the BF&M Group for many years. Within Island Heritage, he is supported by Annette Jim, Chief Underwriting Officer, Alissa Matthews, Chief Financial Officer and Jon Coleman, Chief Operating Officer and by other officers at the BF&M Group level. Along with the executive team is a staff of over 60 people with extensive experience in the Caribbean insurance industry.

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Officers: Chief Operating Officer, Jonathon Coleman; Chief Financial Officer, Alissa Matthews; Chief Underwriting Officer, Annette Jim.
Directors: Gavin R. Arton (Chairman), Gregory D. Haycock, Conor O'Dea, Charles Watchorn, R. John Wight (Deputy Chairman).

TERRITORY

Island Heritage is domiciled and licensed in the Cayman Islands. The company is also authorized to transact insurance business in Anguilla, Antigua, Bahamas, Barbados, British Virgin Islands, Dominica, Grenada, Netherlands Antilles, Caribbean Antilles, St. Kitts and Nevis, St. Lucia, St. Vincent and The Grenadines, Turks and Caicos Islands and the U.S. Virgin Islands.

Summarized Accounts as of December 31, 2015

Balance Sheet

Assets

	12/31/2015 USD(000)	%	12/31/2014 USD(000)
Cash and equivalents	38,301	30.6	34,175
Long term fixed maturity investments . .	13,725	11.0	13,668
Equity investments	6,701	5.4	7,205
Short term investments	_____	_____	2,021
Invested assets	20,426	16.3	22,894
Receivables	22,194	17.8	19,454
Reinsurance recoverable	3,363	2.7	5,079
Deferred policy acquisition cost	6,460	5.2	7,564
Goodwill & other intangibles	408	0.3	254
Other assets	33,835	27.1	34,787
Total assets	124,987	100.0	124,207

Liabilities, Surplus & Other Funds

	12/31/2015 USD(000)	%	12/31/2014 USD(000)
Property / Casualty reserves	7,599	6.1	8,442
Unearned premium reserves	40,795	32.6	43,797
Total policy reserves	48,394	38.7	52,239
Other liabilities	25,933	20.8	20,919
Total liabilities	74,327	59.5	73,158
Equity - common stock	321	0.3	321
Paid-in capital	29,411	23.5	29,324
Retained earnings	20,928	16.7	21,404
Total equity	50,660	40.5	51,049
Total liabilities & equity	124,987	100.0	124,207

Data reflected within all tables of this report has been compiled from the consolidated financial statements of this company (Source: Company Financial Statement).

An independent audit of the company's affairs through December 31, 2015, was conducted by PricewaterhouseCoopers.

The consolidated figures include the accounts of the company and its wholly-owned subsidiary Island Heritage Insurance Company N.V.

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Why is this *Best's® Rating Report* important to you?

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899.

A Best's Financial Strength Rating (FSR) is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is **not a recommendation** to purchase, hold or terminate any insurance

policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete AMB Credit Report. You may obtain the complete report by contacting Customer Service at +1(908)439-2200 or customer_service@ambest.com. Please reference the company's identification number (AMB#) listed on this rating report.

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