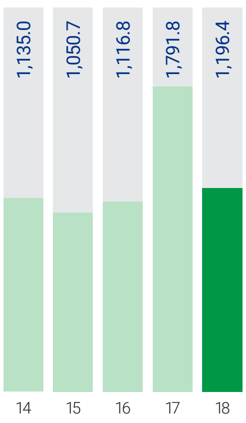
The BF&M difference
Insurance the way it should be

Contents

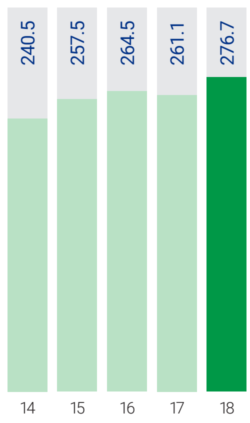
Financial and Statistical Summary

At End of Year

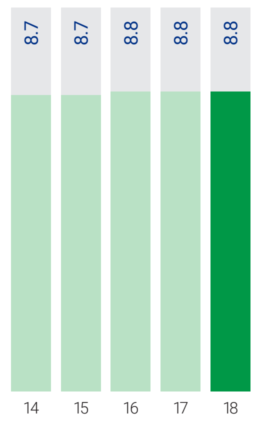
Total General Fund Assets
(millions of dollars)



Shareholders' Equity
(millions of dollars)

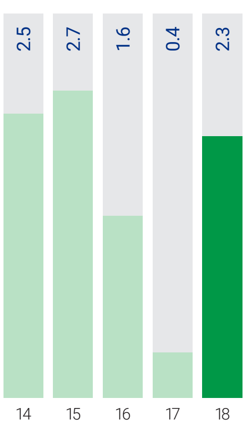


Number of Common Shares
(millions)

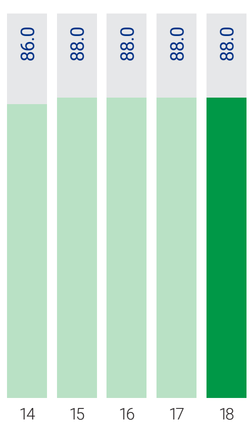


Per Common Share

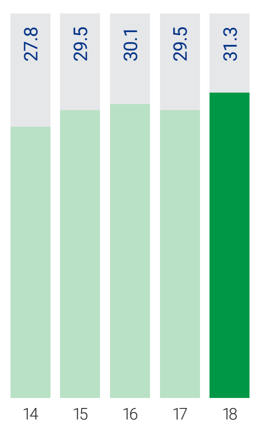
Net Earnings
(dollars)



Cash Dividends
(cents)

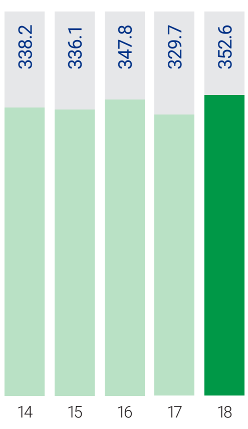


Book Value
(dollars)

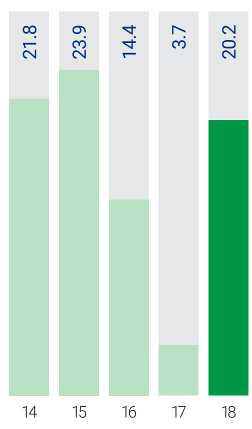


For the Year

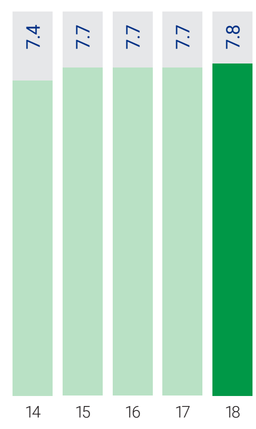
Gross Premiums Written
(millions of dollars)



Shareholders' Net Income
(millions of dollars)

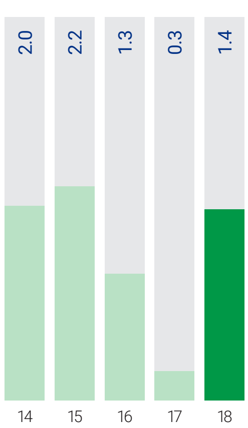


Dividends Declared
(millions of dollars)

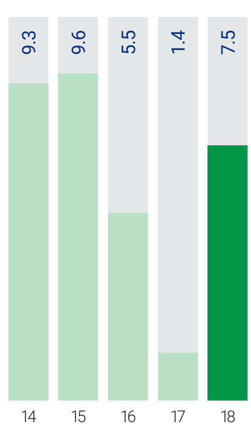


Financial Ratios

Return on Assets
(percentage)



Return on Common Shareholders' Equity
(percentage)



Directors and Group Executive Committee

Board of Directors of BF&M Limited

Gavin R. Arton[1]
Chairman,
Retired Senior
Vice President,
XL Capital Ltd.

L. Anthony Joaquin[2]
Deputy Chairman, FCA,
Retired Managing Partner,
Ernst & Young

R. John Wight
Group President and CEO,
BF&M Limited

Nancy L. Gosling[2]
President and CEO,
Gosling Brothers Limited

Christopher L. Harris[2]
Former CEO,
Montpelier Re Holdings Ltd.

Gregory D. Haycock[1]
Retired Senior Partner,
KPMG

Gordon J. Henderson[1]
Retired President and CEO,
BMO Life Insurance Company

Catherine S. Lord[2]
Retired

Garry A. Madeiros OBE[1]
Retired President and CEO,
Belco Holdings Limited
(named Ascendant
Group Limited)

Paul C.J. Markey[2]
Retired Chairman,
AON Bermuda

Conor O'Dea[1]
Chairman / Director
Butterfield Bank (Cayman) Ltd.

Richard D. Spurling[1]
Retired Partner,
Appleby

C.L.F "Lee" Watchorn[2]
President,
Watchorn Advisory Group

[1] Finance, Compensation and Corporate Governance Committee
[2] Audit, Compliance and Corporate Risk Management Committee

Group Executive Committee

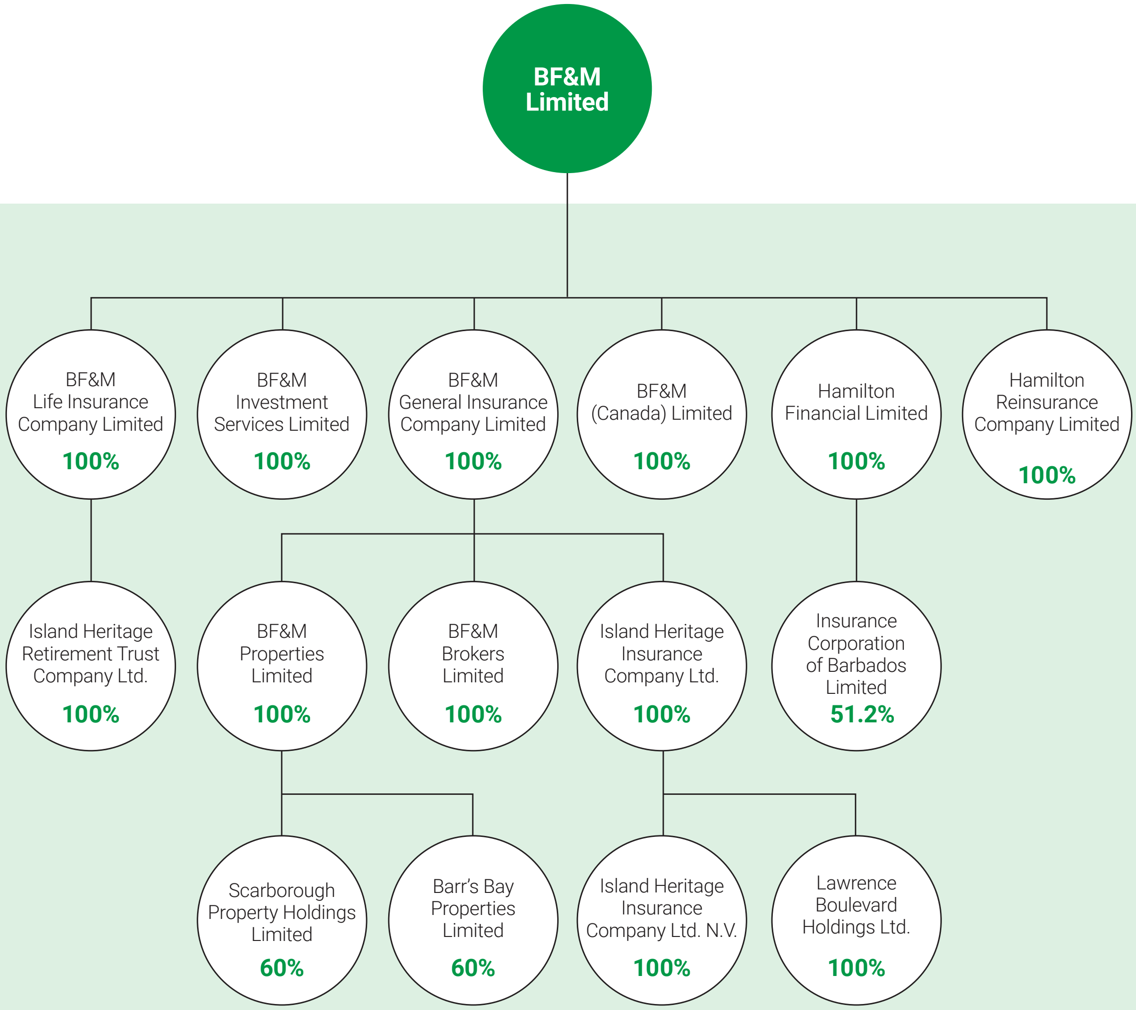
1. **R. John Wight**
   FCPA, FCA, CPCU
   Group President
   and Chief Executive Officer

2. **Abigail Clifford**
   B.A., M.Sc.
   Group Chief
   Operating Officer

3. **Andrew C. Soares**
   ALMI, ARe, CPCU
   Executive Vice President
   Life and Health Insurance

4. **Ian G. Campbell**
   B.Sc., ACA
   Executive Vice President
   Property and Casualty


1.


BF&M Limited
BF&M Life Insurance Company Limited 100%
BF&M Investment Services Limited 100%
BF&M General Insurance Company Limited 100%
BF&M (Canada) Limited 100%
Hamilton Financial Limited 100%
Hamilton Reinsurance Company Limited 100%
Island Heritage Retirement Trust Company Ltd. 100%
BF&M Properties Limited 100%
BF&M Brokers Limited 100%
Island Heritage Insurance Company Ltd. 100%
Insurance Corporation of Barbados Limited 51.2%
Scarborough Property Holdings Limited 60%
Barr's Bay Properties Limited 60%
Island Heritage Insurance Company Ltd. N.V. 100%
Lawrence Boulevard Holdings Ltd. 100%


2.


3.


4.

Report to Shareholders

Gavin R. Arton
Chairman

R. John Wight
FCPA, FCA, CPCU
Group President
and Chief Executive Officer

In 2018, BF&M achieved strong performance by every measure. We continued to strive towards making the BF&M difference—that is, providing insurance the way it should be. In that vein, we strengthened our core business offerings, launched new businesses and products across the group, and engaged with the communities in which we operate. In addition, we made a number of positive changes in terms of our people through internal promotions and bringing in talent, to better serve the organisation.

Shareholders' net earnings were $20.2 million, resulting in a Return on Shareholders' Equity of 7.5%. This followed 2017, the year financially impacted by the most destructive hurricane activity the Caribbean has ever seen. But we began 2018 in a strong financial position, thanks to our sound capital management strategy and robust reinsurance programme, which proved to be so important through 2017.

A strong track record

Once again, A.M. Best validated our strategy and vision. In last year's Annual Report we mentioned that following the 2017 Hurricanes Irma and Maria, not only were our ratings reaffirmed but we were the first primary insurer in Bermuda and the Caribbean to have our strong ratings reaffirmed after the storms. 2018 continued a long succession of ratings reaffirmations.

Based on BF&M's balance sheet strength, operating performance and business profile, A.M. Best maintained the Financial Strength Ratings for all four of BF&M's principal operating companies, as follows:

BF&M General Insurance Company Limited	A (Excellent)
BF&M Life Insurance Company Limited	A (Excellent)
Island Heritage Insurance Company Ltd.	A (Excellent)
Insurance Corporation of Barbados Limited	A- (Excellent)

The A.M. Best ratings for the BF&M group of companies remain the highest for domestic insurers in Bermuda and the Caribbean region.

The BF&M difference

Our track record of success over so many years can be attributed to a number of differentiators. One is our strategy of diversification, both by line of business (P&C and non P&C) and by geography (we operate in Bermuda and 15 islands across the Caribbean region). When major events impact part of our book of business, as they did in 2017 with Hurricanes Irma and Maria, uncorrelated business continues to perform successfully and profitably.

Another differentiator is our size. The BF&M Group forms one of the largest insurers and investment advisors in Bermuda and the Caribbean. With size comes increased advantage from economies of scale. We leverage this benefit across our operations, which positions us ahead of the competition.

A third and key differentiator is our strong capital base. The BF&M Group stress tests various catastrophic events, including extreme hurricane activity. Further, as a conservatively operated insurer, our stringent reinsurance guidelines ensure that only the highest-rated global reinsurers participate on the BF&M Group's reinsurance programme. Prudent risk-taking, robust underwriting practices and sound capital management result in the Group's P&C business achieving excellent levels of commission from reinsurers for business ceded to them.

A focus on customer service

A critical core value for BF&M, and a cornerstone of our mission, is delivering excellent customer service. One of the things of which we are most proud across the BF&M group of companies is our employees' level of passion for, and commitment to, serving our clients.

To that end, in 2018 we decided to take a frank and open look at how we were measuring up against that core value. We undertook an external survey and made customer service a theme in our organisational meetings. The work we did highlighted areas where improvements could be made to our process. We deployed customer service training and embedded a customer-service driven mind-set.

In addition, we launched our new website, with improved navigation and refreshed design. Still the only website among our competitors to offer truly online quote and buy capability, the website features mobile- and tablet-friendly functionality, bringing ease of doing business to our customers.

2018 Results

Shareholders' net earnings of $20.2 million in 2018 resulted in a Return on Shareholders' Equity of 7.5%, as compared to earnings of $3.7 million and a return of 1.4% in 2017.

As a result of significant hurricane activity, 2017 was the most event-impacted year ever for BF&M. We were thankful that 2018 storm activity across the regions in which we operate was light.

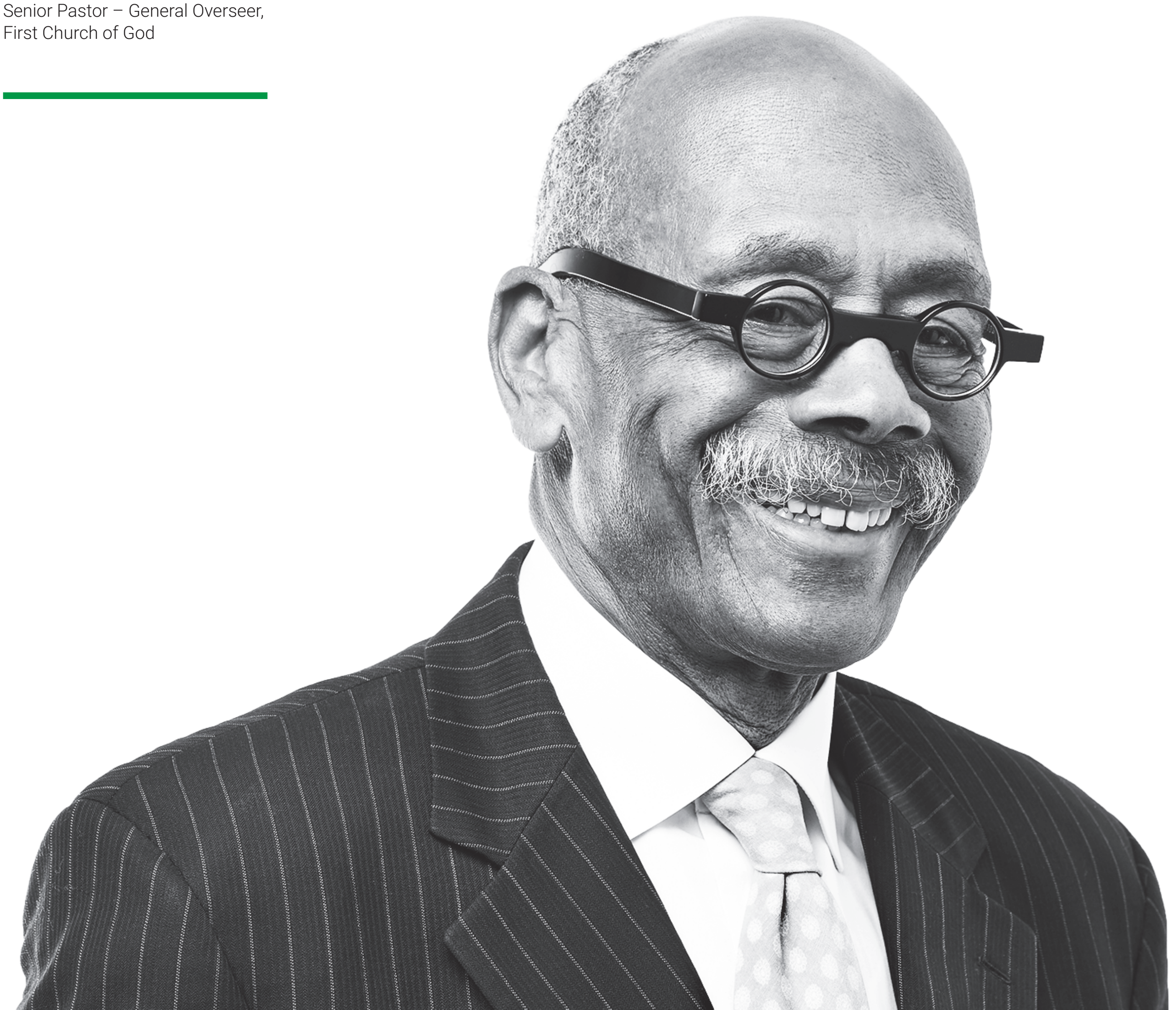
As we note each year in our report, the accounting policy under International Financial Reporting Standards for valuing investments, in Life enterprises in particular, can and often does lead to significant volatility of financial results. The Company records a significant portion of its investments at fair value, which in 2018 resulted in a decrease in investment income due, not only to the Government of Barbados debt restructuring, but to increased long term interest rates which affected the Company's significant fixed income portfolio. This decrease to investment income of $23.0 million compared with an increase of $10.6 million in 2017.

In order to mitigate some of this volatility, that from year to year can potentially have a significant influence on earnings, the Company follows a disciplined asset liability matching policy so that, increases (or decreases) in the fair value of the majority of its investments are matched with corresponding increases (or decreases) in insurance reserves, reducing the net effect on earnings in any one year. In 2018, the difference between the fair valuing of investments supporting reserves and reserve liabilities for BF&M's Life insurance companies produced a net gain of approximately $5.2 million. In 2017, the asset liability matching difference resulted in a net loss of approximately $0.9 million.

One of the things of which we are most proud across the BF&M group of companies is our employees' level of passion for, and commitment to, serving our customers.

As a General Overseer of the Churches of God Inc., I am pleased to testify that we have come to enjoy a great sense of assurance having chosen BF&M as our insurance provider for some four decades. Their sensitivity and reliability in claim settlements, and their stability as a business entity has caused us to conclude that whenever insurance and assurance collate, that's a good and lasting fit!

Bishop Vernon G. Lambe, Sr., M.B.E., J.P., D.D.
Senior Pastor – General Overseer,
First Church of God



While the core business operations performed well, the Company did however set up further impairment provisions of $2.3 million relating to its commercial and residential properties that reduced in value in 2018.

The BF&M Group remains very well capitalised and shareholders' equity at 31 December 2018 was $276.7 million. Based on the strong capitalisation, the Board of Directors maintained the 22c per share per quarter dividend during the year. In May 2016, BF&M announced a share buyback programme. This programme enables BF&M to buy back up to 500,000 of outstanding shares. As at 31 December 2018, 179,443 shares had been purchased since inception, at a cost of $3.4 million.

Property and Casualty Insurances

Net earnings were up considerably in 2018 over 2017 as a result of business growth and no hurricane or other catastrophe activity. Although the 2017 Category 5 hurricanes occurred in September 2017, the severity, sheer numbers, and complexity of many of the claims meant that our team worked tirelessly, not just for the remaining months of 2017 but for most of 2018 as well. The professionalism and responsiveness of our claims staff are to be commended and we are very proud of them. It is at times like this that policyholders understand the value of insurance coverage with a respected company. It also enables our company to differentiate ourselves from our competitors.

December 2018 was a milestone for the Bermuda-based P&C team as a new personal lines administration system was completed and is now firmly in use, with the aim of improving the look, feel, and functionality for users. A tremendous amount of time and effort has gone into this system which will enable better servicing of Bermuda-based customers. In 2019 work will commence on the Bermuda commercial lines administration system to facilitate improved servicing of those customers.

Following the launch in 2017 of our marine product in the Cayman Islands, we were delighted with a large increase in premiums for this business in 2018. This supports our belief that local boat owners appreciate the ability to place all their insurance—home, motor and boats—with one insurer who has the expertise in all these areas.

Health and Life Insurances

Health and Life Insurances performed well in 2018 and produced strong earnings. We continue to slowly gain market share and our efforts to improve cost control improved results. However, the trading environment we compete in continues to be challenging.

We know that healthcare costs are a major concern, both in Bermuda and worldwide. BF&M is actively involved in monitoring and combatting rising costs, working with government and community health groups to identify factors involved. We have greatly expanded our wellness offerings and preventative health programmes in order to help reduce long-term costs associated with chronic disease and unhealthy lifestyle factors.

We care about and listen to our clients and providers, and where we can, we strive to incorporate their feedback into our schedule of benefits. In 2018, we expanded our Wellness and Mental Health benefits and increased our lifetime maximums available to our clients.

In 2018, we continued to work on providing personalised customer service and flexible benefit options for our insureds.

BF&M's primary goal is to deliver value. In 2018, we continued to work on providing personalised customer service and flexible benefit options for our insureds. As a premier employee benefits provider, we delivered on our mandate to deliver products and services that match the needs of employers, through local and global partnerships, and by taking into account emerging trends. We were excited, for example, to launch two additional components to our Eat Right For Life programme: Meal Planning 101 and Plant-Based Cooking, which have been very well received.

BF&M's wellness offerings are intended to assist in the prevention and management of illness, chronic conditions, and disease by empowering our clients to improve overall well-being through education about healthy lifestyle choices. This year, we supported our community wellness partners and charities by participating in the Bermuda Cancer and Health Centre's Men's Health Fair, the Bermuda Diabetes Association's Think Tanks and assisting Open Airways in the sponsorship and launch of their free online asthma education course entitled "Supporting Children's Health–Asthma".

We also continued our support of the Premier's Youth Fitness Programme (PYFP) working with the Departments of Health and Education; of the Youth Sports Expo in April 2018 aimed at encouraging our youth and families to be active by showcasing Bermuda's sporting opportunities; and of the Young Unstoppable You (YOU) wellness event for young girls.

Investment Advisory, Retirement Income Products and Services

BF&M Investment Services Limited ("BFMISL") provides pension investment management and consulting services and is fully licensed with the Bermuda Monetary Authority under the Investment Business Act. The Company provides clients with a wide range of investment options. Our 30-plus years of experience effectively managing and administering pension plans, and our transparency in communicating our fees and performance, are reasons why we are viewed as the leader in group pension plans and retirement products in the Bermuda market.

In 2018, we received approval from the Department of Labour and Pensions in the Cayman Islands for our Island Heritage operation to provide defined contribution plans in this jurisdiction. We established the Island Heritage Retirement Trust Company Ltd., and with over US$1 billion of assets under management already in Bermuda, we were able to start offering wider flexibility in investment options than is typically found in Cayman. While pensions are required by law, companies have a choice of which provider they will trust to manage their investments. Now that we can offer Caymanian companies more options, greater input on investment selection and responsive service, we anticipate Cayman to be a strong source of growth for the company.

Barbados Operations

The financial results of BF&M's Barbados-based businesses, through our 51.2% ownership interest in the Insurance Corporation of Barbados Limited ("ICBL"), were disappointing, and reflective of the ongoing economic challenges facing Barbados.

Net earnings in 2018 were impacted not only by 2017 events but also by significant economic challenges in Barbados which led the Government of Barbados to restructure its local debt securities in 2018. Under the restructuring, bondholders, including the BF&M Group, exchanged existing receivables and securities for new securities which provide lower interest returns and longer maturity dates. This exchange of securities resulted in significant investment losses as a result of the estimated decline in the valuation of those investments.

We are optimistic that the new Government has a viable, long-term plan to improve the economy. Along with this, we believe that the positive impact of the new CEO, COO, and CFO brought in since early 2018, will produce results for ICBL's profitability in line with expectations of the board of directors.

Our People and Community

Across the BF&M group of companies and in all the jurisdictions in which we operate, our staff contribute to making a difference in their communities, through their volunteering and charitable engagement.

Charitable giving

We will focus here on the activities of our two largest offices. In Bermuda, BF&M supported well over 60 local charities in 2018. We have two principle pillars of giving. As a Bermudian company with a proud, 115-year old business heritage, we believe in protecting Bermuda's history, building its legacy and promoting a successful future for our island. And as a leading health insurance provider, we understand the importance of a healthy, thriving community, so we dedicate both time and resources to drives, initiatives and charities focused on improving health and wellness.

2018 marked the 22nd year of holding our signature event—the BF&M Breast Cancer Awareness Walk. Every year, around 2,000 members of the community complete the Walk to raise funds for Bermuda Cancer and Health Centre's Equal Access Fund and their new Radiation Therapy facility. We were a Main Sponsor of Bermuda's first ITU World Triathlon Series, a world-class event bringing together the best triathletes in the world and showcasing Bermuda to over a million international TV viewers. This event was made even more perfect by the victory of our very own Flora Duffy in front of her home crowd.

We also completed our third year of sponsoring the BF&M No Limits sailing programme in partnership with Endeavour Community Sailing, for children with autism. We are delighted with the continued success of this initiative. BF&M also supports the broader Endeavour Community Sailing middle school programme, which provides students aged 9-12 across all middle schools in Bermuda with a unique opportunity—not only to connect with Bermuda's maritime heritage, but also to learn Science, Technology, Engineering, Arts, and Math through sailing. We were proud to support the International Street and Ball Hockey World Masters Championships, taking place in Bermuda for the first time. BF&M sponsored the water stations at the championship venues and gave out refillable water bottles. We estimate that we saved Bermuda from about 24,000 plastic bottles going to waste over five days.

We were delighted to donate a new van to the Bermuda Red Cross, to support the organisation's work in delivering medical equipment such as wheelchairs and hospital beds to homes across the island. And we continued our partnership with the Bermuda Education Network to sponsor 29 children from a local primary school to take part in enrichment experiences to bring classroom learning alive.

In Cayman, sister company Island Heritage hosts the islands' most highly anticipated annual charitable event, CharityDrive. In 2018, the seventh annual CharityDrive raised funds for the Special Needs Foundation of Cayman, the Family Resource Centre and the Central Caribbean Marine Institute.

Island Heritage, like BF&M Bermuda, also donates insurance coverage to a number of charities. Having supported Cayman HospiceCare for over 15 years, in 2018 Island Heritage extended coverage during the construction of their new state of the art, 6,000 square-foot facility. Island Heritage also provides insurance coverage for the Cayman Islands Red Cross' building.

Following the launch of the Island Heritage Educational Grant in 2017, we awarded our second grant to a Caymanian student demonstrating academic excellence, leadership experience, and community engagement and service.

In all the jurisdictions in which we operate, our staff contribute to making a difference in their communities through their volunteering and charitable engagement.

Many of Butterfield and Vallis' employees have attended BF&M's Eat Right for Life series. They have thoroughly enjoyed it. This programme focuses on improving health through wise nutritional choices and it is offered by BF&M to Group Health clients at no extra cost as part of our employees' health benefits.

Terri Durrant
Marketing Manager
Butterfield & Vallis
Consumer Products Division

I have been a customer of BF&M for most of my life. Some years ago I had to have major heart surgery. BF&M's claims process responsive service was seemless. I have seen first-hand the value BF&M brings through being there in times of intense stress and need, and that's why they continue to have my business.

Joel Cassidy
Owner
Bermuda Plant Nursery

Strength through our people

Our leadership was strengthened in 2018 with the addition of the following team members. Ian Campbell joined as Executive Vice President, Head of Group Property and Casualty, based in our Island Heritage office in Cayman. In Bermuda, we welcomed Michelle Jackson as SVP, Group Lines, Health and Life, and Jason Cook, VP Investments.

Talent and development

We celebrated the promotions of the following employees.

Bermuda

- David Coxall to Supervisor, Administration and Underwriting Individual Life
- Miguel DaPonte to SVP, Pensions and Investments
- Carlene Tucker to Senior Accounts Administrator

Cayman

- Chad Bodden to Business Development Underwriter-Broker/ Commercial Lines
- Nicolaas Kleine Punte to Financial Controller, Operations and Management Reporting AVP

Halifax

- Daphne Duke to Senior Financial Accountant
- Andrew Spencer to AVP, Investments and Treasury

The following professional designations were achieved.

Bermuda

- Jody-Ann Johnson – Certified Information Systems Auditor (CISA)
- Kyle Monkman – LOMA ALMI & ACS
- Christopher Lima – LOMA ASRI
- Sinead Simmons – LOMA ALMI & ACS
- Chelsea Lawley – LOMA ALMI

Cayman

- Matthew Seales – Cert CII
- Emily Ebanks – Cert CII
- Annique Bush – Cert CII
- David Meyerhoff – Cert CII

Halifax

- Rahul Deb Chakladar – LOMA AMLI

Thanks

Our Board of Directors was further strengthened this past year with the addition of Christopher Harris, former CEO of Montpelier Re. Stephen Kempe stepped down. We are grateful for his many years of leadership and counsel, and wish him the best in his retirement. As the year came to a close, CFO Michael White announced his decision to take up an exciting opportunity and to leave BF&M. We are grateful to Mike for his strategic insights and valuable contributions to our Company and we wish him well.

Also retiring from the Board of BF&M Limited at the 2019 Annual General Meeting were Gavin Arton, Garry Madeiros OBE and C. L. F. (Lee) Watchorn. Gavin Arton joined the Board in 1998 and has served as Chairman since 2008. Garry Madeiros served two terms on the Board, most recently since 2006, and Lee Watchorn joined the Board in 2006, having acted most recently as Chairman of the Audit and Risk Committee. The Board thanks them for their many years of dedicated service and invaluable contributions to BF&M.

In addition, we echo all the Directors on the Board when we express our recognition of, and gratitude to, all of our employees in Bermuda, Halifax, Cayman, Barbados and The Bahamas, along with our representatives in all the other islands in which we operate. Their passion, hard work and dedication to our customers continue to drive the BF&M difference.

Looking forward

As an industry, we face a number of significant macroeconomic challenges: international scrutiny of our jurisdictions, demographic trends that are likely to stress our services, proposals to fundamentally reform the health system as we know it. We believe that we are best positioned to meet these challenges, both because of our willingness to lead and engage in dialogue with decision-makers and stakeholders, and because of our ability to adapt and innovate, thanks to the strength of our fundamentals.

Our strategy, ratings and capital base have proven to be the best in our markets. Our people are committed to excellence. We will stay the course.

Lastly, on behalf of the BF&M group of companies, we would like to thank you, our Shareholders, for your support. We appreciate your loyalty and remain committed to delivering the BF&M difference—insurance the way it should be.

Gavin R. Arton
Chairman

R. John Wight

R. John Wight, FCPA, FCA, CPCU
Group President
and Chief Executive Officer

Community Engagement

In 2018, we celebrated our twenty-second year of being the sole sponsor of the BF&M Breast Cancer Awareness Walk.

Pictured to the right is Lisa Jones, who participated alongside about 2,000 walkers to raise funds for the Bermuda Cancer and Health Centre.

BF&M No Limits sailing

We are in our third year as sole sponsor of this sailing programme for children with autism, run in Bermuda by Endeavour Community Sailing, whom we also sponsor.

A new van for the Red Cross

CEO John Wight handed over a brand new van to Ann Spencer-Arscott, Executive Director of the Bermuda Red Cross, to help the delivery of specialised medical equipment across the island.

Island Heritage's CharityDrive

Now a signature event, Island Heritage's 7th annual CharityDrive raised funds for the Special Needs Foundation of Cayman, the Family Resource Centre and the Central Caribbean Marine Institute.


BF&M
SURVIVOR
RE

Financial Statements

Responsibility for financial reporting

For the year ended 31 December 2018

The management of BF&M Limited (“the Group”) is responsible for the preparation of the consolidated financial statements contained in this report. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Management has established and maintains a system of financial reporting and internal controls to provide reasonable assurance that transactions are properly authorised and recorded. These controls include the careful selection, training, and supervision of qualified employees, the establishment of well-defined responsibilities, and the communication of policies relating to good conduct and business practice. Internal controls are reviewed and evaluated by the Group’s internal audit function.

The Audit, Compliance, and Corporate Risk Management Committee, composed of directors who are not officers or employees of the Group, reviews the consolidated financial statements on behalf of the Board of Directors before the statements are submitted to the shareholders.

The shareholders’ independent auditors, PricewaterhouseCoopers Ltd., have audited the consolidated financial statements of the Group in accordance with International Standards on Auditing and have expressed their opinion in their report to the Group’s shareholders. The auditors have unrestricted access to and meet periodically with the Audit, Compliance, and Corporate Risk Management Committee to review its findings regarding internal controls over the financial reporting process, auditing matters and reporting issues.

These consolidated financial statements have been authorised for issue by the Board of Directors on 9 April 2019. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

R. John Wight

R. John Wight, FCPA, FCA, CPCU
Group President
and Chief Executive Officer

Independent auditor's report

To the Shareholders of BF&M Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of BF&M Limited (the Company) and its subsidiaries (together 'the Group') as at 31 December 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

BF&M Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

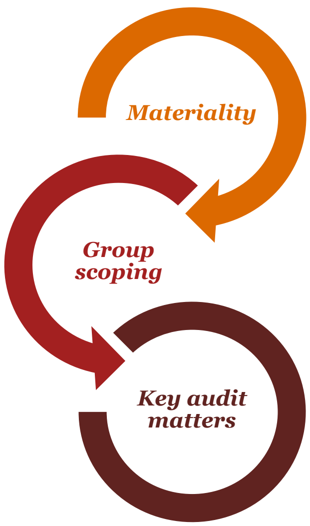
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the consolidated financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

PricewaterhouseCoopers Ltd., Chartered Professional Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda
T: +1 (441) 295 2000, F:+1 (441) 295 1242, www.pwc.com/bermuda

Our audit approach

Overview



- *Overall group materiality: $1.7 million, which represents 0.5% of gross written premium for 2018.*

- *We conducted an audit of four full scope components covering over 90% of the Group's consolidated total assets and revenues. Each of the four components were audited by component audit teams located in Bermuda, the Cayman Islands, and Barbados. The Group engagement team has regular interaction with the aforementioned component teams.*

- *Valuation of incurred but not reported claims for property and casualty lines*
- *Methodologies and assumptions used for determining insurance contract liabilities for life and health claims*
- *Value of new Barbados Government debt*
- *Assessment of potential impairment of goodwill*

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

BF&M Limited is the parent of a group of entities. The financial information of this Group is included in the consolidated financial statements of BF&M Limited. The Group is structured into six segments (see Note 6 of the consolidated financial statements) and is a consolidation of 16 separate legal entities (see Note 1 of the consolidated financial statements).

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or by PwC component auditors in Bermuda, the Cayman Islands and Barbados operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained.

The Group's operations are significantly dominated by four legal entities which also represent four segments, and as such these components required an audit of their complete financial information which provided us with over 90% coverage of operations as measured by consolidated total assets and revenue. These components are: (i) BF&M Life Insurance Company Limited, (ii) BF&M General Insurance Company Limited, (iii) Island Heritage Insurance Company, Ltd. and (iv) Insurance Corporation of Barbados Limited. Additionally, based on our professional judgment, audit procedures were conducted by the Group team over certain balances within the Group's real estate components, as well as analytical procedures over the remaining components. The Group engagement team had regular interaction with all component teams. The Group team reviewed in detail all reports with regards to the audit approach and findings submitted by the full scope component auditors.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall group materiality	*$1.7 million*
How we determined it	*0.5% of gross written premium for 2018*
Rationale for the materiality benchmark applied	*We chose gross written premium as the benchmark because in our view it is the benchmark against which the share price of the Group trends most closely, and therefore is most meaningful to users of the Group's consolidated financial statements. Gross written premium fairly represents the size and complexity of the business and it is not distorted by insured catastrophe events to which the Group is exposed or the levels of external reinsurance purchased by the Group.* *We chose a threshold of 0.5%, which is within the range of acceptable quantitative materiality thresholds for our selected benchmark, to arrive at our determination of materiality.*

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $68,000 dollars, and reclassification misstatements above $1.7 million dollars, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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.

Key audit matter	How our audit addressed the key audit matter
Valuation of incurred but not reported claims for property and casualty lines *See notes 2, 4B and 22 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.* Total incurred but not reported reserves as at 31 December 2018 are $25.6 million. The methodologies and assumptions utilized to develop incurred but not reported reserves involves a significant degree of judgement. The liabilities are based on the best-estimate ultimate cost of all claims incurred but not reported, a provision for development on reported claims, together with the related claims handling costs. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims which are subject to assumptions and complex calculations. Management uses an external actuarial expert to assist in determining the value of claims incurred but not reported.	We tested management's valuation of the relevant incurred but not reported claims for property and casualty lines as follows: • In order to challenge management's assumptions and methodologies, we were assisted by our PwC actuarial experts, who performed independent re-projections on selected classes of business, particularly focusing on the largest and most volatile reserves as these were considered higher risk. For these classes we compared our independent claims reserve estimates to those booked by management, and sought to understand any significant differences. • For the remaining classes we evaluated the methodology and assumptions, or performed a diagnostic check to identify and follow up any anomalies. In performing this work we compared the Group's actuarial methodologies with those used in the insurance industry and with prior periods. • We tested the completeness, accuracy and reliability of the underlying data utilized by management and their external actuarial experts to support the actuarial valuation. The results of our procedures indicated that the estimates recorded by management for incurred but not reported claims for property and casualty lines are not unreasonable.

Methodologies and assumptions used for determining insurance contract liabilities for life and health claims *See notes 2, 4B and 22 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.* Total reserves for life and health insurance contracts for the year ended 31 December 2018 are $203.3 million. The valuation of the provision for the settlement of future claims involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities. The key assumptions include mortality, morbidity, lapse and policy administration expenses. Management uses both internal and external actuarial experts to assist in determining these assumptions and in valuing insurance contract liabilities for life and health claims.	We tested management's methodologies and assumptions used for determining insurance contract liabilities for life and health claims as follows: • We tested a sample of contracts to ascertain that contract features were appropriately reflected by the actuarial model. • We have utilized our PwC actuarial experts to assist in the evaluation of the methodologies and assumptions utilized by management's actuarial experts in the context of industry and entity-specific facts and circumstances. • We updated our understanding for any changes impacting the key assumptions and for selected classes of business based on reserve volume, evaluated the key assumptions including mortality, morbidity, lapse, and policy administration expenses, all of which are based on the experience of the relevant component or published industry studies, and consistent with the required actuarial standards of practice. • We tested the completeness, accuracy and reliability of the underlying data, including the key assumptions utilized by management and their actuarial experts to support the actuarial valuation. The results of our procedures indicated that the methods and assumptions used by management for determining insurance contract liabilities for life and health claims are not unreasonable.
Value of new Barbados Government debt *See note 10 to the consolidated financial statements for related disclosures.* During 2018 the Government of Barbados concluded a comprehensive debt exchange offer. The "BBD Debt Exchange Offer" was effected on 1 October 2018. Under the	We tested management's methodologies and assumptions used for determining the the fair value of the new instruments acquired as follows: • We obtained an understanding of the methodology and assumptions used by management to construct the yield curve and determined whether it followed appropriate valuation techniques in the context of industry and entity-specific facts and circumstances.

exchange offer, the original instruments held have been derecognized. The loss recorded on de-recognition of $7.1 million is the difference between the carrying value of the original instruments at the date of exchange, and the fair value of the new instruments acquired. At 31 December 2018, the new instruments acquired are carried at the fair value determined at the date of exchange which is $34.7 million.

The methodologies and assumptions utilized to develop the estimate of the fair value of the new instruments at the date of exchange, the most significant of which is the development of a proxy yield curve, involves significant judgment given the lack of observable market inputs available for consideration, due to the macro-economic uncertainty within Barbados.

- We tested the completeness, accuracy and reliability of the underlying data utilized by management to determine the fair value of the new instruments acquired including reviewing the documentation of the offer of exchange, confirming the new instruments received, and assessing the resultant cash flows based on this information.
- We developed an independent estimate of a yield curve, which was used to evaluate management's assumptions used to determine the fair value of the new instruments acquired.
- We recalculated the value of the new instruments received using the inputs described above.

The results of our procedures indicated that the fair value of the new instruments acquired was not unreasonable.

Assessment of potential impairment of goodwill

See notes 2 and 17 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.

The total carrying value of goodwill amounts to $7.7 million as at 31 December 2018, which relates entirely to the goodwill created upon acquisition of Island Heritage Insurance Company, Ltd. in 2012.

The future cash flow forecasts utilized to develop management's assessment of potential impairment for goodwill involves significant judgment, given both industry and relevant component facts and circumstances.

The key inputs to the cash flow forecasts include expected cash inflows, expected cash outflows and the discount rate applied.

We tested management's evaluation of impairment of goodwill as follows:

- We evaluated management's future cash flow forecasts for the Cash Generating Unit ("CGU"), Island Heritage Insurance Company, Ltd., which supports the carrying value of goodwill.
- With respect to management's assumptions surrounding cash inflows and outflows, we performed the following:
  - Compared management's forecasts against historical performance of the CGU, as well as the current market environment,
  - Evaluated the discount rate applied against market based inputs, and
  - Performed sensitivities around the key assumptions and considered the likelihood of these outcomes.

Management uses an external expert to assist in determining the assessment of potential impairment of goodwill.	• Tested the mathematical accuracy of management's impairment model. • We were assisted by our PwC valuation expert who performed an independent assessment of value of the CGU using management's cash inflows and outflows. The range of values that resulted from this assessment were consistent with management's conclusion that there is no impairment of goodwill for the Island Heritage Insurance Company, Ltd. CGU as at 31 December 2018. Based on the procedures performed, no adjustments to the consolidated financial statements were deemed necessary.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 International Financial Reporting Standards 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 auditor's 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 auditor's report is Marisa Savage.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Hamilton, Bermuda

15 April 2019

Consolidated Statement of Financial Position

As at 31 December 2018
(in thousands of Bermuda dollars)

	Notes	2018 $	2017 $
Assets			
Cash and cash equivalents	8	**160,712**	205,072
Fixed deposits	9	**4,102**	7,765
Regulatory deposits	9	**22,457**	16,902
Investments	10	**633,580**	651,326
Insurance receivables and other assets	11	**78,466**	140,949
Deferred acquisition costs	12	**10,922**	9,577
Reinsurance assets	13	**153,592**	624,217
Investment properties	14	**34,560**	35,760
Property and equipment	15	**24,018**	23,740
Tax recoverable	16	**1,436**	3,455
Deferred tax asset	16	**825**	808
Intangible assets	17	**51,819**	53,123
Restricted cash	9	**19,926**	19,058
Total general fund assets		**1,196,415**	**1,791,752**
Segregated funds assets	18	**822,613**	828,567
Total assets		**2,019,028**	**2,620,319**
Liabilities			
Other liabilities	19	**124,231**	232,438
Retirement benefit obligations	20	**1,850**	3,196
Investment contract liabilities	21	**327,266**	335,238
Insurance contract liabilities	22	**427,725**	916,152
Total general fund liabilities		**881,072**	**1,487,024**
Segregated funds liabilities	18	**822,613**	828,567
Total liabilities		**1,703,685**	**2,315,591**
Equity			
Share capital	23	**8,827**	8,847
Treasury shares	23	**(325)**	(2,031)
Contributed surplus	23	**1,482**	1,482
Share premium	23	**62,167**	63,249
Accumulated other comprehensive loss	28	**(5,468)**	(6,959)
Retained earnings		**209,984**	196,558
Total shareholders' equity		**276,667**	**261,146**
Non-controlling interests		**38,676**	43,582
Total equity		**315,343**	**304,728**
Total liabilities and equity		**2,019,028**	**2,620,319**

Approved by the Board of Directors

Gavin R. Arton
Chairman

R. John Wight, FCPA, FCA, CPCU
Group President
and Chief Executive Officer

Consolidated Statement of Income

For the year ended 31 December 2018
(in thousands of Bermuda dollars except for per share amounts)

		Notes	2018 $	2017 $
Income				
	Gross premiums written		352,647	329,711
	Reinsurance ceded		(167,788)	(155,539)
	Net premiums written		**184,859**	**174,172**
	Net change in unearned premiums	22	(878)	8,448
	Net premiums earned		**183,981**	**182,620**
	Investment income	10	(7,872)	19,113
	Commission and other income	25	53,747	47,083
	Rental income		4,030	4,037
	Total income		**233,886**	**252,853**
Benefits and Expenses				
	Insurance contracts benefits and expenses			
	Life and health policy benefits	26	93,264	113,534
	Short term claim and adjustment expenses	26	25,610	34,521
	Investment contract benefits		(3,634)	(1,531)
	Participating policyholders' net loss		187	71
	Commission and acquisition expense		30,157	29,069
	Operating expenses	27	60,332	65,999
	Amortisation expense		9,249	9,278
	Interest on loans		-	13
	Total benefits and expenses		**215,165**	**250,954**
	Net income before income taxes		**18,721**	**1,899**
	Income taxes recovered (expense)	16	(185)	2,319
	Net income for the year		**18,536**	**4,218**
	Shareholders' net income		**20,237**	**3,691**
	Non-controlling interests in subsidiaries		(1,701)	527
	Net income for the year		**18,536**	**4,218**
	Earnings per share			
	Basic and fully diluted	29	$2.30	$0.42

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018
(in thousands of Bermuda dollars)

	2018 $	2017 $
Net income for the year	**18,536**	4,218
Other comprehensive income / (loss):		
Items that will not be reclassified to profit or loss		
Re-measurement of retirement benefit obligations	**278**	(488)
Items that may be subsequently reclassified to profit or loss		
Investments classified as available for sale		
Fair value gains	**44**	461
Currency translation differences	**(283)**	186
	(239)	647
Total other comprehensive income for the year after income taxes	**39**	**159**
Total other comprehensive income / (loss) attributable to:		
Shareholders	**1,491**	281
Non-controlling interests in subsidiaries	**(1,452)**	(122)
Total other comprehensive income for the year after income taxes	**39**	**159**
Comprehensive income	**18,575**	**4,377**
Comprehensive income attributable to:		
Shareholders	**21,728**	3,972
Non-controlling interests in subsidiaries	**(3,153)**	405
Comprehensive income	**18,575**	**4,377**

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 16.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(in thousands of Bermuda dollars except for per share amounts)

	Notes	2018 $	2017 $
Share capital			
Balance – beginning of year		8,847	8,784
Shares issued under employee share purchase plan	23	2	-
Share grants issued under equity incentive plan	23	1	77
Share grants forfeited under equity incentive plan	23	(23)	(14)
Balance – end of year		**8,827**	**8,847**
Treasury shares			
Balance – beginning of year		(2,031)	(1,265)
Acquisition of shares	23	(325)	(1,187)
Shares issued under employee share purchase plan	23	426	255
Shares issued under equity incentive plan	23	1,605	166
Balance – end of year		**(325)**	**(2,031)**
Contributed surplus – beginning and end of year		**1,482**	**1,482**
Share premium			
Balance – beginning of year		63,249	62,162
Shares issued under employee share purchase plan	23	29	-
Shares issued under equity incentive plan	23	12	5
Share grants issued under equity incentive plan	23	(232)	1,499
Share grants forfeited under equity incentive plan	23	(707)	(135)
Treasury shares allocated	23	(96)	79
Deferred share grant	23	(88)	(361)
Balance – end of year		**62,167**	**63,249**
Accumulated other comprehensive loss			
Balance – beginning of year		(6,959)	(7,240)
Other comprehensive income for the year		1,491	281
Balance – end of year		**(5,468)**	**(6,959)**
Retained earnings			
Balance – beginning of year		196,558	200,569
Adjustment for change in accounting policy (Note 3)		944	-
Balance – beginning of year after change in accounting policy		197,502	200,569
Net income for the year		20,237	3,691
Cash dividends		(7,755)	(7,702)
Balance – end of year		**209,984**	**196,558**
Total equity attributable to shareholders of the company		**276,667**	**261,146**
Attributable to non-controlling interests			
Balance – beginning of year		43,582	44,792
Net income for the year		(1,701)	527
Other comprehensive loss for the year		(1,452)	(122)
Shares issued to non-controlling interests		-	82
Cash dividends		(1,753)	(1,697)
Balance – end of year		**38,676**	**43,582**
Total equity		**315,343**	**304,728**

The dividends paid in 2018 and 2017 were $7,755 ($0.88 per share) and $7,702 ($0.88 per share) respectively.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018
(in thousands of Bermuda dollars)

	2018 $	2017 $
Cash flows from operating activities		
Net income for the year before income taxes	**18,721**	1,899
Adjustments for:		
Investment income	(21,768)	(20,248)
Net realised loss (gain) on investments	9,812	2,634
Change in fair value of investments	13,158	(13,254)
Impairment of investments	2,122	8,415
Amortisation of property and equipment	1,748	2,151
Amortisation of investment properties	1,066	1,106
Amortisation of intangible assets	6,435	5,973
Impairment of investment properties	712	180
Impairment of intangible assets	-	48
Gain on sale of property and equipment	(320)	-
Interest on loan	-	13
Compensation expense related to shares and options	981	1,487
Adjustment for change in accounting policy	944	-
Changes in assets and liabilities:		
Restricted cash	(868)	48
Fixed & regulatory deposits	(3,784)	-
Insurance receivables and other assets	62,379	(48,152)
Deferred acquisition costs	(1,345)	318
Reinsurance assets	470,625	(525,597)
Net tax recoverable	372	94
Insurance contract liabilities	(488,427)	537,124
Investment contract liabilities	(7,972)	(8,256)
Other liabilities	(108,207)	152,219
Retirement benefit obligations	(1,068)	(724)
Cash (used in) / generated from operations	**(44,684)**	**97,478**
Income taxes recovered / (paid)	1,445	(425)
Interest received	21,456	20,485
Dividends received	818	684
Net cash (used in) / generated from operating activities	**(20,965)**	**118,222**
Cash flows from investing activities		
Purchase of investments	(258,854)	(239,860)
Proceeds from sales of investments	251,437	239,115
Acquisition of property and equipment	(1,944)	(1,949)
(Purchase) / maturity of fixed deposits	1,605	(419)
Proceeds from sales of property and equipment	262	302
(Acquisition) / disposal of investment properties	(578)	(882)
Acquisition of intangible assets	(5,155)	(7,629)
Net cash used for investing activities	**(13,227)**	**(11,322)**
Cash flows from financing activities		
Cash dividends paid	(7,755)	(7,702)
Interest paid	-	(13)
Loan repaid	-	(477)
Acquisition of treasury shares	(325)	(1,187)
Cash dividends paid to non-controlling interest	(1,753)	(1,697)
Cash proceeds on issue of common shares	(52)	166
Net cash used for financing activities	**(9,885)**	**(10,910)**
Effect from changes in exchange rates	(283)	186
(Decrease) / Increase in cash and cash equivalents	**(44,360)**	96,176
Cash and cash equivalents – beginning of year	**205,072**	108,896
Cash and cash equivalents – end of year	**160,712**	**205,072**

See Note 10 for disclosures of non-cash investing activities arising in the year.

The accompanying notes are an integral part of these consolidated financial statements.

Index to notes to consolidated financial statements

(in thousands of Bermuda dollars)

1. Nature of the Group and its business

BF&M Limited (the "Group") was incorporated in Bermuda on 5 August 1991, as a holding company, and is a public limited company listed on the Bermuda Stock Exchange. The address of its registered office is: 112 Pitts Bay Road, Pembroke HM08, Bermuda.

The Group's principal business is insurance. It determines and charges a premium to policyholders which, taken as a pool with all other policyholders, is expected to cover underwriting costs and claims which may take a number of years to settle. The business risks of insurance reside in determining the premium, settlement of claims, and estimation of claim costs and management of investment funds.

The Group is involved in property, casualty, motor, marine, life, health and long-term disability insurance, annuities, the management and investment of pension plans, as well as the rental of office space in buildings owned by the Group.

The Group has the following subsidiaries:

	% owned	Principal country of operation and incorporation
BF&M General Insurance Company Limited ("BF&M General")	100	Bermuda
BF&M Life Insurance Company Limited ("BF&M Life")	100	Bermuda
Island Heritage Insurance Company, Ltd. ("IHIC")	100	Cayman Islands
Insurance Corporation of Barbados Limited ("ICBL")	51.2	Barbados
Insurance Corporation of Barbados Limited / National Insurance Board Joint Venture ("ICBLJV")*	37.2	Barbados
Barr's Bay Properties Limited ("Barr's Bay")	60	Bermuda
BF&M (Canada) Limited ("BF&M Canada")	100	Canada
BF&M Brokers Limited ("BF&M Brokers")	100	Bermuda
BF&M Investment Services Limited ("BFMISL")	100	Bermuda
BF&M Properties Limited ("BF&M Properties")	100	Bermuda
Hamilton Financial Limited ("Hamilton Financial")	100	St. Lucia
Hamilton Reinsurance Company Limited ("Hamilton")	100	Bermuda
Island Heritage Insurance Company, Ltd. NV.	100	Netherlands Antilles
Island Heritage Retirement Trust Company Ltd. ("IHRT")	100	Cayman Islands
Lawrence Boulevard Holdings Limited	100	Cayman Islands
Scarborough Property Holdings Limited ("Scarborough")	60	Bermuda

*ICBL owns 72.35% of ICBLJV and controls the operations of the entity.

In February 2017, BF&M Life established a wholly owned subsidiary in the Cayman Islands called Island Heritage Retirement Trust Company Ltd. IHRT was formed to develop and administer pension related business in the Cayman Islands.

During 2017, Kitson Insurance Services Ltd. changed its name to BF&M Brokers Limited.

All subsidiary undertakings are included in the consolidated financial statements with any portion not owned by the Group reflected in non-controlling interest; in addition, all subsidiaries have a 31 December year-end.

On 9 April 2019 the Board of Directors approved the consolidated financial statements and authorised them for issue. The Board of Directors has the power to amend the financial statements after issue.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued and adopted by the International Accounting Standards Board ("IASB").

B. Basis of preparation

i) Basis of measurement

The consolidated financial statements have been compiled on the going concern basis and prepared on the historical cost basis, as modified by the revaluation of: available-for-sale financial instruments and certain segregated fund assets and liabilities measured at fair value; retirement benefit obligations measured at present value; and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

The consolidated statement of financial position is presented in order of liquidity.

ii) Critical estimates, judgments and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumptions made could require a material adjustment to the carrying amount of the asset or liability affected. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

Key sources of estimation uncertainty and areas where significant judgments have been made are listed below and discussed throughout the notes to these consolidated financial statements including:

- The actuarial assumptions used in the valuation of life and health insurance and investment contract liabilities under the Canadian Asset Liability Method ("CALM") require significant judgment and estimation. Key assumptions and considerations in choosing assumptions are discussed in Note 2N and sensitivities are discussed in Note 4B.
- The estimate of the ultimate liability arising from claims under short-term insurance contracts. Refer to Note 4B.
- In the determination of the fair value of financial instruments, the Group's management exercises judgment in the determination of fair value inputs, particularly those items categorised within level 3 of the fair value hierarchy. Refer to Note 7.
- Management considers the synergies and future economic benefits to be realised in the initial recognition and measurement of goodwill and intangible assets as well as testing of recoverable amounts. The assessment of the carrying value of goodwill and intangible assets relies upon the use of forecasts and future results. Refer to Note 2M and Note 17.
- The actuarial assumptions used in determining the liability and expense of the Group's retirement benefit obligations. Management reviews previous experience of its plan members and market conditions for the year. Refer to Note 20.
- Management uses independent qualified appraisal services to assist in determining the fair value of investment properties or properties providing collateral for mortgages, for purposes of evaluating possible impairment. This fair value assessment requires judgments and estimates on future cash flows and general market conditions. Refer to Note 7 and 14.

C. Consolidation

i) Subsidiaries

Subsidiaries are all entities over which the Group has control. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date control is transferred to the Group and deconsolidated on the date control ceases. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated on consolidation. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

ii) Transactions with non-controlling interest

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group.

D. Determination of fair value

Fair value is determined based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the assumptions that market participants would use when pricing an asset or liability.

When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair value is typically based on alternative valuation methods such as discounted cash flows and other techniques. When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation methods and inputs. For bonds and fixed income securities, broker quotes are typically used when external public vendor prices are not available. Judgment is also applied in adjusting external observable data for items including liquidity and credit factors. A description of the fair value methodologies and assumptions by type of asset is included in Note 7.

E. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

F. 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 (the "functional currency"). All amounts in the consolidated financial statements, excluding per share data or where otherwise stated, are in thousands of Bermuda dollars, which is the Group's presentation currency.

ii) Transactions and balances

Monetary assets and liabilities denominated in currencies other than the functional currency of the Group or its subsidiaries are translated into the functional currency using the rate of exchange prevailing at the balance sheet date. Income and expenses are translated at rates of exchange in effect on the transaction dates. Foreign exchange gains and losses are expensed in the consolidated statement of income.

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets classified as available for sale are included in other comprehensive income.

iii) Group companies

The financial statements of foreign operations are translated from their respective functional currency to Bermuda dollars, the Group's presentation currency. Assets and liabilities are translated at rates of exchange for the period at the statement of financial position date, and income and expenses are translated using the average rates of exchange. The accumulated gains or losses arising from translation of functional currencies to the presentation currency are included in other comprehensive income on the consolidated statement of comprehensive income.

The functional currency of subsidiary entities in Barbados is the Barbados dollar. The exchange rate between Barbadian and Bermudian dollars has not changed significantly since the acquisition of the Barbadian operation in 2005. The Cayman Island operation's functional currency is in United States dollars, which are on par with Bermuda dollars. As a result there are no unrealised translation gains and losses to be reported other than for BF&M Canada, for which the functional currency is the Canadian dollar.

G. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid financial assets with original maturities of three months or less, and bank overdrafts.

Restricted cash and cash equivalents consists of cash being held on account of various pension plans and cash held on account for dividends issued but not collected to satisfy regulatory requirements. These amounts are not available for use in the Group's daily operations and therefore are excluded in the statement of cash flows.

H. Fixed and regulatory deposits

Regulatory deposits are held with Regulators as a legal requirement in order to provide services in the respective territories. Fixed deposits are financial assets with maturity dates longer than 90 days and are held with financial institutions.

I. Financial instruments

i) Financial assets

Classification, recognition and subsequent measurements of financial assets

The Group classifies its investments into the following categories: a) financial assets at fair value through profit and loss ("FVTPL"); b) held-to-maturity; c) loans and receivables; and d) financial assets available for sale. Management determines the classification at initial recognition and is dependent on the nature of the assets and the purpose for which the assets were acquired.

a) FVTPL

A financial asset is classified at FVTPL if it is designated as such upon initial recognition or is classified as held-for-trading. A financial asset can be designated as FVTPL if it eliminates or significantly reduces an accounting mismatch. A financial asset is classified as held-for-trading if it is acquired mainly for the purpose of selling in the near term or traded for the purposes of earning investment income. Attributable transaction costs upon initial recognition are recognised in investment income in the consolidated statement of income as incurred. FVTPL assets are measured at fair value and changes in fair value as well as realised gains and losses on sales are recognised in investment income in the consolidated statement of income. Dividends earned on equities are recorded in investment income in the consolidated statement of income. Derivatives are also categorised as held-for-trading unless they are designated as hedges. The Group has not designated any derivatives as hedges.

b) Held-to-maturity financial assets
Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments that the Group has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest rate method, less any impairment losses. Amortisation of premiums and accretion of discounts are included in investment income in the consolidated statement of income.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

c) Loans and receivables
Loans and receivables are all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment loss. For purposes of this classification loans and receivables are comprised of fixed income securities (held in Barbados), mortgages and other loans. Realised gains or losses from the sale of loans and receivables are recorded in investment income in the consolidated statement of income.

d) Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets, including properties pending sale associated with non-performing mortgages, that are not classified in any of the previous categories. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Equities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets available for sale are included in the consolidated statement of comprehensive income in the period in which they arise. When assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the consolidated statement of income.

All other financial assets (including fixed income securities classified as loans and receivables) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected in the consolidated statement of financial position as receivable for investments sold and payable for investments purchased.

De-recognition and offsetting
The Group derecognises a financial asset when the rights to receive cash flows from the financial asset have expired or have been transferred and the Group has transferred substantially all the risk and rewards of ownership of the financial asset, which is normally the trade date.

Investment income
Dividends on equity and fund instruments are recognised in the consolidated statement of income on the ex-dividend date. Interest income is recorded on the accruals basis, using the effective interest rate method, in investment income in the consolidated statement of income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

ii) Financial liabilities
Classification, recognition and subsequent measurement of financial liabilities
The Group has the following financial liabilities: a) financial liabilities at FVTPL and b) other financial liabilities. Management determines the classification at initial recognition.

a) FVTPL
The Group's financial liabilities at FVTPL relate to certain investment contract liabilities. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. Changes in fair value of investment contract liabilities are recorded in investment contract benefits in the consolidated statement of income.

b) Other financial liabilities
All remaining financial liabilities are classified as other financial liabilities which include certain investment contract liabilities incepted in Barbados, loans payable, and other liabilities. Such financial liabilities are initially recognised at fair value plus any directly attributable transaction costs. Loans payable are subsequently carried at amortised cost. Any excess between the proceeds (net of transaction cost) and the redemption value is recognised in the consolidated statement of income over the period of the loan using the effective interest rate method. Included under other liabilities are accounts payable. Other remaining liabilities are considered short-term payables with no stated interest and the carrying value of these financial liabilities approximates fair value at the reporting date.

The Group initially recognised loans payable on the date the loan originated. All other liabilities (including liabilities designated at FVTPL) are recognised initially on the trade date at which the Group becomes a party to the contractual provision of the instrument.

J. Impairment of assets

i) Impairment of financial assets

The Group reviews the carrying value of its financial assets, except those classified as FVTPL, at each period end for evidence of impairment and reversal of previously recognised impairment losses. These assets are considered impaired if there is objective evidence of impairment as a result of one or more loss events that have an impact that can be reliably estimated on the estimated future cash flows of the asset and the financial assets carrying value exceeds the present value of the estimated future cash flows. Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to the following: (i) failure to make scheduled payments of capital and/or interest, (ii) adverse changes in the payment pattern of the borrower, (iii) renegotiation of terms or granting of concessions to the borrower, and (iv) significant deterioration in the fair value of the security underlying the financial asset.

a) Loans and receivables

When loans and receivables assets (other than collateralised mortgage loans) carried at amortised cost are impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. For collateralised mortgage loans the carrying amount is reduced to its recoverable amount, being the future cash flow of the collateralised value less cost to sell discounted at the original effective interest rate of the instrument. For all loans and receivables where an impairment loss has occurred, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of income. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in investment income in the consolidated statement of income.

b) Financial assets classified as available-for-sale

In the case of equity and fund financial assets classified as available-for-sale, in addition to types of events listed above, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment.

When an available-for-sale asset is impaired, the loss accumulated in other comprehensive income is reclassified to investment income in the consolidated statement of income. The cumulative loss that is reclassified from other comprehensive income to investment income is measured as the difference between the acquisition cost and the current fair value of the financial assets less any impairment loss previously recognised in the consolidated statement of income. If, in a subsequent period, the fair value of a financial asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment is reversed through the consolidated statement of income.

ii) Impairment of non-financial assets

The Group's non-financial assets comprise investment properties, property and equipment and intangible assets. Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever there is objective evidence of impairment. Objective evidence includes, but is not limited to the following: (i) adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability; (ii) the likelihood of accelerated obsolescence arising from the development of new technologies and products; and (iii) the disintegration of the active market(s) to which the asset is related. If objective evidence of impairment exists, then the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount and is recognised as part of amortisation expense in the consolidated statement of income. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions of the time value of money and the risks specific to the asset. Assets which cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (cash-generating units), except where the value in use of an asset can be estimated as being close to its fair value less costs to sell where fair value can be reliably determined.

K. Investment properties

Investment properties are defined as properties with an insignificant portion that is owner occupied and are held for long-term rental yields or capital appreciation and comprise freehold land and buildings. Properties that do not meet these criteria are classified as property and equipment. Investment properties are initially recognised at cost in the consolidated statement of financial position. Subsequently, investment properties are carried at historical cost less depreciation. Depreciation on investment properties is calculated using the straight-line method over 50 years, excluding land and its residual value. Rental income from investment properties is recognised on a straight-line basis over the term of the lease in rental income in the consolidated statement of income. Expenditures relating to ongoing maintenance of investment properties are expensed. The assets' residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

L. Property and equipment

Owner occupied properties and all other assets classified as property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditures relating to ongoing maintenance of property and equipment are expensed as incurred in operating expenses in the consolidated statement of income.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following rates:

Computer hardware	3 years – 5 years
Motor vehicles	5 years
Furniture and equipment	5 years – 10 years
Leasehold improvements	the shorter of the lease term or 5 years – 10 years
Buildings	50 years

The assets' residual values, useful lives and method of depreciation are reviewed at the end of each reporting period and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered impaired and it is written down immediately to its recoverable amount. In the event of improvement in the estimated recoverable amount, the related impairment may be reversed.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in commissions and other income in the consolidated statement of income.

M. Intangible assets

Intangible assets include finite life intangible assets and goodwill. These assets include the following:

i) Finite life intangible assets

Intangible assets that were determined to have finite lives are amortised on a straight line basis over varying periods of up to 10 years, being the estimated expected lives. The estimated life is re-evaluated when there is objective evidence of impairment (refer to Note 2J(ii)). For assets that are not yet in use, the impairment is assessed on an annual basis. Finite life intangible assets include the following:

Customer relationships and contracts

These assets, which comprise customer lists, customer relationships and contracts acquired from the purchase of rights or as part of business combinations, were initially measured at fair value by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. Subsequently, these assets are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line basis over either 5 or 10 years, being the expected life of the business assumed. These assets include assets acquired on the acquisition of IHIC and BF&M Brokers and assets acquired from agents in the health, life, annuity and pension segment.

Distribution channels

These assets, which comprise agent and bank relationships acquired as part of business combinations, were initially measured at fair value by estimating the net present value of future cash flows from these relationships based on certain historical ratios of gross written premium arising from these distribution channels on business in force at the date of acquisition. Subsequently, these assets are carried as cost less accumulated amortisation. Amortisation is calculated using the straight line basis over 10 years, being the expected life of the business assumed and the business channel relationship. These assets include assets acquired on the acquisition of IHIC.

Brands

These assets included the IHIC brand. It was initially measured at fair value based on the relief of royalty method at the date of acquisition. Subsequently, these assets were carried at cost less accumulated amortisation. The asset was fully amortised at 31 December 2017.

Software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Group are recognised as internally generated intangible assets when:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software development include employee costs and an appropriate portion of directly attributable overheads. Other development expenditures that do not meet these criteria are expensed when incurred. Capitalised software development costs for projects in use are amortised on a straight line basis over their useful lives, which range from 5 to 10 years.

ii) Goodwill
Goodwill arises on the acquisition of subsidiaries and represents the excess of the acquisition cost over the fair value of the Group's proportionate share of the net identifiable assets and liabilities of an acquired business at the acquisition date. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGU"), which in this case are the acquired businesses on an individual basis. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate potential impairment. The carrying value of the CGU, inclusive of goodwill and other intangibles is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

N. Insurance and investment contracts
The Group issues contracts that transfer insurance risk or financial risk or both.

i) Insurance contracts
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party, the policyholder or ceding company, by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. In addition, the Group considers the proportion of premiums received to the benefit payable if the insured event did occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Life and health insurance contracts include term, whole life and universal life insurance contracts, group life insurance policies, health insurance contracts and life contingent annuities. The Group holds whole life contracts which may be either participating or non-participating contracts.

Short-term insurance contracts include property, casualty, motor, marine and other specialty insurance contracts. These contracts are all non-participating contracts.

Sections a) – d) outline the recognition and measurement of material financial statement line items related specifically to insurance contracts.

a) Deferred acquisition costs ("DAC") related to insurance contracts
For short term insurance contracts, commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the term of the policies on a straight line basis as premium is earned. For policies written where there has been a total loss on sums insured, any deferred acquisition costs still reported in the consolidated statement of financial position will be immediately recognised in full in the consolidated statement of income.

b) Reinsurance contracts held related to insurance contracts
The Group uses reinsurance in the normal course of business to manage its risk exposure. Contracts entered into by the Group with reinsurers, under which the Group is compensated by the reinsurers for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Reinsurance assets are measured using the amounts and assumptions associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract.

The Group purchases reinsurance to share part of the risks originally accepted by the Group in writing premiums. This reinsurance, however, does not relieve the Group of its primary obligation to policyholders. If any reinsurers are unable to meet their obligations under the related agreements, the Group remains liable to its policyholders for the unrecoverable amounts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are amortised consistent with the underlying insurance contracts.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its estimated recoverable amount and recognises that impairment loss in the consolidated statement of income. For reinsurance coverage that is exhausted before the policy end date, any deferred balances still recorded in the consolidated statement of financial position will be recognised in full immediately in the consolidated statement of income.

c) Insurance contract liabilities

Life and health insurance contracts

These contracts (meaning insurance contract liabilities, both participating and non-participating) include all forms of life, health and accident insurance and life contingent annuities sold to individuals and groups. A provision for life and health insurance liabilities is made which represents the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all in-force life insurance and annuity policies. These benefits are determined using generally accepted actuarial practices according to standards established by the Canadian Actuarial Standards Board ("ASB"). In accordance with these standards, the provisions have been determined using the Canadian Asset Liability Method ("CALM") or an approximation of CALM.

The insurance liabilities under CALM are calculated by projecting asset and liability cash flows under a variety of interest rate scenarios using best estimate assumptions, together with margins for adverse deviations with respect to other contingencies pertinent to the valuation. Long term business provisions make sufficient allowance for the expected experience scenario and for adverse deviations in experience. Liabilities derived through an approximation to CALM rely on a combination of Group and industry specific experience in order to determine the best estimate assumptions and corresponding margins for adverse deviations, the largest of which, are group and individual health reserves, relies on a historical analysis of the Group's claims emergence patterns and completion factors. Many of the estimates used in actuarial valuation relate to future events and involve a significant amount of judgment. As a result, these estimates are subject to revision on a regular basis and would be recognised in the Consolidated Statement of Income at time of revision.

In certain life and health reinsurance contracts underwritten by BF&M Life, where the timeliness and quality of information from cedants is not sufficient to provide a reasonable estimate of true premium written, then those premiums are recorded as cash is received from the cedants. An insurance contract liability is calculated and any loss on an underwriting year is recorded in the consolidated statement of income. If any profit is anticipated on an underwriting year then further reserves are established to record to nil underwriting income. This takes place for the first 3 years of each underwriting year programme as this time period is felt to be the minimum time necessary to determine underwriting results.

Expected reinsurance recoveries, net of any required provision for impairment are estimated using principles consistent with the Group's method for establishing the related liability and are recorded in accordance with the terms of the Group's reinsurance agreements.

Short-term insurance contracts

Claims and loss adjustment expenses are charged to insurance contract benefits and expenses in the consolidated statement of income as incurred based on the estimated ultimate liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims.

A provision for short-term insurance liabilities is made for the estimated costs of claims notified but not settled at the balance sheet date using the best information available at that time. In addition to development on known claims, a provision is included for losses and loss adjustment expenses incurred but not reported on the basis of past experience. The provision is based on an actuarial analysis of the Group's accident year development experience. The provision is determined using generally accepted actuarial practices in Canada. The method of making such estimates and for establishing the resulting provisions is reviewed and updated annually and any adjustments resulting therefrom are reflected in earnings in the period in which they are determined.

Expected reinsurance recoveries on claims, net of any required provision for doubtful amounts, are estimated using principles consistent with the Group's method for establishing the related liability, and are in accordance with the terms of the Group's reinsurance agreements.

d) Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed on short-term insurance contracts to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of income initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Any DAC written off as a result of this test cannot subsequently be reinstated.

ii) Investment contracts

Investment contracts are those contracts that do not transfer significant insurance risk but do transfer financial risk from the policyholder. The Group issues contracts that in some instances contain a discretionary participation feature ("DPF"). This feature entitles the holder to receive, as a supplement to guaranteed benefits, a dividend. Dividends are paid on the policy anniversary and as long as the policy is in force. These contracts are referred to as participating contracts. IFRS allows the non-guaranteed, or participating, elements of such contracts to be classified as either a liability or as equity, depending on the nature of the obligation to the policyholder. The contracts issued by the Group contain constructive obligations to the policyholder with respect to the DPF of the contracts. The Group has therefore elected to classify these features as a liability.

Investment contracts with DPF's are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement*.

The Group's investment contracts include pension plans with a guaranteed minimum rate of return and annuities that do not transfer insurance risk. All investment contracts issued are non-participating.

Liabilities for investment contracts have been designated at FVTPL, except for certain contracts in Barbados that are measured at amortised cost. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. Changes in investment contract liabilities are recorded as a change in investment contract benefits expense in the consolidated statement of income. These liabilities are derecognised when the obligation of the contract is discharged, cancelled or expired.

iii) Receivables and payables related to insurance contracts and investment contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance and investment contract holders. These receivables and payables are included in insurance receivables and other assets, insurance and investment contract liabilities and other liabilities in the consolidated statement of financial position.

If there is objective evidence that the receivable is impaired, the Group reduces the carrying amount of the receivable accordingly and recognises that impairment loss in the consolidated statement of income. The Group gathers the objective evidence that a receivable is impaired using the same process adopted for loans and receivables in Note 2J(i) above. The impairment loss is calculated using the same method used for these financial assets.

O. Service contracts
Contracts issued by the Group that do not transfer significant insurance or financial risk from the customer are referred to as service contracts. These contracts are primarily for the provision of pension administration and investment management services. Fee income earned from these contracts is described in the Revenue Recognition accounting policy, Note 2T(iii). DAC arising from service contracts are amortised over the expected life of the contracts up to a maximum of 10 years. Where the cost of meeting the obligations of the contract exceed the economic benefits expected to be received under it, a provision is recognised.

P. Segregated funds assets and liabilities
Segregated funds assets and liabilities relates to contracts issued by the Group where the benefit amount to the policyholder is directly linked to the fair value of the investment held in the particular segregated fund. The underlying assets are registered in the name of the Group and the segregated fund policyholder has no direct access to the specific assets. The contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. There is also no insurance risk to the Group with these contracts. Segregated funds net assets are recorded at fair value. The fair value of the segregated funds net liabilities is equal to the segregated funds net assets. Investment income earned by the segregated funds and expenses incurred by the segregated funds offset and are not separately presented in the consolidated statement of income and are disclosed in Note 18. Fee income earned on the management of these contracts is included in commission and other income in the consolidated statement of income.

Q. Loans to policyholders
Loans to policyholders are initially measured at fair value and subsequently carried at amortised cost and are fully secured by the policy values on which the loans are made. These loans are classified as loans and included in investments in the consolidated statement of financial position.

R. Current and deferred income tax
The tax expense for the period on the Group's Barbados, Canadian and Cayman Islands operations comprises current and deferred tax. Tax is recognised in the consolidated statement of income, except to the extent that it relates to items recognised in the consolidated statement of comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effect of carry-forwards of unused tax losses are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. When management's assessment indicates that it is more likely than not that deferred income tax assets will not be realised, a valuation allowance is recorded against the deferred tax assets.

S. Employee benefits

The Group operates various post-employment schemes, including defined benefit and defined contribution pension plans and post-employment medical plans.

i) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. With respect to the Group's defined contribution plans, the Group pays contributions into the plan and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

A defined benefit plan is a pension plan in which the Group is obligated to pay a specified benefit based on a predetermined formula. The net liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the financial reporting period less the fair value of plan assets. When the calculation results in a surplus, the asset recognised is limited to the present value of the future economic benefit available in the form of future refunds from the plan or reductions in future contributions to the plan (the asset limit). The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market interest rates of high-quality debt instruments.

Re-measurement of the net defined benefit asset or liability consists of actuarial gains and losses, the change in effect from asset limits and the return on plan assets, excluding amounts included in net interest on the net defined benefit asset or liability, and are charged or credited to other comprehensive income in the period in which they arise. Current service costs, past services cost, any gains or losses from curtailments and interest on the net defined benefit liability (asset) are recognised immediately in the consolidated statement of income.

ii) Other post-employment obligations

In addition to pension benefits, the Group provides post-retirement benefits for health care to qualified Bermuda retirees and employees in Barbados. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

These costs are recognised on an accrual basis during the years when service is provided to the Group, except for the Bermuda retiree plan where only the interest on the obligation is recognised in the consolidated statement of income as this is a closed plan. Actuarial gains and losses are charged or credited to equity in other comprehensive income in the period in which they arise.

iii) Share-based compensation

The Group has an Equity Incentive Plan under which the entity receives services from employees as consideration for equity instruments of the Group (both equity, and equity based but cash settled, transactions). Share grants are issued to employees equal to the fair value of the shares on the grant date. The amount of the benefit of these share grants is amortised over the vesting period as operating expense in the consolidated statement of income. If the Group grants share options to employees that vest in the future if service conditions are met, then the fair value of the options will be calculated at the date the options are granted. This fair value will be charged to the consolidated statement of income equally over the vesting period with adjustments made at each accounting date to reflect the best estimate of the number of options that will eventually vest. Where share grants are forfeited due to failure by the employee to satisfy the service conditions, any expense previously recognised in relation to such shares is reversed effective the date of forfeiture. Expenses previously recognised related to share options are not reversed on forfeit.

The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to share capital and share premium with a corresponding charge to operating expenses.

iv) Employee share purchase plan

The Group operates an employee share purchase plan that allows its employees to purchase the Group's common shares at below-market rates, subject to certain restrictions. Shares are offered at a discount to the shares' fair market value, as determined by the market share price on the date of purchase. Employees may purchase shares up to a maximum percentage of their gross salary. The discount is charged to compensation expense in the period in which the shares are purchased.

T. Revenue recognition

Revenue comprises the fair value for services. Revenue is recognised as follows:

i) Premium income

Premiums on most life and health insurance contracts and life contingent annuity investment contracts are recognised as revenue when due from the policyholder.

Premiums on life and health reinsurance contracts underwritten by BF&M Life are recognised based on receipts reported by the ceding company. This occurs when the timeliness and quality of information reported by the ceding company is not sufficient to otherwise record the revenue when due.

Contributions received on non-participating investment contracts are treated as policyholder deposits and not recorded as revenue in the consolidated statement of income. Only those contributions used to cover insured risk and associated costs are treated as premium income. These include fees for the cost of insurance and administrative charges.

For short-term insurance products, premiums written are earned on a pro-rata basis over the terms of the policies to which they are related. Unearned premiums represent the portion of premiums written that relate to the period of risk subsequent to the year-end. Unearned premiums are included as a component of insurance contract liabilities in the consolidated statement of financial position. For policies written where there has been a total loss on sums insured, any unearned premium still reported in the consolidated statement of financial position is immediately recognised in full in the consolidated statement of income.

ii) Commission income

For short-term reinsurance contracts, commission income is recognised over the term of the related reinsurance contracts and in accordance with the expensing of the related reinsurance premiums. Commission income on long-term insurance contracts is recognised when earned and the amount is readily determinable. The recognition of profit commissions is also dependent on the loss experience underlying such reinsurance policies.

iii) Service contracts

Revenue arising from the management of service contracts, pension administrative services and investment advisory and management services offered by the Group is included within commission and other income in the consolidated statement of income. Revenue is recognised at the point in time when services are rendered. The majority of the revenue from service contracts is comprised of variable consideration and is recognised when it is highly probable that a significant reversal in the amount of the revenue recognised will not occur.

U. Leases

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases where the Group is the lessee are included within operating expenses in the consolidated statement of income.

Where the Group is the lessor under an operating lease for its investment properties, lease arrangements are fixed and income is credited to the consolidated statement of income on a straight-line basis over the period of the lease. In addition the tenant can renew their lease when their tenancy is nearing expiry. There are no contingent rentals included in the lease agreements.

V. Share capital and treasury shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognised as a deduction from equity.

Where the Group purchases the Group's common shares, for example as the result of a share buy-back, the consideration paid, including any directly attributable costs, is deducted from equity until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transactions costs, is included in equity.

W. Dividend distribution

Dividend distribution to the Group's shareholders' is recognised as a liability in the consolidated statement of financial position in the period in which the dividends are approved by the Group's Board of Directors.

X. Earnings per share

Basic earnings per share is presented in the consolidated statement of income and is calculated by dividing the shareholders' net earnings for the year by the weighted average number of ordinary shares outstanding, excluding treasury shares, at the reporting date.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. When there is a loss, no potential common shares are included in the computation of fully diluted earnings per share.

3. New and revised accounting standards

A. New and revised accounting standards adopted in 2018

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2018:

i) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue and various interpretations*. Amendments to IFRS 15 were issued in September 2015 and April 2016. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognising revenues and cash flows from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 also provides guidance related to the costs to obtain and to fulfill a contract. IFRS 15 does not apply to insurance contracts, financial instruments and lease contracts. IFRS 15 requires entities to recognise revenue to reflect the transfer of goods or services to customers measured at the amount an entity expects to be entitled to in exchange for those goods and services.

The Group adopted IFRS 15 on a cumulative retrospective basis and recognised differences on transition to IFRS 15 as at 1 January 2018 in retained earnings. As a result of the adoption, the Group reduced retained earnings and increased deferred acquisition costs by $944 as at 1 January 2018.

ii) Amendments to IFRS 4 – Insurance Contracts

In September 2016, the IASB issued Amendments to IFRS 4 which provides companies whose activities are predominantly related to insurance an optional temporary exemption from applying IFRS 9 – *Financial Instruments*. On 1 January 2018 the Group qualified and elected to take the deferral approach and as a result will continue to apply IAS 39 – *Financial Instruments: Recognition and Measurement*, the existing financial standard.

To enable a comparison with entities applying IFRS 9, the amendments to IFRS 4 require deferring entities to disclose which assets have contractual terms that pass the Solely Payment of Principal and Interest ("SPPI") test along with the fair value and credit risk rating of those assets. Refer to Note 10 Investments.

iii) Other

The Group adopted the narrow scope amendments to IFRS for IAS 40 – *Investment Property*, IFRS 2 – *Share-based Payment*, IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* and *Annual Improvements 2014– 2016 Cycle* for the amendments to IFRS 1 – *First-time Adoption of International Financial Reporting Standards* and IAS 28 – *Investments in Associates and Joint Ventures*, effective 1 January 2018. The adoption of these narrow scope amendments did not have a significant impact on the Group's consolidated financial statements.

B. New and revised accounting standards to be adopted in 2019

The following new and amended standards and interpretations were issued by the IASB and are expected to be adopted by the Group in 2019.

IFRS 16 – *Leases* ("IFRS 16") – In January 2016, the IASB issued this standard which replaces IAS 17 – *Leases* and related interpretations. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessees, IFRS 16 removes the classification of leases as either operating or financing and requires that all leases, with certain exemptions, be recognised on the statement of financial position. Lessor accounting will remain substantially unchanged. The standard also requires more note disclosure for both lessees and lessors. The standard is effective 1 January 2019 and the Group will adopt on a modified retrospective basis with no restatement of comparative information. The Group is evaluating the impact of the adoption of this standard.

IAS 28 – *Investments in Associates and Joint Ventures* ("IAS 28") – Amendments to this standard were issued in October 2017 and clarify that an entity applies IFRS 9 to financial interests in an associate or joint venture to which the equity method is not applied. The amendments are effective starting 1 January 2019 and are to be applied retrospectively or prospectively. As the Group has deferred the adoption of IFRS 9, the Group will continue to apply IAS 39 to the long-term investments in associates and joint ventures until IFRS 9 is implemented. Adoption of these amendments are not expected to have a significant impact to the Group.

IFRIC 23 – *Uncertainty Over Income Tax Treatments* ("IFRIC 23") – IFRIC 23 was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019, to be applied retrospectively. IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 – *Income Taxes* when there is uncertainty over income tax treatments and requires an entity to determine whether tax treatments should be considered collectively or independently depending on which approach better predicts resolution of the uncertainty. Adoption of this interpretation is not expected to have a significant impact to the Group.

Annual Improvements 2015 – 2017 Cycle – These annual improvements were issued in December 2017 and are effective for years beginning on or after 1 January 2019. There are three minor amendments to standards with prospective application required. Adoption of these improvements are not expected to have a significant impact to the Group.

IAS 19 – *Employee Benefits* ("IAS 19") – Amendments to IAS 19 were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019. The amendments address the accounting for a plan amendment, curtailment or settlement that occurs within a reporting period. Updated actuarial assumptions must be used to determine current service cost and net interest for the remainder of the reporting period after such an event. The amendments also address how the accounting for asset ceilings are affected by such an event. Adoption of this interpretation is not expected to have a significant impact to the Group.

C. New and revised accounting standards to be adopted in 2020 or later

The following new and amended standards and interpretations were issued by the IASB and are expected to be adopted by the Group in 2020 or later.

IFRS 9 – *Financial Instruments* ("IFRS 9") – In July 2014, the IASB issued the final version of this standard that replaces IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9.

The standard is effective for years beginning on or after 1 January 2018 and is to be applied either retrospectively or on a modified retrospective basis. The IASB issued amendments in October 2017 that are effective for annual periods beginning on or after 1 January 2019.

As allowed under IFRS 4, qualifying entities could elect an optional deferral of the standard until 1 January 2021. In November 2018, the IAS tentatively decided to further defer the effective date of IFRS 9 by one year to 1 January 2022, in line with the proposed deferral of the implementation of IFRS 17. The Group qualified and elected the deferral approach and will continue to apply IAS 39. The Group is assessing the impact of this standard.

IFRS 9 brings together all three aspects of the accounting for financial instruments project undertaken by the IASB: classification and measurement, impairment and hedge accounting. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities.

IFRS 17 – *Insurance Contracts* ("IFRS 17") – This new standard was issued in May 2017 and supersedes IFRS 4 and related interpretations and is effective for periods beginning on or after 1 January 2021. Whereas IFRS 4 allows insurance entities to use their local Generally Accepted Accounting Principles when accounting for insurance contracts, IFRS 17 defines rules with the aim to increase the comparability of financial statements. The standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts.

In November 2018, the IAS tentatively decided to defer the effective date of IFRS 17 by one year to 1 January 2022. The proposed deferral is subject to IASB public consultation in 2019. The Group is assessing the impact of this standard and expects that it will have a significant impact on the Group's Consolidated Financial Statements.

IFRS 3 – *Business Combinations* ("IFRS 3") – Amendments to IFRS 3 were issued in October 2018 and are effective for business combinations occurring on or after 1 January 2020. The amendments clarify the definition of a business and provide a simplified assessment in determining whether a transaction represents a business combination or an acquisition of assets. Adoption of these amendments are not expected to have a significant impact to the Group.

IAS 1 – *Presentation of Financial Statements* ("IAS 1") and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8") – In October 2018, The IASB issued amendments to IAS 1 and IAS 8 which are effective for annual periods beginning on or after 1 January 2020. The amendments are to clarify the definition of "material" and to improve consistency in its application. Adoption of these amendments are not expected to have a material impact to the Group.

4. Management of financial and insurance risk

Risk management and objectives

The Group's primary objective in undertaking risk management activity is to manage risk exposures in line with risk appetite, minimising its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes. In this respect, a framework of limits and qualitative statements, aligned with the Group's risk appetite, is in place for material exposures. Key management recognises the critical importance of having efficient and effective risk management systems in place.

A significant part of the Group's business involves the acceptance and management of risk. The Group is exposed to insurance, market, credit, liquidity and operational risks and operates a formal risk management framework to ensure that all significant risks are identified and managed.

The Group seeks to manage its exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board of Directors. The Group has established a risk management function with terms of reference from the Board of Directors, its committees, and the associated executive management committees. This is supplemented with an organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and senior managers. The key control techniques for the major categories of risk exposure are summarised in the following sections.

(in thousands of Bermuda dollars)

Risks are usually grouped by risk type: (i) financial, including credit, liquidity, and market; and (ii) insurance, including life and health insurance and short term insurance risk. Risks falling within these types may affect a number of key metrics including those relating to balance sheet strength, liquidity, and profit. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Assets which relate to certain life insurance and investment contracts are managed for the account and risk of the Group's customers. They are segregated and managed to meet specific investment objectives of the policyholders. The assets back the insurance liabilities and the financial liabilities arising from these contracts. The fair value of the liabilities reflects the fair value of the assets.

A. Financial risks

i) Credit risk

Credit risk is the exposure that a counter-party to a financial instrument is unable to meet an obligation, thereby causing a financial loss to the Group. The Group faces credit risk on its financial assets.

The following policies and procedures are in place to manage this risk:

- Holding a diversified investment portfolio that focuses on quality of investment. The portfolio is monitored and reviewed regularly by management's Investment Committee and by the Board of Director's Finance, Compensation, and Corporate Governance Committee;
- Investment guidelines are in place that require the purchase of only investment-grade assets and minimise undue concentration of assets in any single issuer, industry group, asset class or credit rating, unless required by local law or regulation;
- Investment guidelines specify collateral requirements for mortgages and loans and receivables which include the underlying property or other security;
- Transacting business with well-established reinsurance companies with strong credit ratings; and
- Transacting business with well-established financial institutions and diversification of holdings where possible.

Maximum exposure to credit risk

The following table summarises the Group's maximum exposure to credit risk related to financial assets. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2018 $	2017 $
Cash and cash equivalents	**160,712**	205,072
Fixed and regulatory deposits	**26,559**	24,667
Fixed income securities	**530,300**	535,009
Mortgages and loans	**63,321**	71,262
Insurance receivables and other assets	**78,466**	140,949
Reinsurance assets	**153,592**	624,217
Restricted cash	**19,926**	19,058
Total	**1,032,876**	**1,620,234**

Concentration of credit risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries.

The following table provides details of the carrying value of fixed income securities by industry sector and geographic distribution:

	2018 $	2017 $
Fixed income securities issued or guaranteed by:		
Financials	**102,389**	91,647
Government	**78,332**	76,378
U.S. Treasury and other agencies	**54,539**	137,403
Utilities and energy	**88,534**	86,241
Consumer staples and discretionary	**75,824**	37,744
Telecom	**22,027**	16,096
Computer technology products and services	**15,747**	23,710
Industrials and materials	**41,838**	14,072
Other	**51,070**	51,718
Total Fixed income securities	**530,300**	**535,009**

(in thousands of Bermuda dollars)

	2018 $	2017 $
United States	**398,767**	411,427
Barbados	**44,091**	54,504
Canada	**26,784**	25,037
Northern Europe	**20,835**	15,154
Asia-Pacific	**10,670**	8,619
United Kingdom	**12,722**	4,262
Caribbean excluding Barbados	**15,096**	14,734
Other	**1,335**	1,272
Total Fixed income securities	**530,300**	**535,009**

The carrying value of mortgages and loans by geographic location is shown in the following table:

	2018 $	2017 $
Bermuda	**56,982**	63,755
Barbados	**6,339**	7,507
Total Mortgages and loans	**63,321**	**71,262**

Credit quality of financial assets

The credit quality of financial assets are assessed quarterly by reference to external credit ratings if available or review of historical and current conditions that existed at the balance sheet date.

As at 31 December 2018

	AAA $	AA $	A $	BBB $	BB and lower $	Not rated $	Total $
Cash and cash equivalents	19,426	4,766	58,879	70,913	-	6,728	**160,712**
Fixed deposits	-	-	-	9	287	3,806	**4,102**
Regulatory deposits	5,176	407	5,604	198	7,632	3,440	**22,457**
Fixed income securities[1]	64,143	137,769	215,315	66,737	41,453	4,883	**530,300**
Restricted cash	-	-	2,018	17,908	-	-	**19,926**
Total	**88,745**	**142,942**	**281,816**	**155,765**	**49,372**	**18,857**	**737,497**

[1] Fixed income securities designated as either available for sale or loans and receivables and which have a credit rating below investment grade have a total carrying value of $39,566 (fair value $39,566) as at 31 December 31, 2018 and primarily relate to the Group's holdings of Barbados Government debt securities.

As at 31 December 2017

	AAA $	AA $	A $	BBB $	BB and lower $	Not rated $	Total $
Cash and cash equivalents	13,254	10,576	56,575	121,308	-	3,359	**205,072**
Fixed deposits	-	-	-	2,029	-	5,736	**7,765**
Regulatory deposits	-	8,765	4,747	-	1,666	1,724	**16,902**
Fixed income securities	61,691	201,918	185,209	30,799	49,882	5,510	**535,009**
Restricted cash	-	-	1,558	17,500	-	-	**19,058**
Total	**74,945**	**221,259**	**248,089**	**171,636**	**51,548**	**16,329**	**783,806**

The Group's reinsurance panel consists of over 80 reinsurance companies, the majority of which are rated A- or better by A.M. Best. Any exceptions to this are approved by the Group Security Committee.

Past due or credit impaired mortgages and loans

Mortgages comprise first mortgages on real property situated in Bermuda and Barbados. Bermuda mortgages are registered under The Mortgage Registration Act 1976 and The Trustee Act 1975. In Barbados, loans provided to companies are secured by a certificate of annual repayment of principal and interest by the Barbados National Bank. Other loans are secured by a collateral assignment of life insurance policy proceeds and irrevocable beneficiary designation.

(in thousands of Bermuda dollars)

Mortgages and loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of collection of the full amount of principal and interest due. Management exercises judgment in assessing a borrower's ability to meet current and future contractual interest and principal payments including assessing the current financial position of the borrower and the value of the collateral.

The following table provides the outstanding principal balance of the mortgage and loans that are considered past due or impaired:

	2018 $	2017 $
Not past due	46,124	52,509
Past due but not impaired:		
Past due less than 90 days	6,357	7,905
Past due 90 to 180 days	1,154	777
Past due 180 days or more	458	373
Impaired (net of impairment provisions)	9,228	9,698
Total Mortgages and loans	**63,321**	**71,262**

Of the $63,321 of mortgages and loans held, $7,807 are currently interest-only with future principal repayment schedules established.

Interest accrued on the impaired mortgages amounted to $251 as at 31 December 2018 (2017 – $367).

Significant judgment is applied by management in the determination of impairment including the timing and amount of future collections, costs expected to be incurred to collect or dispose of the collateral, and sale proceeds on any required disposal of collateral.

The reconciliation of the impairment and provision on mortgage and loans is as follows:

	2018 $	2017 $
At 1 January	6,246	19,260
Transfer to available for sale residential properties	(179)	(10,931)
Sale of foreclosed mortgage loans	-	(7,774)
Increase in impairment and provision allowances	2,460	5,691
Total at 31 December	**8,527**	**6,246**

A significant estimate in the determination of impairment is the timing of future collections, which is based on the expected timing of liquidating the underlying collateral. Market value fluctuations will impact the value of the collateral and can significantly impact the estimate of impairment. Management estimates that collection will occur within 12 months. An additional impairment of between $616 and $996 could be incurred if collection occurred within 18-24 months.

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations as they become due. The following policies and procedures are in place to manage this risk:

- Management maintains levels of cash and short-term deposits, which are sufficient to fulfill the Group's short-term obligations;
- Short-term cash flow needs are adequately met by operating cash flows and proceeds from mortgage and loan repayments;
- The Group closely manages operating liquidity through cash flow matching of assets and liabilities on its life insurance, annuities, and pensions business. Investments in various types of assets occur with a view to matching them to the liabilities of various durations;
- Investments are graded internally on a liquidity level (1 to 4) and the Group looks to maintain adequate levels in highly liquid (1 and 2) securities;
- The ability of the Group's subsidiaries in certain jurisdictions to pay dividends and transfer funds is regulated. The Group maintains appropriate dividend and capital policies to ensure movement of cash flow through the Group as needed;
- Arrangements with reinsurers are made to ensure that recoverables are received in a timely fashion in the event of a liquidity crisis.

(in thousands of Bermuda dollars)

The maturity profile of financial assets at 31 December 2018 is as follows:

	Within 1 year $	2 to 3 years $	4 to 5 years $	Over 5 years $	Total $	Effective interest rate ranges
Policyholder loans	177	354	354	2,654	3,539	4.75% - 8.25%
Mortgages	13,022	9,666	5,499	31,595	59,782	4.50% - 9.00%
Regulatory deposits	12,601	793	1,506	7,557	22,457	0% - 6.11%
Fixed income securities	57,792	124,657	141,759	206,092	530,300	0.08% - 9.75%
Insurance receivables and other assets	68,172	956	1,737	7,601	78,466	-
Total	**151,764**	**136,426**	**150,855**	**255,499**	**694,544**	
Percent of total	**21.9%**	**19.6%**	**21.7%**	**36.8%**	**100.0%**	

The maturity profile of financial assets at 31 December 2017 was as follows:

	Within 1 year $	2 to 3 years $	4 to 5 years $	Over 5 years $	Total $	Effective interest rate ranges
Policyholder loans	168	337	337	2,524	3,366	4.75% - 8.25%
Mortgages	12,951	8,731	13,161	33,053	67,896	3.50% - 9.00%
Regulatory deposits	9,589	338	1,088	5,887	16,902	0% - 6.56%
Fixed income securities	64,350	105,689	160,904	204,066	535,009	0.08% - 9.75%
Insurance receivables and other assets	140,574	156	186	33	140,949	-
Total	**227,632**	**115,251**	**175,676**	**245,563**	**764,122**	
Percent of total	**29.8%**	**15.1%**	**23.0%**	**32.1%**	**100.0%**	

The maturity profiles of the Group's significant insurance and financial liabilities are summarised in the following tables. Maturity profiles for financial liabilities are disclosed according to contractual maturity dates. Maturity profiles for net insurance liabilities are based on expectations.

The maturity profile of liabilities at 31 December 2018 is as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Other liabilities	124,231	-	-	124,231
Investment contract liabilities	103,701	223,053	512	327,266
Insurance contract liabilities – net of reinsurance	90,912	4,387	178,834	274,133
Total	**318,844**	**227,440**	**179,346**	**725,630**

The maturity profile of liabilities at 31 December 2017 was as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Other liabilities	232,438	-	-	232,438
Investment contract liabilities	110,499	223,875	864	335,238
Insurance contract liabilities – net of reinsurance	97,967	3,924	190,044	291,935
Total	**440,904**	**227,799**	**190,908**	**859,611**

iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk), and market prices (price risk).

Currency risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has operations in several jurisdictions and revenue and expenses are denominated in several local currencies. The Group is not significantly exposed to foreign exchange risk because of the following:

- The majority of the Group's assets, liabilities, and earnings are denominated in Bermuda, Barbados, Cayman, Bahamian or United States dollars;
- The Bermuda, Barbados, Cayman and Bahamian dollars are pegged to the United States dollar;
- The Bermuda dollar is at par with the United States dollar; and
- The Group's Canadian operation is fully integrated. Its assets and liabilities are not considered material.

The Group regularly monitors currency translation fluctuations. Generally, the Group looks to match the currency of its local assets to the currency of the local liabilities they support or to the United States dollar as the currency of the liabilities is generally pegged to the United States dollar. This achieves the objective of mitigating risk of loss arising from movements in currency. Policies written in currencies that are not pegged to the United States dollar are not material and the Group considers the currency risk minimal.

Interest rate risk
Interest rate risk is price volatility produced by changes in the overall level of interest rates. Change in market interest rates can impact the reinvestment of matured investments, as the returns available on the new investment may be significantly different from the returns previously achieved. The Group manages these risks through:

- Asset allocation and diversification of the investment portfolio;
- Utilisation of a formal process for managing the matching of assets and liabilities;
- Investing in assets that are suitable for the products sold;
- Investing in fixed income assets that closely match the life liability product cash flows for products with fixed and highly predictable benefit payments; and
- Quantifying and reviewing regularly the risk associated with the mismatch in portfolio duration and cash flow.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

Investment contracts with fixed and guaranteed terms held to maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates.

In relation to financial assets, management monitors the sensitivity of reported interest rate movements by assessing the expected changes in the different portfolios due to parallel movements of 100 basis points in all yield curves.

The impact of interest rate risk for the Group's actuarial liabilities and the assets supporting those liabilities is included in Note 4B - Insurance Risk below. The Group also holds fixed income investments which support non-life insurance liabilities and surplus. If the base interest rates, as measured by the US Treasury yield curve, shifted parallel by 100 basis points higher/lower, the immediate impact to net income would have been $1,851 / 1,847 (2017 – $1,987 / 1,852) lower/higher. The interest rate sensitivity impact was calculated using the modified duration method.

Price risk
Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting the market.

The Group's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector, and market.

A 5% increase/decrease in the value of the Group's equity and fund portfolio would increase/decrease the Group's comprehensive income by $1,682 (2017 – $1,416) and the Group's other components of equity by $240 (2017 – $388). The price risk sensitivity impact was calculated by using the ending balances in equity and funds at a 5% increase/decrease.

B. 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. Insurance risk is implicit in the Group's insurance business and arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks.

(in thousands of Bermuda dollars)

i) Life and health insurance risk

Insurance risk in the Group arises through its exposure to mortality and morbidity risks and exposure to worse than anticipated operating experience on factors such as persistency levels and management and administration expenses.

Management of life and health insurance risks

The Group has developed an insurance risk policy and guidelines on the practical application of this policy. Individual insurance risks are managed at a business unit level but are also monitored at the Group level.

The impact of insurance risk is monitored by the business units as part of the control cycle of business management. Exposure is monitored through the assessment of liabilities and the asset liability management framework process. At the Group level the overall exposure to insurance risk is measured through management reporting, stress testing, and Bermuda Solvency Capital Requirement ("BSCR") analysis.

The Board of Directors considers the reinsurance coverage across the life and health businesses. It confirms that guidance and procedures are in place for each of the major components of life insurance risk, and that the businesses mitigate against any insurance risk within the parameters for the overall Group risk appetite.

The Board of Directors has also developed guidance for business units on management of a number of areas of insurance risk to ensure best practice is shared throughout the Group and common standards are adopted.

The individual life and health insurance risks are managed as follows:

- Mortality and morbidity risks are mitigated by use of reinsurance. The Group companies select reinsurers, from those approved by the Group, based on local factors, but assess the overall programme to manage Group-wide risk exposures and monitor that the aggregation of risk ceded to individual reinsurers is within the Group appetite for credit risk. In the case of default by a reinsurer, this does not release the Group from its liability to the insured policyholders.
- Longevity risk: Whilst individual Group companies are responsible for reserving and pricing for annuity business, the Group monitors the exposure to this risk and the capital implications to manage the impact on the Group-wide exposure and the capital funding that Group companies may require as a consequence.
- Persistency risk: Where possible the financial impact of lapses is reduced through appropriate product design. Group companies also implement specific initiatives to improve retention of policies which may otherwise lapse.
- Product design and pricing risk arises from poorly designed or inadequately priced products and can lead to both financial loss and reputational damage to the Group. Guidelines have been developed to support the Group companies through the complete cycle of the product development process, financial analysis and pricing.
- Expense risk is primarily managed by the Group companies through the assessment of profitability and frequent monitoring of expense levels.

Concentration risk

The following table shows life and health insurance liabilities by geographic area.

	2018			2017		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Bermuda	184,813	4,068	188,881	191,516	4,489	196,005
Bahamas	3,054	815	3,869	3,160	773	3,933
Barbados	12,327	(33)	12,294	10,993	(22)	10,971
Other Caribbean & Latin America	3,073	-	3,073	2,454	-	2,454
Total	**203,267**	**4,850**	**208,117**	**208,123**	**5,240**	**213,363**

Assumptions and methodology

The nature of life and health insurance business is such that a number of assumptions are made in compiling these consolidated financial statements. Assumptions are made about investment returns, mortality rates, lapse rate, morbidity, expenses, and premium payment patterns in connection with the in-force policies for each business unit. Assumptions are best estimates based on historic and expected experience of the business. The estimate of the ultimate liability arising from life and health insurance contracts is a significant accounting estimate.

The valuation of liabilities was performed using CALM. In some instances approximations are used due to the nature of liabilities. The approximations are not expected to change the results materially. Best estimate assumptions were generally based on industry and Group experience. Provisions for adverse deviations ("PfADs") were determined by applying appropriate margins for adverse deviations ("MfADs") to the best estimate assumptions. A variety of factors are considered in the Group's valuation techniques, such as yield curve, credit spreads, and default assumptions, which have market observable inputs.

a) Mortality
Mortality refers to the rates at which death is expected to occur for defined classes of insureds. Management reviews the Group's mortality experience annually, however the portfolio of business is too small to form the basis for any internally produced mortality assumption. Therefore, the Group's mortality assumption is based on industry experience. The assumed mortality rates for life insurance contracts do not reflect any future improvement. For life contingent annuities, the assumed mortality assumption includes future mortality improvement, the effect of which is to increase insurance contract liabilities, based on prescribed mortality improvement rates promulgated by the Canadian Actuarial Standards Board ("ASB").

For life products, a higher mortality would be financially adverse to the Group. For annuity products, a lower mortality would be financially adverse to the Group.

b) Morbidity
Morbidity refers to the likelihood that an insured will contract or develop any number of illnesses. The Group's portfolio of group and individual health business is large enough for an internal analysis of lag and is used, along with an analysis of experience, as the basis for setting annually renewable premiums. A very small block of individual disability business assumes industry standard morbidity rates when setting assumptions.

Morbidity also refers to both the rates of accident or sickness and the rates of recovery therefrom. An increase in medical claim rates net of reinsurance would increase the actuarial liabilities.

c) Investment returns
With the exception of assets backing certain participating liabilities, assets are not formally segmented by line of business or product line. Invested assets are notionally segmented to support the actuarial liabilities valued under CALM. For each segment the future cash flows from insurance and investment contracts and the assets supporting them are projected under a number of interest rate scenarios some of which are prescribed for CALM under Canadian Actuarial Standards of Practice or an approximation of CALM. Both current assets and future reinvestment consider credit / asset default risk (assumed to earn a credit spread, including appropriate default provision, above the risk-free Treasury yield based on current and future expected market conditions). U.S. Treasury and Agency bonds were assigned no risk default charge. Other asset defaults were based on industry experience.

d) Expenses
Actuarial liabilities provide for future administrative policy-related expenses. These include the costs of premium collection, claims adjudication and processing, related consulting services, preparation and mailing of policy statements and related indirect expenses and overheads. A unit expense study is performed annually to determine an appropriate estimate of future expenses by liability type. An inflation assumption is incorporated in the estimate of future expenses consistent with the interest rate scenarios projected under CALM.

e) Lapse
The best estimate lapse assumption is based on a combination of industry and the Group's lapse experience and pricing assumptions for newer products.

Policyholders may allow their policies to terminate prior to the end of the contractual period by choosing not to continue to pay premiums or by exercising one of the non-forfeiture options contained in the contract. Assumptions for termination experience on life insurance are based on industry and the Group's experience. Termination rates vary by plan, policy duration and method of premium payment. For universal life policies, it is also necessary to set assumptions about premium cessation occurring prior to termination of the policy.

f) Premium payment patterns
Universal life liabilities are sensitive to the amount of discretionary premium received from the policyholders. A premium persistency assumption is made for all universal life products and can vary by plan, age and policy duration.

g) Policyholder dividends
Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that future policyholder dividends will change to reflect the experience of the respective participating accounts consistent with the participating policyholder dividend policies.

Sensitivity test analysis
There is considerable judgment required by management in making assumptions in the measurement of insurance and investment contract liabilities. Application of different assumptions may result in a different measure of the liabilities. Therefore, sensitivity testing is widely used to measure the capital required and volatility in earnings due to exposure to life and health insurance risks. This assessment is taken at both business unit level and at Group level where the impact of aggregation of similar risks can be measured. This enables the Group to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite.

The Group uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on all of the Group's financial performance measurements to inform the Group's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which each of its business units, and the Group as a whole, are exposed.

(in thousands of Bermuda dollars)

The following provides information about management's best estimate of the impact of changes in assumptions used to determine the Group's life and health insurance contract liabilities.

		Increase in liability	
	Change in assumption	2018 $	2017 $
Mortality rate – life products	+1%	**145**	141
Mortality rate – annuity products	-1%	**331**	369
Morbidity – medical claims	+1%	**898**	847
Expenses	+10%	**1,934**	1,875
Termination rate	+10%	**1,448**	1,669

Investment returns
Assets are notionally segmented to correspond to the different liability categories of the Group. For each segment, the projected current asset and liability cash flows are used in CALM under several interest rate scenarios to determine the actuarial liabilities. Asset cash flows are reduced to provide for asset default losses.

Interest rate risk associated with this assumption is measured by determining the effect on the present value of the projected net asset and liability cash flows of the Group of an immediate 1% increase or a 1% decrease in the level of interest rates. These interest rate changes will impact the projected cash flows.

The effect of an immediate 1% increase in interest rates would be to decrease the present value of these net projected cash outflows by approximately $2,429 (2017 – $4,737). The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash outflows by approximately $2,986 (2017 – $5,294).

ii) General insurance risk
Types of risk
General insurance risk in the Group arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
- Inadequate reinsurance protection or other risk transfer techniques; and
- Inadequate reserves.

The majority of the general insurance business underwritten by the Group is of a short term nature such as property, motor and marine insurances. The Group's underwriting strategy and appetite is agreed by the Board of Directors and communicated via specific policy statements and guidelines. Like the life insurance risk, general insurance risk is managed primarily at a business unit level with oversight at a Group level.

Management of general insurance risks
The Group's insurance risk policy sets out the overall framework for the management of insurance risk. As part of the framework, a structure of delegated pricing and underwriting authorities is in place. Pricing is based on assumptions which consider past experience and trends. Insurance exposures are limited through reinsurance. Overall, the Group seeks to be conservative in its acceptance of insurance risks by establishing strict underwriting criteria and limits. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

Significant insurance risks will be reported through the risk management framework. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprise a provision for claims incurred but not yet reported ("IBNR"), a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

Management under the direction of the Board of Directors monitors and develops the management of insurance risk in the general insurance business units, and assesses the aggregate risk exposure. It is responsible for the development, implementation and review of the Group policies for underwriting, claims, reinsurance, and reserving that operate within the risk management framework.

BF&M General, ICBL, and IHIC have developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of the Group. Where appropriate such mechanisms are employed throughout the business units to promote the adoption of best practice as standard.

(in thousands of Bermuda dollars)

Reinsurance strategy
Reinsurance is used to reduce potential loss to the Group from individual large risks and catastrophic events. It may also be used to manage capital or to provide access to specialist underwriting expertise.

Significant reinsurance programmes are reviewed annually at both the business unit and Group level, to verify that the levels of protection being purchased reflect any developments in exposure and the risk appetite of the Group. The reinsurance arrangements include quota share and excess of loss catastrophe treaties. In addition to the overall Group reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.

Reinsurance purchases are in line with the strategy set out in the Group's Reinsurance policy. The basis of these purchases is underpinned by extensive financial and capital modeling and actuarial analysis to optimise the cost and capital efficiency benefits from the reinsurance programme.

The reinsurance is placed with providers who meet the Group's counterparty security requirements, and large reinsurance placements may also require approval from the Board of Directors.

Management evaluates the remaining reinsurance coverage available from the Group's Excess of Loss catastrophe treaties subsequent to claims activity related to catastrophic events and, in the current year, have concluded that the remaining available coverage should be sufficient to absorb potential adverse development on unsettled claims.

Concentration risk
Processes are in place to manage catastrophe risk in individual business units and at a Group level. The Group cedes much of its catastrophe risk to third-party reinsurers but retains a pooled element for its own account gaining diversification benefits.

The concentration of insurance risk before and after reinsurance by territory in relation to the type of general insurance business risk accepted is summarised below, with reference to the carrying amount of the insurance reserve liabilities (gross and net of reinsurance) arising from general insurance contracts:

31 December 2018

Territory		**Property $**	**Motor $**	**All Other $**	**Total $**
Bermuda					
	Gross	939	4,740	1,926	7,605
	Net	318	1,576	8	1,902
Cayman/Other Caribbean					
	Gross	70,860	4,169	3,324	78,353
	Net	(1,837)	4,075	1,647	3,885
Barbados					
	Gross	1,086	36,408	9,994	47,488
	Net	180	23,963	6,778	30,921
Total					
	Gross	**72,885**	**45,317**	**15,244**	**133,446**
	Net	**(1,339)**	**29,614**	**8,433**	**36,708**

31 December 2017

Territory		**Property $**	**Motor $**	**All Other $**	**Total $**
Bermuda					
	Gross	2,919	17,119	2,728	22,766
	Net	191	5,757	2,482	8,430
Cayman/Other Caribbean					
	Gross	544,076	3,871	3,225	551,172
	Net	4,922	2,988	1,580	9,490
Barbados					
	Gross	2,037	38,988	9,704	50,729
	Net	425	25,554	6,245	32,224
Total					
	Gross	**549,032**	**59,978**	**15,657**	**624,667**
	Net	**5,538**	**34,299**	**10,307**	**50,144**

Assumptions and methodology
The ultimate cost of outstanding contract liabilities are estimated by using a range of standard actuarial claims projections techniques, such as the Incurred Development Methodology and the Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that the Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is analysed by accident period. Claims development is analysed for each geographical area as well as by line of business.

General insurance business claims reserving
The subsidiaries writing general insurance business have a documented reserving policy setting out the basis on which liabilities are to be determined using statistical analysis and actuarial experience. Policies for each subsidiary are in line with relevant local regulation and legislation.

Management monitors and conducts quarterly reviews of the Group's general insurance claims provisions, and their adequacy.

The Group has claims departments dealing with the mitigation of risks surrounding known exposures. These departments investigate and adjust claims with the assistance and advice of external loss adjusters. The claims are reviewed individually on a quarterly basis and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments. The adequacy of the Group's general insurance claims provisions is ultimately overseen by the Board of Directors.

The estimate of the ultimate liability arising from short term insurance contracts is a significant accounting estimate. These liabilities are divided into 2 categories: the provision for IBNR and the provision for the cost of reported claims not yet paid. Provisions are also made for adverse development and unallocated loss adjustment expenses.

The estimation of the IBNR claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For casualty contracts, the IBNR liability will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Assumptions are made around costs such as repairs, jury decisions, court interpretations and legislative changes. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. Management engages independent actuaries to assist them in making such estimates based on the Group's own loss history and relevant industry data.

Claims development tables
The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table illustrates how the Group's estimate of total claims outstanding for each accident or underwriting year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position. A calendar year basis is considered to be most appropriate for the business written by the Group.

(in thousands of Bermuda dollars)

Gross loss development

Accident year Estimate of ultimate claims cost:	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
At the end of accident year	34,365	38,847	52,617	39,436	35,710	71,901	37,086	99,282	681,460	32,727	-
One year later	33,126	36,722	49,226	35,857	35,402	61,994	35,713	94,564	621,036	-	-
Two years later	31,911	34,742	48,464	34,688	32,404	59,901	34,078	95,951	-	-	-
Three years later	31,240	34,046	47,058	34,027	32,479	60,044	33,497	-	-	-	-
Four years later	31,135	34,153	46,856	33,648	35,888	60,037	-	-	-	-	-
Five years later	33,801	34,096	46,781	33,633	33,891	-	-	-	-	-	-
Six years later	34,258	33,919	46,968	33,250	-	-	-	-	-	-	-
Seven years later	34,593	34,104	47,083	-	-	-	-	-	-	-	-
Eight years later	34,472	34,111	-	-	-	-	-	-	-	-	-
Nine years later	34,482	-	-	-	-	-	-	-	-	-	-
Current estimates of cumulative claims	34,482	34,111	47,083	33,250	33,891	60,037	33,497	95,951	621,036	32,727	1,026,065
Cumulative payments to date	(32,593)	(32,727)	(44,627)	(31,487)	(31,360)	(56,817)	(29,209)	(86,052)	(551,359)	(11,288)	(907,519)
Gross Liability recognised in the consolidated statement of financial position	1,889	1,384	2,456	1,763	2,531	3,220	4,288	9,899	69,677	21,439	118,546
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	14,900
Total reserve included in the consolidated statement of financial position	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**133,446**

Net loss development

Accident year Estimate of ultimate claims cost:	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
At the end of accident year	22,422	23,470	22,492	22,592	24,367	29,523	25,481	34,259	35,760	17,836	-
One year later	20,917	21,041	21,553	21,727	23,884	28,375	24,204	31,729	37,093	-	-
Two years later	19,899	19,985	21,821	21,261	22,134	26,805	23,239	31,522	-	-	-
Three years later	18,899	20,113	21,649	20,739	22,132	26,093	23,057	-	-	-	-
Four years later	18,809	20,231	21,899	20,509	21,958	25,950	-	-	-	-	-
Five years later	18,559	20,398	21,969	20,387	21,902	-	-	-	-	-	-
Six years later	18,524	20,235	22,180	20,248	-	-	-	-	-	-	-
Seven years later	18,700	20,447	22,465	-	-	-	-	-	-	-	-
Eight years later	18,597	20,527	-	-	-	-	-	-	-	-	-
Nine years later	18,690	-	-	-	-	-	-	-	-	-	-
Current estimates of cumulative claims	18,690	20,527	22,465	20,248	21,902	25,950	23,057	31,522	37,093	17,836	239,290
Cumulative payments to date	(17,955)	(19,429)	(20,264)	(18,840)	(20,135)	(24,081)	(19,551)	(26,367)	(31,030)	(12,650)	(210,302)
Net Liability recognised in the consolidated statement of financial position	735	1,098	2,201	1,408	1,767	1,869	3,506	5,155	6,063	5,186	28,988
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	7,720
Total reserve included in the consolidated statement of financial position	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**36,708**

5. Capital management and regulatory compliance

The Group's policy is to maintain a strong consolidated capital base. The Group manages its capital to ensure its continued ability to provide an adequate return to shareholders, exceed insurance regulatory capital requirements, provide flexibility to take advantage of growth opportunities, maintain a strong credit rating, and to support the risks associated with the business of the Group. The Group's capital base is defined as Shareholders' Equity as disclosed in the consolidated statement of financial position.

The Bermuda Monetary Authority ("BMA") is the regulator of the Group. Under the laws and regulations of Bermuda, the Group must maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As at 31 December 2018, the Group exceeded the minimum requirement.

Management monitors the adequacy of the Group's capital from the perspective of the Bermuda insurance regulations and the Bermuda Companies Act (1981) as well as the regulatory requirements of the other jurisdictions in which it operates. The Group's practice is to maintain the capitalisation of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements within the various jurisdictions.

The Group's investment policies emphasise the preservation of capital and the maintenance of a diversified investment portfolio, which together serve to minimise the risk that investment activities pose to the Group's capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares.

The regulatory requirements for jurisdictions with significant activities are as follows:

A. Bermuda

Under The Insurance Act 1978 (Bermuda), amendments thereto and the Insurance Account Rules 2016 ("the Legislation"), the Group and the Group's Bermuda-based insurance subsidiaries are required to annually prepare and file a statutory financial return, a capital and solvency return and audited financial statements prepared under Generally Accepted Accounting Principles. In addition, the Group submits a quarterly financial return. The Bermuda Solvency and Capital Requirement ("BSCR") is the prescribed form of capital and solvency return in Bermuda. The BSCR includes a standardised model for assessing the minimum capital required to be held by a company based on a measure of risk associated with an insurance company's assets, liabilities, premiums and catastrophe risk exposure. The BMA requires all Groups and insurers to maintain their minimum statutory capital and surplus at a level which is 120% of the amount calculated in accordance with the BSCR.

The Act also requires the Group's Bermuda based insurance subsidiaries which write general business, to meet minimum liquidity ratios whereby defined relevant assets must exceed 75% of defined relevant liabilities.

The Act limits the maximum amount of annual dividends and distributions that may be paid by the Group's insurance subsidiaries. These insurance subsidiaries are prohibited from declaring or paying any dividend of more than 25% of its total statutory capital and surplus, as show in the in the previous year statutory balance sheet, unless at least seven days before payment of the dividend it files with the BMA an affidavit that it will continue to meet its minimum capital requirement as described above. In addition, the companies must obtain the BMA's prior approval before reducing its total statutory capital, as show in the previous financial year statutory balance, by 15% or more.

In addition, The Bermuda Companies Act (1981) limits the Group's ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that the Group would be unable to pay its liabilities as they become due or if the realisable value of its assets would be less than the aggregate of its liabilities, issued share capital and share premium accounts.

B. Barbados

The Barbados Insurance (Catastrophe Reserve Fund) Regulations 2003-88 require the establishment of a catastrophe reserve fund. Annual amounts of up to 25% of net premium income from property insurance business are allocated to the fund. Assets representing the fund in the amount of $8,060 (2017 – $7,987) are placed in trust in accordance with the regulations of the Barbados Insurance Act.

Section 152 of the Barbados Insurance Act requires the appropriation towards a surplus reserve of at least 25% of net income until such time as the surplus reserve of the ICBL equals or exceeds the liability in respect of unearned premiums. A surplus reserve of $18,694 as at 2018 (2017 – $18,694) is included in ICBL's shareholders' equity in accordance with the requirements.

C. Cayman islands

The Cayman Islands Monetary Authority ("CIMA") has statutory powers that enable it to use its discretion to require the Group to conduct its Cayman operations in accordance with general or specific conditions which may be imposed by CIMA or may be agreed between CIMA and the Group. The Group is required to maintain capital in excess of the greater of approximately $300 for domestic insurers or $1,000 for external insurers, and an amount determined as per a prescribed formula set out in legislation. The formula prescribes the minimum capital requirements for the Group's assets and liabilities on a risk basis and also provides for a margin of catastrophe. The Group holds both a domestic insurer license and an external insurer Class A license. Additionally, IHIC has regulated insurance operations in several other jurisdictions throughout the Caribbean. As at 31 December 2018, the Group was in compliance with regulatory requirements in the various jurisdictions in which it operates.

6. Segmental information

Management has determined the operating segments based on a combination of factors, including products, geographical areas and reports reviewed by the Group Chief Executive Officer ("CEO") used to make strategic decisions. All the operating segments meet the definition of a reportable segment.

Health, life, annuity and pension
This operating segment includes group and individual health and accident, life, disability, annuity and pension products offered in Bermuda, Bahamas and Cayman.

Property and casualty (Bermuda)
This operating segment includes the following products: personal and commercial fire, windstorm, burglary, public liability, marine, special types, personal automobile, personal auto-cycle, workmen's compensation and commercial vehicles.

Real estate (Bermuda)
This operating segment includes the Group's real estate operations in Bermuda. The Group currently owns and occupies one building and is a majority owner in two buildings that are leased principally to non-related parties.

Barbados operations
This operating segment is identified by its geographical location. Insurance coverage includes motor, property, marine, miscellaneous accident, group and individual health, group and individual life, and pension business.

Cayman Islands and other Caribbean operations
This operating segment is identified by its geographical location. Insurance coverage includes motor, property, marine, and casualty business.

Corporate and other
Corporate operations consist of corporate level income and expenses and returns from investments not allocated to any operating segments. It also represents the combined operations of two holding companies, a management company, and an investment management company. The Group manages shared services centrally with most costs allocated based on either net assets, head count, expenses or revenues. Some central costs are not allocated and remain within the corporate Group.

Measurement basis
The accounting policies of the segments are generally the same as those for the Group as a whole, adjustments are made at the Group level where differences exist. The Group evaluates performance of operating segments on the basis of profit or loss from operations before tax.

Intersegment income is recorded at management's estimate of current market prices.

(in thousands of Bermuda dollars)

The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2018 is as follows:

Segments	Health, life, annuity, and pension 2018 $	Property and casualty 2018 $	Real estate 2018 $	Barbados operations 2018 $	Cayman and other Caribbean operations 2018 $	Corporate and other 2018 $	Total 2018 $
Income earned from external customers	129,581	32,830	2,905	41,822	34,655	(35)	241,758
Investment income	(3,384)	719	-	(5,554)	244	103	(7,872)
Total income	126,197	33,549	2,905	36,268	34,899	68	233,886
Insurance contracts benefits and expenses	85,413	6,257	-	19,966	7,238	-	118,874
Commission and acquisition expense	2,431	3,950	-	4,789	18,987	-	30,157
Operating expenses	19,082	11,533	99	15,260	8,234	6,124	60,332
Amortisation expense	2,862	3,410	884	1,061	609	423	9,249
Interest on loans	-	-	-	-	-	-	-
Income taxes	-	-	-	(112)	81	216	185
Non-controlling interest	-	-	900	70	-	(2,671)	(1,701)
Shareholders' net income	14,864	8,300	1,330	(5,406)	(2,636)	3,785	20,237
Impairment losses recognised in income*	1,904	-	-	930	-	-	2,834
Assets	1,411,579	134,585	27,842	186,477	245,658	12,887	2,019,028
Fixed asset & intangible expenditures	1,257	3,295	664	1,630	133	120	7,099
Liabilities	1,319,028	51,380	672	129,693	194,102	8,810	1,703,685

*The table below summarises impairment losses by asset type:

Segments	Health, life, annuity, and pension 2018 $	Barbados operations 2018 $	Total 2018 $
Mortgages	1,938	217	2,155
Residential properties	(34)	-	(34)
Available-for-sale investments	-	1	1
Investment properties	-	712	712
Total	**1,904**	**930**	**2,834**

(in thousands of Bermuda dollars)

The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2017 is as follows:

Segments	Health, life, annuity, and pension 2017 $	Property and casualty 2017 $	Real estate 2017 $	Barbados operations 2017 $	Cayman and other Caribbean operations 2017 $	Corporate and other 2017 $	Total 2017 $
Income earned from external customers	125,973	34,616	2,908	40,887	29,162	194	233,740
Investment income	13,209	1,899	-	2,214	1,447	344	19,113
Total income	139,182	36,515	2,908	43,101	30,609	538	252,853
Insurance contracts benefits and expenses	105,863	14,406	-	19,291	8,495	-	148,055
Commission and acquisition expense	3,028	3,545	-	5,303	17,193	-	29,069
Operating expenses	20,013	11,648	804	18,421	8,576	6,537	65,999
Amortisation expense	2,518	3,387	1,038	1,177	708	450	9,278
Interest on loans	-	-	11	-	-	2	13
Income tax expense	-	-	-	(897)	(1,581)	159	(2,319)
Non-controlling interest	-	-	885	117	-	(475)	527
Shareholders' net income	4,064	4,688	1,268	(885)	(6,694)	1,250	3,691
Impairment losses recognised in income*	6,873	-	-	1,771	-	-	8,644
Assets	1,416,643	130,048	25,561	206,917	831,306	9,844	2,620,319
Fixed asset & intangible expenditures	2,386	4,786	124	1,713	71	478	9,558
Liabilities	1,332,634	69,851	1,045	139,342	768,045	4,674	2,315,591

*The table below summarises impairment losses by asset type:

Segments	Health, life, annuity, and pension 2017 $	Barbados operations 2017 $	Total 2017 $
Mortgages	5,252	439	5,691
Residential properties	1,621	-	1,621
Loans and receivables	-	1,044	1,044
Available-for-sale investments	-	59	59
Intangible assets	-	48	48
Investment properties	-	180	180
Total	**6,873**	**1,770**	**8,643**

7. Fair value measurements

A. Fair value methodologies and assumptions

Management has assessed that the carrying values of cash and cash equivalents, fixed deposits, regulatory deposits, and restricted cash approximate their fair values.

The fair value of fixed income securities which are carried at FVTPL is determined using quoted prices in active markets for identical or similar securities. When quoted prices in active markets are not available, fair value is determined using market standard valuation methodologies, which include discounted cash flow analysis, consensus pricing from various broker dealers that are typically the market makers, or other similar techniques. The assumptions and valuation inputs in applying these market standard valuation methodologies are determined primarily using observable market inputs, which include, but are not limited to, benchmark yields, reported trades of identical or similar instruments, broker-dealer quotes, issuer spreads, bid prices, and reference data including market research publications. In limited circumstances, non-binding broker quotes are used.

The fair value of equity and fund securities is determined using quoted prices in active markets for identical securities or similar securities. When quoted prices in active markets are not available, fair value is determined using equity valuation models, which include discounted cash flow analysis and other techniques that involve benchmark comparison. Valuation inputs primarily include projected future operating cash flows and earnings, dividends, market discount rates, and earnings multiples of comparable companies.

For disclosure purposes, the fair value for fixed income securities classified as either held to maturity or loans and receivables, and mortgages and loans classified as loans and receivables is determined by discounting the expected future cash flows using a current market interest rate applicable to financial instruments with a similar yield, credit quality and maturity characteristics. Valuation inputs typically include benchmark yields and risk-adjusted spreads from current lending activities or loan issuances. For impaired mortgages, fair value reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Fair values for investment properties and residential and commercial properties held for sale are assessed annually and reviewed quarterly for material changes. The fair value is assessed using the most recently available reports from qualified external appraisal services. These properties are appraised externally at least once every three years. The most recent appraisals for the properties located in Barbados were performed during December 2018. The Bermuda properties were externally valued as at 31 December 2017. Values are estimated using 1) the income approach to estimate the present value of discounted projected future cash flows using current rental values, assessed rental values or market rental values at a market discount rate; or 2) determined having regard to recent market transactions for similar properties in similar locations or where such information is not readily available, other valuation techniques such as the income capitalisation model are used. The methodologies and inputs used in these models are in accordance with real estate industry valuation standards. Valuation inputs include estimated rental value, rental growth rates, vacancy rates, discount rates, future operating expenses and terminal growth rates. Changes in valuation inputs can have a significant impact on fair value assessed.

The fair value of investments for accounts of segregated fund holders is determined using quoted prices in active markets or independent valuation information provided by investment managers. The fair value of direct investments within investments for accounts of segregated fund holders, such as short-term securities and government and corporate debt securities, is determined according to valuation methodologies and inputs described above in the respective asset type sections.

The methodologies and assumptions for determining the fair values of investment contract liabilities are included in Note 2N(ii).

B. Fair value hierarchy

The Group categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritises the inputs used by the Groups valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to fair value measurement in its entirety.

The three levels of the fair value hierarchy are defined as follows:

i) Level 1

Fair value is based on quoted market prices for identical assets and liabilities in an active market at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

(in thousands of Bermuda dollars)

ii) Level 2

Fair value inputs for level 2 are inputs, other than quoted prices included within level 1, that are observable for the asset or liability either directly or indirectly. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. These inputs include the following:

- Quoted prices for similar assets and liabilities in an active market.
- Quoted prices for identical or similar assets in a market that is not active, the prices are not current, or price quotations vary substantially over time or for which little information is released publically.
- Inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves.

iii) Level 3

If one or more of the significant inputs is not based on observable market data, the financial assets are included in level 3. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models using market observable data where possible. A transfer from level 2 to level 3 would occur primarily due to decreased observability of inputs in the valuation methodology. Conversely, transfers out of level 3 would primarily occur due to increased observability of inputs.

C. Assets and liabilities measured at fair value

The following table presents the Group's assets and liabilities measured at fair value in the consolidated statement of financial position, categorised by level under the fair value hierarchy:

31 December 2018	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Cash and cash equivalents	160,712	-	-	160,712
Fixed deposits	4,102	-	-	4,102
Regulatory deposits	12,941	9,516	-	22,457
Restricted cash	19,926	-	-	19,926
Financial assets at FVTPL				
Fixed income securities	54,539	419,266	-	473,805
Equities	22,326	11,301	-	33,627
Available for sale financial assets				
Equities	4,064	737	-	4,801
Residential properties	-	-	1,531	1,531
Segregated fund assets	680,929	141,684	-	822,613
Total assets	**959,539**	**582,504**	**1,531**	**1,543,574**
Liabilities				
Investment contract liabilities	-	284,049	-	284,049
Segregated fund liabilities	-	822,613	-	822,613
Total liabilities	**-**	**1,106,662**	**-**	**1,106,662**

(in thousands of Bermuda dollars)

31 December 2017	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Cash and cash equivalents	205,072	-	-	205,072
Fixed deposits	7,765	-	-	7,765
Regulatory deposits	9,589	7,313	-	16,902
Restricted cash	19,058	-	-	19,058
Financial assets at FVTPL				
Fixed income securities	137,404	330,252	-	467,656
Equities	23,000	10,817	-	33,817
Available for sale financial assets				
Equities	6,902	857	-	7,759
Residential properties	-	-	3,479	3,479
Segregated fund assets	681,777	146,790	-	828,567
Total assets	**1,090,567**	**496,029**	**3,479**	**1,590,075**
Liabilities				
Investment contract liabilities	-	281,369	-	281,369
Segregated fund liabilities	-	828,567	-	828,567
Total liabilities	**-**	**1,109,936**	**-**	**1,109,936**

The following table presents the change in Level 3 instruments (Residential properties held for sale):

	2018 $	2017 $
Opening balance	3,479	954
Transfers into Level 3	367	4,124
Purchases / (sales)	(2,006)	-
Gains / (losses) recognised in income	(309)	(1,599)
Total	1,531	3,479

Residential properties are assets carried at fair value on a recurring basis that are categorised as level 3. Transfers into level 3 represent previous mortgages and loans not measured at fair value. Significant unobservable inputs include sale proceeds, costs to sell, and timing of sale. A decrease in expected sale proceeds would result in a decrease in fair value. A decrease in either costs to sell or time to sale would result in an increase in fair value.

(in thousands of Bermuda dollars)

D. Assets and liabilities not measured at fair value

For assets and liabilities not measured, at fair value in the consolidated statement of financial position, the following table discloses fair value information categorised by level in the preceding hierarchy:

31 December 2018	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Held-to-maturity financial assets				
Fixed income securities	-	12,042	-	12,042
Loans and receivable financial assets				
Fixed income securities	-	-	45,688	45,688
Mortgages	-	-	59,814	59,814
Policyholder loans	-	-	3,539	3,539
Investment properties	-	-	65,200	65,200
Total assets	**-**	**12,042**	**174,241**	**186,283**
Liabilities				
Investment contract liabilities	-	43,217	-	43,217
Total liabilities	-	43,217	-	**43,217**

31 December 2017	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Held-to-maturity financial assets				
Fixed income securities	-	11,403	-	11,403
Loans and receivable financial assets				
Fixed income securities	-	-	57,676	57,676
Mortgages	-	-	67,216	67,216
Policyholder loans	-	-	3,366	3,366
Investment properties	-	-	66,568	66,568
Total assets	**-**	**11,403**	**194,826**	**206,229**
Liabilities				
Investment contract liabilities	-	53,869	-	53,869
Total liabilities	-	53,869	-	**53,869**

8. Cash and cash equivalents

	2018 $	2017 $
Cash at bank and in hand	**138,565**	189,140
Short-term bank deposits	**22,147**	15,932
Total	**160,712**	**205,072**

9. Regulatory deposits, fixed deposits and restricted cash

	2018 $	2017 $
Fixed deposits	**4,102**	7,765
Regulatory deposits	**22,457**	16,902
Restricted cash	**19,926**	19,058
Total	**46,485**	**43,725**

(in thousands of Bermuda dollars)

Regulatory deposits represent cash and fixed income security amounts placed on deposit with banks and government bodies to satisfy licensing criteria in certain jurisdictions in which the Group operates. These deposits cannot be removed nor the accounts reduced without the prior written consent of the relevant regulator.

The fixed deposits have terms of 365 days with various independent financial institutions. The fixed deposits have various maturity dates, and earn interest of 0.01% – 3.0% per annum.

Restricted cash represents funds held in trust for and on behalf of policyholders of certain pension plans in Barbados. The liabilities of these pension plans are reported in the Group's consolidated financial statements as investment contracts. Restricted cash includes cash in hand, deposits held on call with banks and other short-term highly liquid financial assets with original maturities of less than three months. The carrying value of restricted cash approximates its fair value.

10. Investments

A. Carrying amount and fair value of investments

Investments comprise:

31 December	2018 Carry amount $	2018 Fair value $	2017 Carry amount $	2017 Fair value $
At fair value through profit and loss				
- Fixed income securities	**473,806**	**473,805**	467,656	467,656
- Equities	**33,627**	**33,627**	33,817	33,817
Held-to-maturity				
- Fixed income securities	**12,045**	**12,042**	12,147	11,403
Loans and receivables				
- Policyholder loans	**3,539**	**3,539**	3,366	3,366
- Mortgages	**59,782**	**59,814**	67,896	67,216
- Fixed income securities[1]	**44,449**	**45,688**	55,206	57,676
	627,248	**628,515**	**640,088**	**641,134**
Available for sale				
- Equities	**4,801**	**4,801**	7,759	7,759
- Residential properties	**1,531**	**1,531**	3,479	3,479
	6,332	**6,332**	**11,238**	**11,238**
Total	**633,580**	**634,847**	**651,326**	**652,372**

[1]Includes $34,696 of Government of Barbados debt securities for which the carrying value approximates fair value.

As noted in Note 3A(ii), at 31 December 2018, the fair value of the assets that pass the SPPI test but are neither managed or have their performance evaluated on a fair value basis are as follows:

	Total Fair Value $	SPPI $	Non-SPPI $
Held-to-maturity			
- Fixed income securities	12,042	12,042	-
Loans and receivables			
- Policyholder loans	3,539	3,539	-
- Mortgages	59,814	59,814	-
- Fixed income securities	45,688	45,688	-
Total	**121,083**	**121,083**	**-**

(in thousands of Bermuda dollars)

B. Investment income

	2018 $	2017 $
Interest income		
Fixed income securities – at FVTPL	12,110	9,921
Fixed income securities – at amortised cost	3,970	5,311
Mortgages and loans	4,289	4,500
Bank deposits and policyholder loans	982	626
	21,351	20,358
Dividend income		
Equities – at FVTPL	626	591
Equities – available for sale	193	94
	819	685
Net realised gains / (losses) on sale of investments		
Equities – at FVTPL	101	209
Fixed income securities – at FVTPL	(2,791)	(2,843)
Fixed income securities – loans and receivables[1]	(7,122)	-
	(9,812)	(2,634)
Change in fair value arising from		
Fixed income securities	(12,003)	10,000
Equities	(1,155)	3,254
	(13,158)	13,254
Impairments and deductions		
Less: Impairment loss on investments	(2,122)	(8,415)
Less: Impairment loss on investment properties	(712)	(180)
Less: Crediting interest on guaranteed contracts for the account of customers	(4,238)	(3,955)
	(7,072)	(12,550)
Total Investment income	**(7,872)**	**19,113**

[1]Under the BBD Debt Exchange Offer, which was effective 1 October 2018, the Group has exchanged certain Government of Barbados debt securities for new instruments that have longer repayment periods and lower rates of interest. Under the provisions of IAS 39, the original instruments have been derecognised as the rights to those cash flows is expired. The loss recorded on de-recognition was the difference between the carrying value of the original instruments and the fair value of the new instruments acquired, at the date of exchange. Due to the illiquidity of Government of Barbados debt securities, there was a significant degree of judgement involved in determining the fair value of the new instruments acquired at the date of exchange.

11. Insurance receivables and other assets

	2018 $	2017 $
Insurance receivables	66,076	118,057
Accounts receivable	7,662	18,263
Accrued investment income	4,728	4,629
Total	**78,466**	**140,949**

(in thousands of Bermuda dollars)

12. Deferred acquisition costs

A reconciliation of the change in deferred acquisition costs is shown below:

	2018 $	2017 $
At 1 January	9,577	9,895
Adjustment for change in accounting policy (Note 3)	944	-
Revised balance as at 1 January	10,521	9,895
Recognised deferred acquisition costs	25,085	22,934
Amortisation charge through income	(24,684)	(23,252)
At 31 December	**10,922**	**9,577**

13. Reinsurance assets

Reinsurance assets are comprised of the following:

	2018 $	2017 $
Short-term insurance contracts:		
Claims reported and adjustment expenses	81,913	398,252
Unearned premiums ceded	61,704	54,934
Claims incurred but not reported	14,825	176,271
Total short-term insurance contracts	**158,442**	**629,457**
Life and health insurance contracts:		
Participating		
Individual life	(1,956)	(2,094)
Non-participating		
Individual life	(4,750)	(4,908)
Individual and group annuities	-	-
Group life	1,827	1,736
Health and accident	29	26
Total life and health insurance contracts	**(4,850)**	**(5,240)**
Total Reinsurance assets	**153,592**	**624,217**

14. Investment properties

	2018 $	2017 $
Cost	57,096	56,518
Accumulated depreciation	(22,536)	(20,758)
Net book value	**34,560**	**35,760**
Year ended 31 December		
At beginning of year	35,760	36,164
Net additions and capital improvements	578	882
(Impairment)	(712)	(180)
Depreciation	(1,066)	(1,106)
Closing net book value	**34,560**	**35,760**

Investment properties located in Bermuda consist of Aon House, owned by Scarborough, a 60% owned subsidiary, and Argo House, owned by Barr's Bay, a 60% owned subsidiary. Additionally, investment properties located in Barbados include land being used for car parking facilities and two buildings being used for rental. One of the Barbados properties has been placed in trust with respect to the statutory funds and if this was to be sold the value of the asset would need to be replaced within the statutory fund.

(in thousands of Bermuda dollars)

At 31 December 2018, investment properties with a net book value of $34,560 (2017 – $35,760) were estimated to be valued at $65,200 (2017 – $66,568) on the basis of their estimated open market value for existing use. During the year ended 31 December 2018 certain investment properties' carrying values exceeded their market values, which resulted in impairment losses of $712 (2017 – $180).

Rental income generated from these investment properties during the year amounted to $4,004 (2017 – $4,012). Operating expenses incurred in support of generating rental income from investment properties was $1,269 (2017 – $1,287).

15. Property and equipment

	Land and buildings $	Furniture, equipment and leasehold improvements $	Computer hardware $	Motor Vechicles $	Total $
At 1 January 2017					
Cost	23,439	10,819	8,836	1,113	44,207
Accumulated amortisation	(4,158)	(7,816)	(6,862)	(791)	(19,627)
Net book value	**19,281**	**3,003**	**1,974**	**322**	**24,580**
Year ended 31 December 2017					
Additions	688	539	502	109	1,838
Disposals	793	(1,394)	(651)	(348)	(1,600)
Disposals – accumulated amortisation	(803)	1,221	315	288	1,021
Amortisation charge	(488)	(737)	(769)	(157)	(2,151)
Effect of movement in exchange rates	-	9	43	-	52
Closing Net book value	**19,471**	**2,641**	**1,414**	**214**	**23,740**
At 31 December 2017					
Cost	24,920	9,987	8,775	874	44,556
Accumulated amortisation	(5,449)	(7,346)	(7,361)	(660)	(20,816)
Net book value	**19,471**	**2,641**	**1,414**	**214**	**23,740**
Year ended 31 December 2018					
Additions	1,074	180	789	50	2,093
Disposals	-	(99)	(333)	(175)	(607)
Disposals – accumulated amortisation	-	86	333	176	595
Amortisation charge	(374)	(622)	(673)	(79)	(1,748)
Effect of movement in exchange rates	-	(9)	(46)	-	(55)
Closing net book value	**20,171**	**2,177**	**1,484**	**186**	**24,018**
At 31 December 2018					
Cost	25,994	10,039	9,111	749	45,893
Accumulated amortisation	(5,823)	(7,862)	(7,627)	(563)	(21,875)
Total Net book value	**20,171**	**2,177**	**1,484**	**186**	**24,018**

(in thousands of Bermuda dollars)

16. Income taxes

Income tax is calculated and payable on the profits of ICBL, BF&M Canada, and IHIC which operate in jurisdictions with corporate tax requirements. The rest of the Group operates in non-corporate tax jurisdictions.

A. Income tax

The income tax (recoverable) expense comprises:

	2018 $	2017 $
Current tax	635	(712)
Deferred tax	(450)	(1,607)
Total Income tax expense (recoverable)	**185**	**(2,319)**

The taxation charge on taxable income differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2018 $	2017 $
ICBL, BF&M Canada and IHIC's (loss) income before corporation tax	(6,237)	(9,418)
Tax calculated at effective rates of 3%*, 9% and 32% respectively	(1,419)	(2,451)
Prior year adjustments	10	(372)
Effect of different tax rates on taxable income	173	171
Adjustments resulting from differences in actual & deferred tax rates	224	-
Income not subject to tax	506	(272)
Expenses not deductible for tax	678	850
Tax under accrual	12	(245)
Other	1	-
Total Income tax expense (recoverable)	**185**	**(2,319)**

* ICBL's tax rate for the 2018 fiscal year was 30% with the exception of investment income on life business which is taxed at a rate of 5%.

B. Deferred taxes

The deferred tax asset and deferred tax liability relate to the following items:

	2018 $	2017 $
Deferred tax assets:		
Taxable losses carried forward	113	777
Net unearned premium	105	-
Deferred ceding commissions	18	12
Outstanding claims	208	252
Tax charge related to components of other comprehensive income	850	866
Deferred tax asset	**1,294**	**1,907**
Deferred tax liabilities:		
Net unearned premium	-	(17)
Accelerated tax depreciation	(60)	(204)
Net pension plan liability	20	(654)
Tax charge to components of other comprehensive income	-	245
Deferred acquisition cost	(429)	(469)
Deferred tax liability	**(469)**	**(1,099)**
Net deferred tax asset	**825**	**808**

(in thousands of Bermuda dollars)

C. Tax recoverable (payable)

	2018 $	2017 $
Tax recoverable at beginning of year	**3,588**	2,503
Tax payments made / (received)	**(1,817)**	425
Current tax expense / (recovered) for year	**(284)**	721
Tax over / (under) accrual	**(131)**	(96)
Other	**241**	35
Total Tax recoverable at end of year	**1,597**	**3,588**
Tax payable at beginning of year	**(133)**	(61)
Tax payments made	**372**	34
Current tax expense for year	**(351)**	(9)
Tax over accrual	**(53)**	(62)
Other	**4**	(35)
Total Tax payable at end of year	**(161)**	**(133)**
Net tax recoverable	**1,436**	**3,455**

D. Impact to other comprehensive income / (loss)

The tax (charge) credit relating to components of OCI is as follows:

	Before tax $	2018 Tax (charge) / credit $	After tax $
Re-measurements of retirement benefit obligations	(1,090)	1,368	278
Investments classified as available for sale			
Fair value gains	44	-	44
Currency translation differences	(283)	-	(283)
Total Other comprehensive income / (loss)	**(1,329)**	**1,368**	**39**

	Before tax $	2017 Tax (charge) / credit $	After tax $
Re-measurements of retirement benefit obligations	(733)	245	(488)
Investments classified as available for sale			
Fair value gains	461	-	461
Currency translation differences	186	-	186
Total Other comprehensive income / (loss)	**(86)**	**245**	**159**

(in thousands of Bermuda dollars)

17. Goodwill and intangible assets

The carrying amounts of intangible assets are as follows:

	Finite life					
	Customer relationships and contracts $	Distribution channels $	Brands $	Software development cost $	Goodwill $	Total $
At 1 January 2017						
Cost	12,156	14,500	2,737	46,499	10,328	86,220
Accumulated amortisation	(6,698)	(6,887)	(2,622)	(16,206)	(2,628)	(35,041)
Net book value	**5,458**	**7,613**	**115**	**30,293**	**7,700**	**51,179**
Year ended 31 December 2017						
Additions[(1)]	1,000	-	-	6,609	-	7,609
Disposals	-	-	-	438	-	438
Disposals – accumulated amortisation	-	-	-	(82)	-	(82)
Amortisation	(818)	(1,450)	(115)	(3,590)	-	(5,973)
Impairment losses	-	-	-	(48)	-	(48)
Closing net book value	**5,640**	**6,163**	**-**	**33,620**	**7,700**	**53,123**
At 31 December 2017						
Cost	13,157	14,500	2,737	53,545	10,328	94,267
Accumulated amortisation	(7,517)	(8,337)	(2,737)	(19,925)	(2,628)	(41,144)
Net book value	**5,640**	**6,163**	**-**	**33,620**	**7,700**	**53,123**
Year ended 31 December 2018						
Additions[(1)]	702	-	-	4,453	-	5,155
Disposals	-	-	-	(47)	-	(47)
Disposals – accumulated amortisation	-	-	-	23	-	23
Amortisation	(999)	(1,450)	-	(3,986)	-	(6,435)
Closing net book value	**5,343**	**4,713**	**-**	**34,063**	**7,700**	**51,819**
At 31 December 2018						
Cost	13,859	14,500	2,737	57,951	10,328	99,375
Accumulated amortisation	(8,516)	(9,787)	(2,737)	(23,888)	(2,628)	(47,556)
Total Net book value	**5,343**	**4,713**	**-**	**34,063**	**7,700**	**51,819**
Remaining weighted average amortisation period in years	3.9 years	3.3 years	Nil years	5.9 years	n/a	

[(1)]Additions include certain group health and life customer lists purchase from Bermuda agents with an amortisation period of 5 years.

Impairment losses and the amortisation charge on goodwill and intangibles assets are included in amortisation expense in the consolidated statement of income.

(in thousands of Bermuda dollars)

A. Goodwill

Goodwill represents the excess of the cost of IHIC at acquisition over the fair value of the net assets acquired. The goodwill at acquisition was allocated to the IHIC operation which is identified as a separate CGU.

Goodwill is assessed for impairment as per the accounting policy described in Note 2J, by comparing the carrying amount of the CGU against its recoverable amount. The recoverable amount of the CGU has been determined based on a value-in-use calculation, which is the discounted present value of future cash flows expected to be derived from the CGU. These calculations use pre-tax cash flow projections based on the 2019 financial business plan approved by management and estimates of cash flows for the subsequent six years to which a terminal value is then calculated. The plans reflect management's best estimate of future profits based on both historical experience and target growth rates. A 7 year cash flow period was used as this allowed a better reflection of some of the longer term recovery considerations post the significant hurricane events of 2016 and 2017. A discount rate of 10.5% was applied reflecting the nature of the of the environment for the CGU and the evolution of the business post acquisition. A terminal growth rate of 2.8% was used which represents the estimated long term nominal growth rate of the economy.

A sensitivity on assumptions was noted as follows:

	Impact to recoverable amount
10% decrease in net underwriting income	Reduction of $8,054
100 basis point increase discount rate	Reduction of $9,698

None of these reductions individually would cause an impairment.

These sensitivities are indicative only and should be considered with caution as the effect of the variation in each assumption is calculated in isolation without changing any other assumption, which in practice is unlikely. The estimation of the recoverable amount is an area of significant judgment. Reductions in the estimated recoverable amount could arise from various factors, such as reductions in net cash flows, adverse changes to discount rates and growth rates or any combination.

B. Software development costs

The Group is engaged in significant development of its new core information systems. Costs associated with the development of the system are deferred, to the extent that the cost satisfies the criteria under IAS 38 – *Intangible assets*, until such time that management determines that a component is available for use in the manner expected and then it is amortised over its useful life. Annually, the Group reviews its software development costs available for use, for evidence of impairment. The Group has determined there is no indication of impairment in 2018 (2017 – Nil). For significant software development costs not available for use, management performs an impairment assessment annually in accordance with IAS 36, using the methodology described in note 2J(ii).

18. Segregated funds

The Group's segregated funds net assets were comprised entirely of mutual funds for both the 2018 and 2017 years.

Segregated funds – consolidated statements of changes in net assets

	2018 $	2017 $
Segregated funds assets – beginning of year	828,567	685,938
Additions:		
Pension contributions	123,085	108,538
Net realised and unrealised gains / (losses)	(51,119)	113,598
Total additions	**71,966**	**222,136**
Deductions:		
Payments to policyholders and their beneficiaries	(69,183)	(71,915)
Management fees	(8,737)	(7,592)
Total deductions	**(77,920)**	**(79,507)**
Net additions to segregated funds	**(5,954)**	**142,629**
Total Segregated funds assets – end of year	**822,613**	**828,567**

(in thousands of Bermuda dollars)

19. Other liabilities

	2018 $	2017 $
Advances from reinsurers	**39,751**	148,808
Insurance balances payable	**37,006**	36,744
Payables and accrued expenses	**25,641**	25,968
Deferred commission income	**14,229**	13,543
Policyholder dividends payable	**4,990**	4,906
Dividends payable	**2,614**	2,469
Total	**124,231**	**232,438**

Insurance balances payable include amounts payable to reinsurers and brokers.

20. Retirement benefit obligations

A. Defined contribution pension plan

The Group has established defined contribution pension plans for eligible qualifying employees. Contributions by the Group to these defined contribution plans are subject to certain vesting requirements and are generally a set percentage of an employee's annual income and matched against employee contributions. The cost of the defined contribution pension plans are not reflected in the tables below. An expense of $1,156 (2017 – $1,135) equating to the service cost for the year for these employees was reported during the year.

B. Post retirement medical plan

The Group also sponsors a post-retirement medical benefit plan for its Bermuda employees. The main benefit provided is for health care. Prior to 1 January 2012, the Group paid 50% of the total premiums paid to the insurer and the pensioner paid the balance. Retirees after 31 December 2011 pay 100% of their premiums if they want to continue to be covered by the plan. This change reduced the number of current employees who will be prospectively entitled to benefits.

The Group also offers medical insurance benefits to retired employees in Barbados. Prior to 1 January 2014, ICBL paid to the insurer 60% of the total premiums and the pensioner paid the balance. Retirees after 31 December 2013 pay 100% of their premiums if they want to continue to be covered by the plan. This change reduced the number of current employees who are entitled to benefits.

Cash contributions to the plan by the Group during 2018 were $245 (2017 – $286).

C. Defined benefit pension plan

The Group sponsors defined benefit pension plans for eligible employees in Bermuda and Barbados under broadly similar regulatory frameworks. These plans are closed to new entrants for employees hired after 1999 for Bermuda and 2007 for Barbados. The defined benefit plans are administered by separate Funds that are legally separated from the Group. Responsibility for governance of the plans including investment and contributions lies jointly with the Group and the Trustees of the pension funds.

Under the plans, the pension amount at retirement is based on an employee's final average earnings. The schemes are generally funded through payments determined by periodic actuarial calculations. Cash contributions to the plan by the Group during 2018 were $933 (2017 – $1,189).

The Group measures the fair value of assets and the accrued benefit obligations as of 31 December. The most recent actuarial valuation of the plan's assets and the present value of the defined benefit obligation were carried out as of 31 December 2018.

The following table provides a summary of the defined benefit pension and post-retirement medical plans' estimated financial position at 31 December 2018 and 2017:

	2018 $	2017 $
Defined benefit pension plan	**(1,234)**	(648)
Medical benefit plan	**3,084**	3,844
Total Retirement benefit obligations	**1,850**	**3,196**

(in thousands of Bermuda dollars)

Changes in Benefit Obligation	Defined benefit pension plans 2018 $	Defined benefit pension plans 2017 $	Medical benefit plans 2018 $	Medical benefit plans 2017 $
Balance – beginning of year	**56,756**	53,814	**3,844**	4,203
Current service cost	**480**	690	-	-
Interest expense	**2,314**	2,387	**120**	141
Past service cost and gains and losses on settlements	-	(257)	-	-
Actuarial (gains) and losses due to changes in:				
Experience	**(76)**	(62)	**(448)**	(278)
Economic assumption changes	**(1,873)**	964	**(187)**	64
Changes in asset ceiling, excluding amounts included in interest expense	**(1,977)**	2,057	-	-
Benefits paid	**(2,931)**	(2,837)	**(245)**	(286)
Total Benefit Obligation – end of year	**52,693**	**56,756**	**3,084**	**3,844**

Change in Plan Assets	Defined benefit pension plans 2018 $	Defined benefit pension plans 2017 $	Medical benefit plans 2018 $	Medical benefit plans 2017 $
Fair value – beginning of year	**57,404**	54,585	-	-
Interest income	**1,039**	3,834	-	-
Return on plan assets, excluding amounts included in interest income	**(2,462)**	697	-	-
Employer contributions	**933**	1,189	**245**	286
Plan expenses	**(56)**	(64)	-	-
Benefits paid	**(2,931)**	(2,837)	**(245)**	(286)
Total Fair value of plan assets – end of year	**53,927**	**57,404**	-	**-**
Net (benefit) liability recognised in the Consolidated Statement of Financial Position	**(1,234)**	**(648)**	**3,084**	**3,844**

Amounts recognised in respect of these plans:

Net benefit cost recognised in Consolidated Statement of Income	Defined benefit pension plans 2018 $	Defined benefit pension plans 2017 $	Medical benefit plans 2018 $	Medical benefit plans 2017 $
Current service cost	**480**	690	-	-
Interest expense / (income)	**2,314**	2,387	**120**	141
Expected return on plan assets	**(2,477)**	(2,523)	-	-
Administrative expense	**56**	64	-	-
Past services cost and gains and losses	-	(257)	-	-
Total Net benefit cost	**373**	**361**	**120**	**141**

Re-measurement effects recognised in OCI	Defined benefit pension plans 2018 $	Defined benefit pension plans 2017 $	Medical benefit plans 2018 $	Medical benefit plans 2017 $
Return on plan assets (excluding amounts in interest income)	**4,508**	(2,017)	-	-
Actuarial gains and losses due to change in:				
Experience	**(71)**	3	**(436)**	(296)
Financial assumptions	**(1,872)**	964	**(199)**	83
Adjustments for restrictions on the defined benefit asset	**(2,208)**	1,751	-	-
Total Re-measurements effects	**357**	**701**	**(635)**	**(213)**

(in thousands of Bermuda dollars)

Accrued benefit obligation and plan assets by country are as follows:

At 31 December 2018	Bermuda $	Barbados $	Total $
Present value of obligation	37,805	17,972	55,777
Fair value of plan assets	(36,932)	(16,995)	(53,927)
Total	**873**	**977**	**1,850**

At 31 December 2017	Bermuda $	Barbados $	Total $
Present value of obligation	42,125	18,475	60,600
Fair value of plan assets	(37,294)	(20,110)	(57,404)
Total	**4,831**	**(1,635)**	**3,196**

Asset allocation and fair values of the plan assets by major category for the defined benefit pension plan is as follows:

	2018			2017		
	Quoted $	Unquoted $	Total $	Quoted $	Unquoted $	Total $
Equity and fund instruments	13,626	-	13,626	19,637	-	19,637
Fixed income instruments	20,448	7,035	27,483	14,852	10,553	25,405
Real estate	-	2,457	2,457	-	2,675	2,675
Other	-	10,361	10,361	-	9,687	9,687
Total Asset allocation	**34,074**	**19,853**	**53,927**	**34,489**	**22,915**	**57,404**

Pension and medical plan assets include the Group's ordinary shares with a fair value of $907 (2017 – $966).

Risk

Through its defined benefit pension plans and post-employment medical plans, the Group is exposed to a number of risks, the most significant are detailed below:

Changes in bond yields – a decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Life expectancy – The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant where inflationary increases result in higher sensitivity to changes in life expectancy.

Inflation risk – The pension obligation is linked to inflation, and higher inflation will lead to higher liabilities. The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with equities inflation, meaning that an increase in inflation will also increase the deficit of the plan or reduce the surplus of the plan.

As the Group's defined benefit plans are closed to new entrants, the volatility associated with future service accruals for active members has been limited and will decline over time.

(in thousands of Bermuda dollars)

Actuarial assumptions

The principal actuarial assumptions used in measuring the Group's defined benefit obligations vary depending on whether the obligation is the result of Bermuda or Barbados based operations. The significant weighted-average assumptions as of 31 December 2018 and 2017 are:

	Defined benefit pension plans		Medical benefit plans	
Bermuda	2018 %	2017 %	2018 %	2017 %
Benefit cost during the year:				
Discount rate	**3.75**	3.25	**3.75**	3.00
Compensation increase	**2.25**	1.75	**-**	-
Medical claims inflation	**-**	-	**4.5**	6.50
Defined benefit obligation at end of year:				
Discount rate	**3.75**	3.25	**3.75**	3.00
Compensation increase	**3.25**	2.75	**-**	-
Medical claims inflation	**-**	-	**4.5**	6.50

	Defined benefit pension plans		Medical benefit plans	
Barbados	2018 %	2017 %	2018 %	2017 %
Benefit cost during the year:				
Discount rate	**7.75**	7.75	**7.75**	7.75
Compensation increase	**6.00**	6.00	**-**	-
Medical claims inflation	**-**	-	**6.00**	6.00
Defined benefit obligation at end of year:				
Discount rate	**7.75**	7.75	**7.75**	7.75
Compensation increase	**2.50**	2.50	**-**	-
Medical claims inflation	**-**	-	**6.00**	6.00

The expected return on assets assumption for pension cost purposes is the weighted average of expected long-term asset return assumptions by asset class, and is selected from a range of possible future asset returns.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. As the defined benefit plans are closed to new entrants, these assumptions translate into an average life expectancy in years for a pensioner who retired at age 65:

	Defined benefit pension plans		Medical benefit plans	
	2018 In years	2017 In years	2018 In years	2017 In years
Bermuda				
Male	**20.23**	20.15	**20.23**	20.15
Female	**22.38**	22.34	**22.38**	22.34
Barbados				
Male	**20.23**	20.15	**20.23**	20.15
Female	**22.38**	22.34	**22.38**	22.34

(in thousands of Bermuda dollars)

Significant judgment is used in setting the assumptions used to calculate the Group's retirement benefit obligations. The sensitivity analysis has been determined based on reasonably possible changes of the significant assumptions occurring at the end of the reporting period. Changes in trend rate assumptions by 1% either direction will change the retirement benefit obligation as follows:

	Defined benefit pension plans		Medical benefit plans	
	Increase 2018 $	Decrease 2018 $	Increase 2018 $	Decrease 2018 $
Discount rate	5,290	6,446	251	290
Compensation increase / medical claims inflation	830	742	271	239
Average life expectancy	1,422	2,093	174	168

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and a change in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised in the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

For the funded plans, the Group ensures that the investment positions are managed with an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. The Group's ALM objective is to match assets to the pension's obligation by investing in long-term fixed interest securities with maturities that match the benefits payments as they fall due.

The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the process used to manage its risk from previous periods. Investments are well diversified, such that failure of any single investment would not have a material impact on the overall level of assets.

The funding requirements are based on a local actuarial measurement framework. In this framework the discount rate is set on a risk free rate. Furthermore, premiums are determined on a current salary base. Additional liabilities stemming from past service due to salary increase should be paid immediately to the fund.

Expected contributions to post-employment benefit plans for the year ending 31 December 2019 are $1,491.

The weighted average duration of the defined benefit obligation is 12.11 years. The weighted average duration of the medical plan obligation is 8.90 years.

Future benefit payments

The following table sets forth the expected future benefit payments of the defined benefit pension and medical plans.

	2019 $	2020 $	2021 $	2022 $	2023-2033 $
Defined benefit pension	2,869	2,887	3,476	3,470	46,122
Medical benefit plan	242	253	249	245	2,409
Total future payments	**3,111**	**3,140**	**3,725**	**3,715**	**48,531**

(in thousands of Bermuda dollars)

21. Investment contract liabilities

The composition of investment contract liabilities and the movement in liabilities are shown below:

Composition of investment contract liabilities	2018 $	2017 $
Guaranteed interest pension		
Bermuda	282,493	279,399
Barbados	43,217	53,869
Term certain annuities	1,556	1,970
Total Investment contract liabilities	**327,266**	**335,238**

Investment contract liabilities carried at amortised cost	2018 $	2017 $
At 1 January	53,869	56,889
Pension contributions	2,334	2,313
Net investment (loss) / income	(6,991)	2,195
Benefits paid	(5,588)	(7,052)
Management fees deducted	(407)	(476)
Total at 31 December	**43,217**	**53,869**

Investment contract liabilities carried at fair value	2018 $	2017 $
At 1 January	281,369	286,605
Pension contributions	39,292	39,558
Net investment (loss) / income	(1,437)	564
Benefits paid	(26,268)	(33,518)
Management fees deducted	(30)	(45)
Net transfers out	(8,877)	(11,795)
Total at 31 December	**284,049**	**281,369**

22. Insurance contract liabilities

A. Composition of insurance contract liabilities

	2018			2017		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Short term insurance contracts:						
Claims reported and loss adjustment expenses	107,833	(81,913)	25,920	437,104	(398,252)	38,852
Unearned premiums	91,012	(61,704)	29,308	83,362	(54,934)	28,428
Claims incurred but not reported	25,613	(14,825)	10,788	187,563	(176,271)	11,292
Total short-term insurance contracts	**224,458**	**(158,442)**	**66,016**	**708,029**	**(629,457)**	**78,572**
Life and health insurance contracts:						
Participating						
Individual life	30,864	1,956	32,820	33,579	2,094	35,673
Non-participating						
Individual life	21,583	4,750	26,333	20,482	4,909	25,391
Individual and group annuities	120,875	-	120,875	127,987	-	127,987
Group life	12,230	(1,827)	10,403	10,830	(1,736)	9,094
Health and accident	17,715	(29)	17,686	15,245	(27)	15,218
Total life and health insurance contracts	**203,267**	**4,850**	**208,117**	**208,123**	**5,240**	**213,363**
Total Insurance contract liabilities	**427,725**	**(153,592)**	**274,133**	**916,152**	**(624,217)**	**291,935**

(in thousands of Bermuda dollars)

B. Changes in short term insurance contract liabilities

	2018 Gross $	2018 Reinsurance $	2018 Net $	2017 Gross $	2017 Reinsurance $	2017 Net $
At 1 January						
Claims and adjustment expenses	437,104	(398,252)	38,852	78,915	(44,155)	34,760
Claims incurred but not reported	187,563	(176,271)	11,292	21,502	(10,679)	10,823
Total at 1 January	624,667	(574,523)	50,144	100,417	(54,834)	45,583
Cash paid for claims settled in year	(455,989)	420,546	(35,443)	(161,779)	132,662	(29,117)
Increase in liabilities:						
Arising from current-year claims	32,556	(11,946)	20,610	674,126	(639,119)	35,007
Arising from prior-year claims	(67,788)	69,185	1,397	11,903	(13,232)	(1,329)
Total at 31 December	**133,446**	**(96,738)**	**36,708**	**624,667**	**(574,523)**	**50,144**
Claims and adjustment expenses	107,833	(81,913)	25,920	437,104	(398,252)	38,852
Claims incurred but not reported	25,613	(14,825)	10,788	187,563	(176,271)	11,292
Total at 31 December	**133,446**	**(96,738)**	**36,708**	**624,667**	**(574,523)**	**50,144**

The fair value of the net provision for claims and adjustment expenses of $36,708 (2017 – $50,144) is $35,985 (2017 – $50,139). The fair value is calculated by the Group's actuaries and represents the discounted value of the net provision.

C. Unearned premium liability

	2018 Gross $	2018 Reinsurance $	2018 Net $	2017 Gross $	2017 Reinsurance $	2017 Net $
At 1 January	83,362	(54,934)	28,428	84,274	(47,392)	36,882
Premium written during the year	130,209	(113,559)	16,650	111,481	(103,940)	7,541
Premium earned during the year	(122,559)	106,789	(15,770)	(112,393)	96,398	(15,995)
Total at 31 December	**91,012**	**(61,704)**	**29,308**	**83,362**	**(54,934)**	**28,428**
Movement during the year, net of acquisition costs	**(7,640)**	**6,762**	**878**	**906**	**7,542**	**8,448**

For the year ended 31 December 2018
(in thousands of Bermuda dollars)

D. Changes in life and health insurance contract liabilities

	2018 Gross $	2018 Reinsurance $	2018 Net $	2017 Gross $	2017 Reinsurance $	2017 Net $
Provision for policy benefits	205,838	5,240	211,078	191,468	3,606	195,074
Claims payable	1,775	-	1,775	2,430	-	2,430
Provision for participating policyholders	510	-	510	439	-	439
Life and health insurance contract liabilities – 1 January	208,123	5,240	213,363	194,337	3,606	197,943
Change in provision for policy benefits:						
Aging and changes in balances on in-force policies	3,898	30	3,928	3,610	244	3,854
Changes in assumptions:						
Investment returns	(13,048)	(454)	(13,502)	8,980	1,146	10,126
Mortality	(388)	36	(352)	1,530	238	1,768
Lapse	588	15	603	-	-	-
Expense	(766)	(28)	(794)	185	2	187
Premium payment patterns	-	-	-	-	-	-
Other	224	6	230	83	15	98
Other changes	125	5	130	(18)	(11)	(29)
	(9,367)	(390)	(9,757)	14,370	1,634	16,004
Provision for policy benefits	196,471	4,850	201,321	205,838	5,240	211,078
Claims payable	6,099	-	6,099	1,775	-	1,775
Provision for participating policyholders	697	-	697	510	-	510
Total life and health insurance contract liabilities – 31 December	**203,267**	**4,850**	**208,117**	**208,123**	**5,240**	**213,363**

The majority of the fair value of future policy benefits is determined by reference to the fair value of the assets supporting those liabilities. As assets supporting future policy benefits are reported at fair value in the consolidated statement of financial position, the change in the value of those assets would be largely offset by a change in the value of liabilities, where the duration of the assets and liabilities are closely matched, resulting in limited changes to surplus.

E. Composition of the assets supporting liabilities

The composition of the assets supporting life and health insurance contract liabilities is as follows:

31 December 2018	Fixed income securities $	Mortgages and loans $	Cash $	Total $
Participating				
Individual life	29,180	1,894	1,746	32,820
Non-participating				
Individual life	18,801	5,880	1,652	26,333
Individual and group annuities	85,401	35,273	201	120,875
Group life	3,862	1,646	4,895	10,403
Health and accident	78	330	17,278	17,686
Total	**137,322**	**45,023**	**25,772**	**208,117**

(in thousands of Bermuda dollars)

31 December 2017	Fixed income securities $	Mortgages and loans $	Cash $	Total $
Participating				
Individual life	30,791	2,054	2,828	35,673
Non-participating				
Individual life	18,591	6,223	577	25,391
Individual and group annuities	90,125	37,769	93	127,987
Group life	3,574	1,685	3,835	9,094
Health and accident	80	332	14,806	15,218
Total	**143,161**	**48,063**	**22,139**	**213,363**

23. Equity

A. Share capital

	2018 $	2017 $
Authorised –		
10,000,000 (2017 – 10,000,000) common shares of a par value of $1 each	10,000	10,000
Issued and fully paid –		
Common shares of a par value of $1 each	8,827	8,847

Common shares in issue in the Group rank pari passu with any new common shares issued in the Group. All the common shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Group.

A reconciliation of the number of shares outstanding at the beginning and at the end of the period is as follows:

	2018 # of shares	2017 # of shares
At 1 January	8,847,036	8,783,551
Shares issued under the employee share purchase plan	1,849	-
Shares issued under the equity incentive plan	788	257
Share grants issued under the equity incentive plan	-	76,900
Share grants forfeited under the equity incentive plan	(23,095)	(13,672)
Total at 31 December	**8,826,578**	**8,847,036**

B. Share premium and contributed surplus

Share premium comprises additional paid in capital in excess of the par value. This reserve is not ordinarily available for distribution. Contributed surplus represents additional paid in capital.

C. Share buy back

In 2016, the Group's Board of Directors authorised a share repurchase programme up to a maximum of 500,000 shares. As at 31 December 2018, the Group had repurchased 179,443 shares for a total of $3,374. The repurchased shares are held as treasury shares until reissued or cancelled. The current programme expires in April 2019 and may be renewed at the discretion of the Group and upon approval by the Bermuda Stock Exchange. The repurchase of shares is at the discretion of the Group.

(in thousands of Bermuda dollars)

D. Treasury shares

Treasury shares are shares of BF&M Limited that are held by the Group primarily for the purpose of issuing shares under the employee share purchase scheme or the equity incentive plan. Shares were acquired through purchases on the Bermuda Stock Exchange.

	2018 $	2018 # of shares	2017 $	2017 # of shares
At 1 January	**2,031**	**100,076**	1,265	67,286
Acquisition of shares through share buyback	**325**	**20,000**	1,187	57,328
Shares issued under the employee share purchase plan	**(426)**	**(20,665)**	(255)	(14,853)
Shares issued under the equity incentive plan	**(1,605)**	**(79,411)**	(166)	(9,685)
Total at 31 December	**325**	**20,000**	**2,031**	**100,076**

E. Accumulated other comprehensive loss

This consists of translation adjustments arising from the consolidation of the BF&M Canada operations, unrealised gains and losses on available for sale financial assets, and actuarial gains and losses on employee benefit plans.

F. Employee share purchase plan

During 2018, 22,514 (2017 – 14,853) shares were purchased by employees of the Group.

The fair value of the shares was credited to either share capital or treasury shares depending on the source of the shares, and share premium. The discount was charged to compensation expense.

Source of shares	Shares Issued #	Shares Capital $	Treasury Shares $	Share Premium $	Compensation Expense $
2018					
Share capital	1,849	2	-	29	5
Treasury shares	20,665	-	426	(73)	53
Total	**22,514**	**2**	**426**	**(44)**	**58**
2017					
Share capital	-	-	-	-	-
Treasury shares	14,853	-	255	47	45
Total	**14,853**	**-**	**255**	**47**	**45**

G. Shares held by the group's defined benefit pension scheme

As at 31 December 2018, 55,992 (2017 – 55,992) shares of the Group were owned within the investment portfolio of the Group's defined benefit pension scheme.

24. Share based payments

Restricted share grants and restricted unit grants

During the year 67,481 (2017 – 76,900) common shares and 14,600 units (2017 – 16,534) were issued to certain employees in respect of restricted share grants and restricted unit grants. These are held by the Group and are restricted from sale or use by the employees for three years from the grant date. Restricted unit grants differ from restricted share grants in that no common shares are issued at the time of the grant; instead they are issued after the vesting date. The amount of the benefit to these employees totalled $1,395 (2017 – $1,915) and will be amortised through earnings over a three year period with accelerated vesting for employees over 55 years of age. The amount charged to compensation expense in the current year totalled $981 (2017 – $1,487). The carrying amount of the liability in respect of restricted unit grants, which is included in other liabilities, is $785 (2017 – $768).

The following table summarises information about the outstanding share and unit grants:

Restricted share and unit grants vesting	# of shares	# of share units
08 April 2019	50,787	15,448
04 April 2020	58,545	14,554
01 April 2021	57,716	14,600
Total	**167,048**	**44,602**

(in thousands of Bermuda dollars)

25. Commission and other income

The following tables presents commission earned from reinsurers and fee income from service contracts by reporting segments as disclosed in Note 6.

Commission and other income	Health, life annuity, and pension 2018 $	Property and casualty 2018 $	Barbados operations 2018 $	Cayman and Other Caribbean operations 2018 $	Corporate and Other 2018 $	Total 2018 $
Commission income from insurance contracts	(3)	16,754	7,475	16,052	-	40,278
Fees earned from management of insurance contracts	1,411	-	-	-	-	1,411
Fee income from service contracts:						
Pension administration asset based income	7,438	-	588	-	-	8,026
Investment management asset based income	-	-	21	-	-	21
Administrative services and other fees	795	412	1,464	-	1,340	4,011
Total Commission and other income	9,641	17,166	9,548	16,052	1,340	53,747

Commission and other income	Health, life annuity, and pension 2017 $	Property and casualty 2017 $	Barbados operations 2017 $	Cayman and Other Caribbean operations 2017 $	Corporate and Other 2017 $	Total 2017 $
Commission income from insurance contracts	(5)	14,616	7,534	13,733	-	35,878
Fees earned from management of insurance contracts	1,032	-	-	-	-	1,032
Fee income from service contracts:						
Pension administration asset based income	6,808	-	667	-	-	7,475
Investment management asset based income	1	-	24	-	-	25
Administrative services and other fees	811	380	160	-	1,322	2,673
Total Commission and other income	8,647	14,996	8,385	13,733	1,322	47,083

26. Insurance contracts benefits and expenses

	2018 $	2017 $
Gross life and health claims and benefits paid	**107,606**	103,300
Reinsurance recoveries	**(4,585)**	(5,770)
Change in insurance contract liabilities	**(9,367)**	14,370
Change in reinsurance assets	**(390)**	1,634
Total life and health policy benefits	**93,264**	**113,534**
Gross short term claim and adjustment expenses paid	**455,989**	161,779
Reinsurance recoveries	**(416,943)**	(131,819)
Change in insurance contract liabilities	**(491,221)**	524,250
Change in reinsurance assets	**477,785**	(519,689)
Total short term claim and adjustment expenses	**25,610**	**34,521**
TOTAL Insurance contracts benefits and expenses	**118,874**	**148,055**

(in thousands of Bermuda dollars)

27. Operating expenses

	2018 $	2017 $
Wages and salaries	**34,051**	35,369
Professional and consulting fees	**5,344**	6,815
Post retirement benefit costs	**1,649**	1,637
IT maintenance contracts	**4,541**	5,549
Advertising and business development	**2,573**	3,090
Bank charges and foreign currency purchase tax	**2,597**	1,940
Office rent, building and utilities costs	**3,316**	3,047
Share expense	**981**	1,487
Compliance, legal and regulatory	**1,499**	1,262
Office and administration expenses	**1,847**	2,647
Bad debt	**(210)**	1,206
Travel	**720**	683
Memberships and subscriptions	**271**	331
Training and development	**417**	223
Other	**736**	713
Total Operating expenses	**60,332**	**65,999**

28. Components of accumulated other comprehensive loss

	2018 $	2017 $
Items that will not be subsequently reclassified to profit or loss		
Remeasurement of retirement benefit obligation		
Balance – beginning of year	**(5,116)**	(4,975)
Re-measurement of retirement benefit obligation	**278**	(488)
Non-controlling interest	**1,473**	347
Balance – end of year	**(3,365)**	(5,116)
Items that may be subsequently reclassified to profit or loss		
Changes in the fair value of available for sale financial assets		
Balance – beginning of year	**(1,591)**	(1,827)
Changes in the fair value of available for sale financial assets	**44**	461
Non-controlling interest	**(21)**	(225)
Balance – end of year	**(1,568)**	(1,591)
Currency translation differences		
Balance – beginning of year	**(252)**	(438)
Unrealised foreign exchange losses on translation of foreign operations	**(283)**	186
Balance – end of year	**(535)**	(252)
Total	**(5,468)**	**(6,959)**

(in thousands of Bermuda dollars)

29. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2018			2017		
	Income $	# of weighted average shares	per share amount $	Income $	# of weighted average shares	per share amount $
Net earnings	**20,237**			3,691		
Basic earnings per share:						
Income available to common shareholders	**20,237**	**8,797,342**	**2.30**	3,691	8,743,568	0.42
Effect of dilutive securities:						
Share options	**-**	**-**	**-**	-	-	-
Diluted earnings per share:						
Income available to common shareholders and assumed conversions	**20,237**	**8,797,342**	**2.30**	3,691	8,743,568	0.42

The weighted average number of shares, after deducting treasury shares, used in the calculation of diluted earnings per share for 2018 excludes nil (2017 – 4,776) share options granted to employees of the Group, as these would have been anti-dilutive.

30. Related parties

The Group has a significant shareholder, Lawrie (Bermuda) Ltd., incorporated in Bermuda, which owns 37% of the Group's shares. The remaining shares are widely held.

As disclosed in Note 2C(i), a number of the subsidiaries transacted with the Group during the year in the normal course of business. These transactions are eliminated on consolidation.

Key management personnel have been defined as the executive team and the board of directors of the Group. The following transactions were carried out with key management:

A. Sales of insurance contracts and other services

	2018 $	2017 $
Sales of insurance contracts and pension services:		
- Key management	**216**	164
Purchase of services:		
- Key management	**-**	84

B. Key management compensation

The following table shows compensation to key management:

	2018 $	2017 $
Salaries and other short-term employee benefits	**2,642**	2,468
Post-employment benefits	**112**	78
Share based payments	**702**	764
Total	**3,456**	**3,310**

Pursuant to Regulation 6.8 (3) of Section 11A of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and officers of the Group in the common shares of the Group at 31 December 2018 were 361,372 (2017 – 320,439) shares. No rights to subscribe for shares in the Group have been granted to or exercised by any director or officer, other than those disclosed in Note 24.

(in thousands of Bermuda dollars)

C. Loans to related parties

Loans are extended to key management of the Group (and their families) and to companies related to key management. Mortgage terms are typically no more than 20 years in duration and interest rates are consistent with rates charged by the Group to non-related parties.

	2018 $	2017 $
At 1 January	337	1,990
Adjustment for changes in key management	-	(1,643)
Loans extended (repayments received)	(31)	(31)
Interest charges	21	21
Total at 31 December	**327**	**337**

D. Self-insurance

The Group self-insures their office buildings reported in property and equipment and in investment properties. The insured asset is reinsured through the Group's reinsurance programme and is subject to the same terms and conditions as other reinsured insurance contracts.

31. Subsidiaries with material non-controlling interest

Set out below is the summarised financial information for the aggregate of each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position	ICBL		Scarborough / Barr's Bay	
	2018 $	2017 $	2018 $	2017 $
Total assets	185,952	209,004	23,825	22,134
Total liabilities	131,030	142,032	834	1,600
Total Net assets	**54,922**	**66,972**	**22,991**	**20,534**

Summarised comprehensive income	ICBL		Scarborough / Barr's Bay	
	2018 $	2017 $	2018 $	2017 $
Net premium earned	31,174	31,390	-	-
Rental income	1,100	1,105	3,451	3,454
Total income	36,268	43,094	3,451	3,454
Total benefits & expenses	41,716	44,759	1,202	1,241
Income / (loss) before taxes	(5,448)	(1,665)	2,249	2,213
Income taxes	112	897	-	-
Net income / (loss) after taxes	**(5,336)**	**(768)**	**2,249**	**2,213**
Other comprehensive income				
Items that will not be reclassified to profit or loss	(3,192)	(731)	208	15
Items that may be subsequently reclassified to profit or loss	44	461	-	-
Total Comprehensive income / (loss)	**(8,484)**	**(1,038)**	**2,457**	**2,228**
Total Income attributable to non-controlling interest	**(2,600)**	**117**	**900**	**885**

Summarised statement of cash flow	ICBL		Scarborough / Barr's Bay	
	2018 $	2017 $	2018 $	2017 $
Net cash generated from operating activities	13,514	(6,979)	2,606	2,026
Net cash generated from (used in) investing activities	(2,886)	11,987	(843)	(614)
Net cash used in financing activities	(3,568)	(3,437)	-	(477)
Net increase (decrease) in cash and cash equivalents	**7,060**	**1,571**	**1,763**	**935**
Cash and cash equivalents at beginning of year	**19,573**	**18,002**	**1,992**	**1,057**
Cash and cash equivalents at end of year	**26,633**	**19,573**	**3,755**	**1,992**

(in thousands of Bermuda dollars)

32. Commitments and contingencies

A. Operating leases

i) Group as Lessor

The Group has entered into non-cancellable operating leases on space within several of the Group's office buildings. These agreements include an extension option and terminate between 2017 and 2021. The future minimum lease payments receivable are as follows:

	2018 $	2017 $
No later than 1 year	3,363	3,363
Later than 1 year and no later than 5 years	1,562	5,104
Later than 5 years	-	-
Total	**4,925**	**8,467**

ii) Group as Lessee

The Group has also entered into various commercial leases as a lessee with renewable options on office space. The future minimum lease payments payable under non-cancellable leases are as follows:

	2018 $	2017 $
No later than 1 year	320	227
Later than 1 year and no later than 5 years	954	56
Later than 5 years	-	-
Total	**1,274**	**283**

B. Commitments

The Group has commitments made in the normal course of business that are to be disbursed upon fulfilment of certain contract conditions. $249 is payable in 2019 to fulfil contracts which have fixed and determinable amounts. For years 2020 through 2021, the Group has committed in principle to making donations to various local charities. The amount to be disbursed is unknown but will be determinable on an annual basis subject to contract terms. The Group also expects significant capital expenditures related to renovation work on one of its investment properties. This is estimated at $2.4 million. In addition, agreement has been made in principle to provide loans and mortgages in the amount of $2.9 million to various parties. While the future payment is probable, no obligation has been recognised at the balance sheet date as the amount cannot be reliably determined in accordance with IAS 37 – *Provisions, contingent liabilities and contingent assets*.

C. Contingencies

The Group and its subsidiaries are from time to time subject to legal actions arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty and it is possible that an adverse resolution could have a material effect on the consolidated financial statements of the Group.

33. Subsequent events

On 3 March 2019, the Group, declared a dividend to be paid to shareholders of record at 29 March 2019. The dividend will be paid on 15 April 2019. $1,930 will be paid out in total, representing a $0.22 per share dividend paid on 8,771,678 shares.

On 9 April 2019, the Group approved a dividend to be paid to shareholders of record at 28 June 2019. A $0.24 per share dividend will be paid on 15 July 2019. The number of shares and total amount to be paid has not yet been determined.

In 2019, the Government of Bermuda has proposed plans for reforming the way the Bermuda Hospitals Board is financed. The Group is currently reviewing the implications of the reform and is consulting with various stakeholders.

BF&M General Insurance Company Limited

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Gregory D. Haycock, FCA, J.P., Deputy Chairman
Gavin R. Arton
L. Anthony Joaquin, FCA
Paul C. J. Markey
R. John Wight, FCPA, FCA, CPCU
Christopher Harris, B.Sc. (Hons.), MBA, CFA
Conor O'Dea, FCA

Officers
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Abigail Clifford, B.A., M.Sc., Group Chief Operating Officer
Alissa Matthews, CPA, CA, Chief Financial Officer, P&C
Patrick Neal, B.A., CPCU, Senior Vice President, Business Development
Heather A. Bisbee, CPA, CA, Head of Financial Reporting
Stephanie Hanson, LL.B. (Hons.), Corporate Secretary and Group General Counsel

BF&M Life Insurance Company Limited

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Gordon Henderson, B.A. (Hons.), LL.B., Deputy Chairman
Gavin R. Arton
C.L.F. "Lee" Watchorn, FCIA, FSA
R. John Wight, FCPA, FCA, CPCU
Catherine S. Lord, B.Sc., J.P.
Andrew Soares, ALMI, ARe, CPCU

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Abigail Clifford, B.A., M.Sc., Group Chief Operating Officer
Andrew Soares, ALMI, ARe, CPCU, Executive Vice President
Heather A. Bisbee, CPA, CA, Head of Financial Reporting
Jody Power, CPA, CA, CFA, Vice President Finance
Stephanie Hanson, LL.B. (Hons.), Corporate Secretary and Group General Counsel

BF&M Investment Services Limited

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Gavin R. Arton, Deputy Chairman

Officers
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Miguel DaPonte, C.F.A., M.B.A., Senior Vice President
Heather A. Bisbee, CPA, CA, Head of Financial Reporting
Stephanie Hanson, LL.B. (Hons.), Corporate Secretary and Group General Counsel

Insurance Corporation of Barbados Limited

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Juanita Thorington-Powlett, M.B.A., F.C.I.S., Vice Chairman
Goulbourne Alleyne, F.C.I.I., M.B.A.
Sir Paul Altman, G.C.M., BCH
Gordon Henderson, B.A. (Hons.), LL.B.
Jennifer Hunte, F.C.G.A., F.C.I.S.
Toni Jones, LL.B. (Hons.)
Geoffrey Scott, B.Sc., M.B.A.
C.L.F. "Lee" Watchorn, FCIA, FSA

Officers
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Goulbourne Alleyne, F.C.I.I., M.B.A., Chief Underwriting Officer
Valentina J.G.R. Blackman, LL.B. (Hons.), LL.M., Chief Legal Officer
Oliver Jordan, M.B.A., FCA, CPA, CFE, Chief Operating Officer
Glyne Pilgrim, FCA, CPA, CGA, Chief Financial Officer

Island Heritage Insurance Company Ltd.

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Gregory D. Haycock, FCA, J.P.
C.L.F. "Lee" Watchorn, FCIA, FSA
Conor O'Dea, FCA

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Alissa R. Matthews, CPA, CA, Chief Financial Officer
Judy Ebanks, Assistant Secretary
Maples Corporate Services, Corporate Secretary

Island Heritage Retirement Trust Company Ltd.

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Conor O'Dea, FCA

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Subsidary Companies

BF&M General Insurance Company Limited
BF&M Life Insurance Company Limited
Insurance Corporation of Barbados Limited (51.2% ownership)
Island Heritage Insurance Company Ltd.
Island Heritage Retirement Trust Company Limited
BF&M Investment Services Limited
BF&M (Canada) Limited
BF&M Properties Limited
Barr's Bay Properties Limited (60% ownership)
Hamilton Reinsurance Company Limited
Scarborough Property Holdings Limited (60% ownership)
Hamilton Financial Limited
BF&M Brokers Limited
Island Heritage Insurance Company N.V.
Lawrence Boulevard Holdings Ltd.

BF&M Life | BF&M General **Island Heritage** **ICBL**

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