BF&M LIMITED

ANNUAL REPORT 2011

Mission Statement

To strengthen and further develop our position as the leading insurer in the jurisdictions where we do business, through a professional, innovative and caring approach to meeting all of the insurance needs of the community we serve. Through the excellence of our service, we intend to satisfy the aspirations of our staff, the needs of our policyholders, and the requirements of our shareholders.

Contents

02 Group Executive

R. John Wight, C.A., CPCU
President & Chief Executive Officer

Susan Reed, B.A., CLU, FLMI
Chief Operating Officer

Glen P. Gibbons, B.A., A.C.I.I.
Senior Vice President
BF&M General Insurance Company Limited

Heather A. Bisbee, C.A.
Head of Financial Reporting

Goulbourne Alleyne, M.B.A., FCII
Vice President, Underwriting & Claims
BF&M General Insurance Company Limited

Gina. A. Bradshaw, FLMI
Vice President
BF&M Life Insurance Company Limited

Janet Carew, C.A.
Head of Special Projects

Miguel DaPonte, CFA, M.B.A.
Vice President
BF&M Investment Services Limited

Lynda A. Davidson Leader, B.A., C.A.
Vice President, Corporate Services

03 Group Executive

Holly A. Flook, RN, BSN
Vice President, Underwriting & Claims
BF&M Life Insurance Company Limited

Debby L. Graham, P.H.R.
Vice President, Human Resources

Rob Jackson, CFP, CLU
Vice President, Sales & Customer Relations
BF&M Life Insurance Company Limited

Michael Lima
General Manager
Bermuda International Insurance Services Limited

Dennis Marinac, FSA, FCIA
Vice President & Life Actuary
BF&M Life Insurance Company Limited

Paul Matthew, B.A., PMP
Vice President, Information Technology

Patrick Neal, B.A. CPCU
Vice President, Business Development

Alyson L. Nicol, C.A., C.P.A.
Vice President, Pensions
BF&M Life Insurance Company Limited

Henry Sutton, CPCU, ARe
Vice President, Customer Relations
BF&M General Insurance Company Limited

Angela R. Tucker, C.A.
Vice President & Group Controller

04

Directors

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

[2] **Peter N. Cooper,** Retired Managing Director, A.S. Cooper & Sons, Ltd.

[2] **Nancy L. Gosling,** B.Comm., LL.D, C.G.A. President & Chief Executive Officer, Gosling Brothers Limited

[1] **Gregory D. Haycock,** FCA, J.P., Retired Senior Partner, KPMG

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

[1] **Stephen W. Kempe,** President, Admiral Management Services Limited

Catherine S. Lord, B.Sc., J.P., Retired

[1] **Garry A. Madeiros,** OBE, FCA, J.P., Retired President & CEO, Belco Holdings Limited (now named Ascendant Group Limited)

[1] **S. Caesar "Sy" Raboy,** CLU, Retired Senior Vice President & Deputy General Manager, Sun Life Assurance Company of Canada's U.S. Operation

[2] **Aaron E. Smith,** B.Sc(Hon), M.B.A.,Chairman & CEO, Igility Group of Companies

[1] **Richard D. Spurling,** Retired Partner, Appleby, Barristers & Attorneys

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

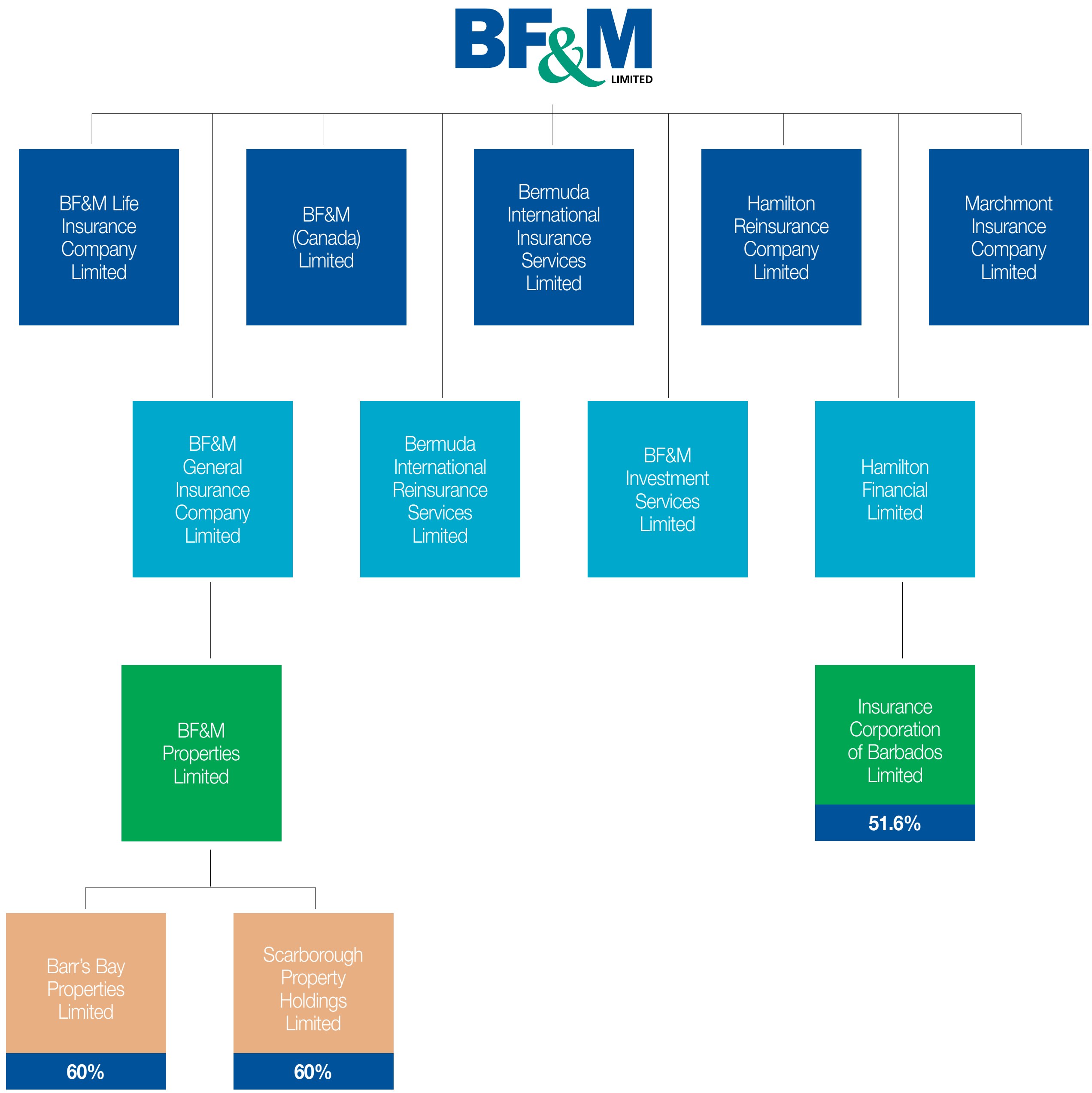
David A. J. G. White, President & Managing Director, Knick Knack Co. Ltd.

R. John Wight, C.A., CPCU, President & Chief Executive Officer, BF&M Limited

[1] Finance, Compensation & Corporate Governance Committee

[2] Audit, Compliance & Corporate Risk Management Committee

05
Corporate Structure



06 Financial & Statistical Summary

At End of Year

Total General Fund Assets
in millions of dollars

07	629.7
08	692.7
09	725.7
10	784.0
11	892.3

Shareholders' Equity
in millions of dollars

07	140.2
08	156.5
09	156.3
10	167.6
11	193.0

Number of Common Shares
in millions

07	7.5
08	8.3
09	8.3
10	8.4
11	8.4

Per Common Share

Shareholders' Net Income
in dollars

07	3.33
08	2.67
09	2.35
10	2.10
11	3.91

Cash Dividends
in cents

07	64
08	80
09	80
10	80
11	80

Book Value
in dollars

07	18.76
08	18.79
09	20.31
10	20.02
11	23.02

For the Year

Gross Premiums Written
in millions of dollars

07	195.2
08	211.9
09	225.5
10	235.5
11	234.0

Shareholders' Net Income
in millions of dollars

07	27.3
08	22.2
09	19.6
10	17.5
11	32.7

Dividends Declared
in millions of dollars

07	4.8
08	6.6
09	6.7
10	6.7
11	6.7

Financial Ratios

Return on Assets
percentage

07	4.5
08	3.4
09	2.8
10	2.3
11	3.9

Return on Common Shareholders' Equity
percentage

07	21.8
08	14.9
09	12.1
10	10.4
11	18.2

07 Shareholders' Report

We were pleased that rating agency A.M. Best maintained their Financial Strength Rating "A" Excellent for BF&M's two principal operating companies BF&M Life Insurance Company Limited and BF&M General Insurance Company Limited.

2011 was a year of great progress for BF&M against a backdrop of economic challenges for Bermuda. Net earnings for BF&M Limited for the year ended 31st December, 2011 were $32.7 million. This compared with earnings of $17.5 million for 2010. There were reasons for the year on year increase.

The Company benefitted from a very good investment performance in 2011. Fair value accounting for investments held in life insurance enterprises in particular, can produce reporting volatility from year to year. In 2011, the difference between fair value of investments and reserves for BF&M's life insurance companies produced a net gain of approximately $5 million. In 2010, the net difference resulted in a loss of $7 million.

The Company sponsors a post retirement health benefit plan for its employees. Prior to 1st January, 2012 the Company paid 50% of health insurance premiums on behalf of qualifying retirees and the retiree paid 50%. Due to the extensive and increasing cost of providing health insurance to retirees, qualifying employees retiring after 31st December, 2011 will still receive the full medical benefits of the plan but will now pay 100% of the premium. The reserve that the Company had set up in respect of this post retirement benefit was released into income in 2011, resulting in a one time gain of $9.6 million.

R. John Wight, C.A., CPCU
President and Chief Executive Officer

Gavin R. Arton
Chairman

08 Shareholders' Report

Investors in People
Pictured: Premier and Minister of Finance The Hon. Paula A. Cox J.P, M.P; Minister of Economy, Trade & Industry The Hon. Patrice Minors, J.P, M.P. and Jocene Wade of Investors in People present BF&M President & CEO John Wight with the Investors in People Gold Award. BF&M is the first business in Bermuda to achieve the Gold Award standard.

Return on Shareholders' Equity for 2011, including the one time gain referred to previously, was 18.2%. This compared with 10% for 2010. The continued good financial performance during 2011 enabled the Company to maintain the same dividend in 2011 as 2010 of 80 cents per share.

We were pleased that rating agency A.M. Best maintained their Financial Strength Rating "A" Excellent for BF&M's two principal operating companies BF&M Life Insurance Company Limited ("BF&M Life") and BF&M General Insurance Company Limited ("BF&M General"). A.M. Best's rating system is designed to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Their opinions are derived from an evaluation of a company's balance sheet strength, operating performance and business profile. A.M. Best's "A" Excellent rating rationale cited: "the organization's consistently positive net income, steady premium growth, and strong capitalization". These "A" Excellent ratings for BF&M Life and BF&M General are the strongest of any local insurer in the Bermuda marketplace.

Last year we reported that the Company was preparing itself for the new accounting standard "International Financial Reporting Standards" (IFRS) under which BF&M, as a publicly accountable enterprise, was required to report effective 1st January, 2011. IFRS replaces Canadian Generally Accepted Accounting Principles (GAAP). The Company started reporting under IFRS as of the 3 month period ended 31st March, 2011. The effects on the company's earnings from reporting under IFRS versus Canadian GAAP were not material. However, the amount of disclosure in the company's financial statement notes has had to be enhanced.

In 2011, the Company continued to move more lines of business onto its new insurance administrative system following the successful roll out of several products in 2010. Benefits of the new system include enhanced customer service capabilities, lower ongoing maintenance costs, and greater operational efficiencies.

BF&M had seven profit centres in 2011 which we will report on as follows:

- Bermuda General Insurance
- Bermuda Health & Life Insurance, Pension Administration Services
- Bermuda Investment Advisory Services
- Bermuda Real Estate
- Barbados Operation
- International Life Insurance
- International Life Reinsurance

Bermuda General Insurance

Net earnings increased from 2010, as a result of the one time gain referred to previously in this report. One large fire claim had a significant impact on 2011 profitability.

Shareholders' Report

Earnings from normal business operations were down year on year as a result of this large claim. Premium growth was fueled by new business and strong retention numbers in a weak economy. The Property Accounts lead the way with meaningful new sales from both the in-house sales team and our partnership with HSBC in Bermuda and Cayman. All other classes of business performed as expected although the Motor Account was impacted the most by the recessionary economy as premiums were down when compared to 2010. The number of insured vehicles remained fairly constant year over year but the reduction of premium was impacted by the effect of the various discounts the Company introduced to ensure retention of the business in a competitive marketplace.

2011 was an active year for claims across all classes in terms of severity although the number of claims reported in 2011 was down by 15% mainly due to the impact Hurricane Igor had on the 2010 claims numbers. The Motor Account deteriorated due to a handful of larger than normal claims reported in the period. We continue to monitor all classes on a monthly basis to ensure we identify trends early and react accordingly.

Our approach to reinsurance in 2011 remained conservative and is a strategic part of our business model. With the assistance of our reinsurance brokers we annually test the efficiency and strength of our Reinsurance Programme. The mandate from the Board and Security Committee requires management to retain strong reinsurance partners who will be more than able to respond to our needs as required.

In 2011, the Company filed its first Commercial Insurer Solvency Self-Assessment (CISSA) return to the Bermuda Monetary Authority. The CISSA focuses on the capital adequacy and solvency of insurers and reinsurers with the aim to protect policyholders. The results of the company's first CISSA filing confirmed management's belief that BF&M General is more than adequately capitalized which will ensure policyholder protection and paves the way for future growth.

Bermuda Health & Life Insurance, Pension Administration Services

Earnings for this division increased in 2011 over 2010, principally due to strong investment performance and improved claims experience on overseas medical treatment.

Last year, we saw the release of two important Consultative Papers in the Bermuda Health Council's report on Health Care Financing and the Ministry of Health's National Health Plan 2011. There has been much discussion on both documents and the latter was launched with an aggressive time line. The Company actively participates in the related task force groups offering our expertise and experience with drafting the domestic health policy.

Community Support

BF&M is proud of its continued integral role in the Bermudian community and remains committed to the future success of Bermuda.

Shareholders' Report

ICBL

Pictured: Insurance Corporation of Barbados Limited (ICBL) Deputy Managing Director Goulbourne Alleyne, ICBL Managing Director and CEO Ingrid Innes and BF&M President & CEO John Wight. ICBL is the market leader in property and casualty insurance in Barbados.

Health care costs are still a major concern to the company, and Bermuda continues to have one of the highest per capita health expenditures in the world. The overseas increases seen in recent years have moderated, however the domestic acute care is the main reason and the highest percentage increase driver on claims costs. The rate of increase in the cost of locally delivered health care is concerning to the Company and the employer groups whose premium pricing is affected by it. Claims costs paid by BF&M to King Edward Memorial Hospital in 2011 increased 18% over 2010. This followed an increase of 17% in 2010 over 2009, with the number of insureds remaining fairly constant over this three year period.

Over and above the costs involved, our Bermuda Health and Life departments have had a busy year from several standpoints. The Company invested in bolstering our leadership of the health claims division and we are fortunate to have gained expertise in this important area. We also employed a full time Wellness Coordinator to develop and promote preventative health and positive lifestyle choices. This resource is available to and engages successfully with our large employer groups. The program includes Health Risk Assessments, aggregate reporting analysis, customized employer-based-wellness program design, nurse consultancy and 24/7 online wellness website access. These services are offered free of charge. Research consistently shows that attention to health and wellness on an individual and group basis can reduce health care costs significantly, and we will continue as an advocate in this regard with ongoing and changing wellness programming to best suit our client base.

The Health division management introduced more effective customer service programs in 2011 on several fronts including: embarking on a health system request for proposal which helped us realize greater efficiencies and improved service levels, implementing a one-vendor system which enabled more efficient medical bill discounting and case management, launching a new, more cost effective major medical product to assist our employer groups and re-engineering our underwriting practices to provide for improved risk evaluation.

Our awareness campaign was in further evidence through our lead sponsorship of the very successful Bermuda Cancer and Health's Breast Cancer Awareness Walk which dovetails with the Health Fair held in Barr's Bay Park in October each year, and through our island wide distribution of "Health Matters", our quarterly health care consumer education publication.

Bermuda Investment Advisory 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 a full range of Separately Managed Accounts and mutual funds to meet client requirements. BFMISL has distribution agreements with over 30 internationally recognized mutual fund managers and through these managers our clients have access to over 90 individual funds. We were very pleased with the financial results in 2011 as they continued the positive growth trend.

Bermuda Real Estate

BF&M's real estate portfolio consists of three commercial office buildings that we own and occupy in Hamilton. The Insurance Building continues to house the majority of our staff. BF&M has a majority interest in Aon House (formerly named the ACE Tempest Re building) and in Argo House. Profits from this division were up in 2011 due to full occupancy versus 2010 when premises were partially unoccupied for part of the year.

Barbados Operation

The results of BF&M's 51.6% ownership interest in the Insurance Corporation of Barbados Limited ("ICBL") continue to benefit the Group through geographical diversification. Reported earnings in 2011 were down over 2010 due to poor claims experience and a downward revaluation of investment properties. In addition, Barbados is facing the same recessionary pressures as Bermuda. We are pleased that the Company, already the market leader in property and casualty insurance in Barbados, is developing

Shareholders' Report

Island Heritage
Pictured: Island Heritage President & CEO Garth MacDonald and BF&M President & CEO John Wight. Island Heritage, headquartered in the Cayman Islands, is a leading provider of property and casualty insurance in many Caribbean countries.

its group and individual health and life insurance book of business to better balance distribution of risk.

ICBL has an A.M. Best rating of A – (Stable). There is no Barbados insurer writing domestic business with a higher rating.

Bermuda International Insurance Services Limited

Bermuda International Insurance Services Limited markets and administers life insurance products to high net worth clients in the international marketplace. The earnings of this company increased significantly in 2011 from 2010, due to very strong investment performance. The Company strengthened its leadership team in 2011 to improve its marketing and new business goals.

Bermuda International Reinsurance Services Limited

Bermuda International Reinsurance Services Limited contracts with International Reinsurance Managers LLC (IRM) to underwrite, market and administer health, life and personal accident reinsurance in the Caribbean and Latin America markets. Although this is not a large part of BF&M's business, financial results were disappointing in 2011. IRM does however have a long and distinguished history of generating underwriting profits and we are confident of long term success in this marketplace.

People and Community

BF&M maintained strong results in 2011, and much of that was due to our hard working and dedicated management and staff. This was evidenced by the 24 long service awardees, who have cumulatively given 230 years of service to the Company; an outstanding service record.

We had a number of additions to our management team in 2011, which has helped us to further strengthen our overall knowledge base. We welcomed the following individuals: Robert Jackson, Vice President, Sales and Customer Service, BF&M Life Company. Rob came to BF&M with more than 26 years of financial, estate planning and wealth management experience. Brian McLeod, Assistant Vice President, Health Claims, BF&M Life Company. Brian joined us after 12 years as Director, Medical Services Insurance and Pharmacare programs for Medavie Blue Cross in Canada. Scott Pitcher, Assistant Vice President, Pensions Administration Team. Scott has over 20 years of experience in the local banking and investment industries, most recently with the Bermuda Monetary Authority. Jay Judas, Senior Vice President, Business Development of Bermuda International Insurance Services Limited. Before joining BIISL, Jay was the SVP and Chief Distribution Officer, International Investment Solutions for Old Mutual, and prior to that was the VP, International Marketing for Sun Life Financial. Marie-Luc Robert, Actuarial Manager. Marie-Luc has over 15 years of actuarial expertise in the Canadian and Caribbean marketplace, predominately focusing on general pricing and reinsurance.

In Barbados, we welcomed Ingrid Innes to the position of Managing Director and CEO of the Insurance Corporation of Barbados following the retirement of Wismar Greaves. Ingrid has extensive insurance experience in Canada and is the right person to ensure ICBL remains the leading property and casualty insurance company in Barbados.

BF&M employees enjoyed a stellar year. We were proud to be selected as Bottom Line Magazine's 2011 Top Employer. This was particularly gratifying as every major industry is represented in this independent survey. It examined which of the island's companies offered the most rewarding work environment and 2011 was their largest pool of participants to date. BF&M was also awarded the Investors In People (IIP) Gold Standard; the first and only business in Bermuda to achieve this level. IIP is a world-wide standard which rewards "best practice". The Standard provides a benchmark of good practice in the way people are managed and developed to deliver organizational goals, together with a framework for ongoing evaluation and improvement for all employees.

To demonstrate our commitment to the IIP Standard and the Life Office Management Association (LOMA) awards, we are delighted

to congratulate the following employees for receiving professional designations in 2011:

FLMI Level I Certificate
Judy Bardgett, Judy Card, Michael Jones, Andrea Lasalle, Casey Lopes, Sacha Pedro, and Krystle Ratteray

ALMI
Vanessa Brown and Pamela Wainwright

FLMI (Dist.)
Sevonne Scott

As everyone in Bermuda knows, 2011 has been a difficult year economically for us all, and the need for community support has grown noticeably. Through our own endeavours and those identified by the island's charitable organizations, we have continued with a targeted approach to our individual donations structure, based mainly on those causes that either align with our business sectors or that are of particular importance to our employees. We were delighted to be the lead sponsor for our 14th year, of the Bermuda Cancer and Health's Breast Cancer Awareness Walk. Our staff are very passionate about this cause, as almost everyone has been affected in one way or another by breast cancer. This gives us a meaningful and measurable way in which to support the education and research funding needed by the organization.

Our spring training programme also continued with our 100 Day Challenge. Between 35 to 40 participants compete each year, in teams and individually, to try and lose the most weight and increase their fitness within the 100 days. Participants are given access to trainers, health care experts and nutritionists. Our commitment to youth based programmes encompasses three initiatives: Camp Cardio, The National High School Challenge and the Under 17 Cricket League. Camp Cardio is a programme to get children engaged in vigorous extracurricular activities and learn about the importance of a healthy lifestyle. The National High School Challenge is an eight week boot camp to get students exercising and fit. Fitness levels are tested at the beginning and the end of the challenge to give the students a measurable goal. The Under 17 Cricket League is organized through the Bermuda Cricket Board, to encourage team participation and constructive activity for our young men.

The Company also sponsors the local weather service, Weather.bm, which is recognized as the official body that issues storm watches and warnings for Bermuda, and in addition, the Nightly Weather Report on the ZBM evening news.

Bermuda Cancer & Health Centre's Annual Breast Cancer Awareness Fun Walk
BF&M staff relish their involvement in the Bermuda Cancer & Health Centre's Annual Breast Cancer Awareness Fun Walk. It is a way for us to make a meaningful contribution to a worth-while cause that impacts so many in our community.

Shareholders' Report

Our green lifestyle is embraced company-wide and plans are being made to further reduce disposable waste and "slash the trash", in conjunction with a local environmental organization. We will again, where feasible, use recycled paper for this Annual Report and our calendars, and shareholders are reminded that we will be happy to send your reports electronically if requested.

Looking Forward

In April 2012, the Company announced that it had successfully completed a significant transaction through the acquisition of Island Heritage Holdings Ltd., the parent company of Island Heritage Insurance Company Ltd in Cayman. Island Heritage was formed in 1996 and is a leading provider of property and casualty insurance in many Caribbean countries, with the major revenue coming from Cayman, Bahamas, and the US Virgin Islands. It has been BF&M's plan to expand its insurance footprint in the Caribbean where we can leverage our expertise, improve economies of scale, and diversify the company's geographical risk. BF&M had been holding surplus capital for an opportunity such as this. We are very excited about BF&M's future, particularly with the addition of Island Heritage to the BF&M Group to go along with BF&M's majority investment in ICBL.

Our Company has built up a track record of being a first class employer and delivering strong financial results for our shareholders. We are confident in an even better future.

Gavin R. Arton
Chairman

R. John Wight, C.A., CPCU
President and Chief Executive Officer

Bermuda Cancer & Health Centre's Annual Breast Cancer Awareness Fun Walk

BF&M is committed to providing the community with information about cancer prevention which is why we continue to host a Preventative Health Event at the annual Breast Cancer Awareness Fun Walk.

14

BF&M Employees

INVESTORS IN PEOPLE | Gold

Investors in People is an international standard which aims to increase the productivity of organizations to achieve success by engaging their people. BF&M is the first business in Bermuda to achieve the gold award.

Newton **Adcock** • Suzette **Albouy** • Catherine **Allen** • Chan **Aming** • Judy **Bardgett** • Brenda **Bean** • Reneé **Bean** • Stephen **Bellefontaine** • Joanne **Benevides** • Heather **Bisbee** • Deborah **Botelho** • Gina **Bradshaw** • Jerome **Bradshaw** • Michael **Brady** • Vanessa **Brown** • Mike **Bruneau** • Mark **Cabral** • Kim **Caisey** • William **Cann** • Judy **Card** • Janet **Carew** • Jon **Carey** • Terry **Chapman** • Alexander **Charlton** • R. Che' **Clarke** • Pandora **Clemons** • Gina **Cook** • Sonia **Cox** • David **Coxall** • Andrew **Crawford** • Gregory **Crofton** • Clint **Cummings** • Miguel **Da Ponte** • Lynda **Davidson Leader** • Monika **Davis** • Alex **de Campos Guerra** • Ken **Doctor** • Lisa **Douglas** • Paula **DuBois-Philpott** • Daphne **Duke** • Keith **Dunmore** • Astoria **Edwards** • Lionel **Edwards** • Raquel **Fagundo** • Maggie **Fahy** • Carol **Faries** • Holly **Flook** • Holly **Fowler Hamilton** • Crystal **Fox** • Wendi **Francis** • Delbert **Franklin** • Tyeisha **Fubler** • Antoine **Furbert** • Sean **Gatien** • Glen **Gibbons** • Roy **Gibbons** • Charlene **Gilbert** • Denika **Gilbert** • Mona **Goater** • Lauren **Godwin** • Quilleta **Gomes** • Wilfred **Gonsalves** • Veronica **Goodchild** • Derrick **Goodyear** • Glenn **Gould** • Debby **Graham** • Dorea **Grant** • Dorothea **Grant** • Marshall **Hamilton** • Andrew **Hanwell** • Stacey **Hayward-Tucker** • Sandra **Henderson** • Sandra **Hodgson** • Julian **Hubbard** • Robert **Jackson** • Kanel **Johnson** • Marcia **Johnson** • Michael **Jones** • Douglas **Joslyn** • Jay **Judas** • Cameron **Kelly** • Ashkan **Khazari** • Andrea **Lassalle** • Bart **Lewis** • Mandy **Lewis** • Patricia **Leyburn** • Anthoni **Lightbourne** • Glen **Lima** • Michael **Lima** • Michael **Lindo** • Emily **Longard** • Casey **Lopes** • David **Lovell** • Ralph **Lovell** • Oksana **Lunyov** • Karl **Lupson** • Wonder **Lynch** • Stephen **MacIsaac** • Jennifer **MacKay** • Lori **MacPherson** • Dennis **Marinac** • Catherine **Marshall** • Paul **Matthews** • Nika **Mason** • Barbara **McLauchlan** • Brian **McLeod** • Olena **Mitovska** • Adam **Moore** • Clifford **Morris** • Andrea **Moss** • Stephen **Muso** • Patrick **Neal** • Tiffany **Nelmes** • Kathy **Nesbitt** • Alyson **Nicol** • Eric **Nordquist** • Nafeesah **Nosakhere** • Kelly **O'Neill** • Cindy **Ottley** • Gina **Outerbridge** • Mariea **Pearman** • Sacha **Pedro** • Scott **Pitcher** • Larry **Perinchief** • Alexandra **Porter** • Krystle **Ratteray** • Larenzo **Ratteray** • Michael **Rawlins** • Susan **Reed** • Laura **Rego** • Marie-Luc **Robert** • Alfreda **Robinson** • Anthony **Rodrigues** • Tracy **Rodrigues** • Jayne **Rollin** • Aletia **Romeo-Astwood** • Kenzie **Royal** • Sevonne **Scott** • Maria **Simas** • Joan **Simmons** • Julian **Simmons** • Yannick **Simmons** • Thomas **Simmons** • Michael **Simons** • Miles **Simpson** • **Cheryl Smack** • Ayisha **Smith** • Jennifer **Smith** • Ryan **Smith** • Kristina **Soares** • Jonathan **Sousa** • Julia **Sousa** • Andrew **Spencer** • Lisa **Spencer** • Ross **Spurling** • Pinky **Stoneham** • Gayle **Stowe** • Karen **Stroeder** • Henry **Sutton** • Sandra **Taggett** • Lynda **Talbot** • Thaaqib **Talbot** • Veritee **Tankard** • Angela **Tucker** • Deborah **Tucker** • Sharmaine **Tucker** • Ieisha **Tucker-Minors** • Ashley **Turner** • Tammy **Veinot** • Pamela **Wainwright** • Nicole **Waite** • Tanya **Wedge** • Andrew **White** • John **Wight** • Nicole **Williams-Smith** • Shannon **Wilson**

BF&M Financial Statements

RESPONSIBILITY FOR FINANCIAL REPORTING

For the year ended 31 December, 2011

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 authorized 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.

The Audit, Compliance, and Corporate Risk Management Committee, primarily 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, have examined 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 their 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 4 June, 2012. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

R. John Wight

R. John Wight, C.A, CPCU
President and Chief Executive Officer

Heather Bisbee, C.A.
Head of Financial Reporting

pwc

14 June 2012

Independent Auditor's Report

To the Shareholders of
BF&M Limited

We have audited the accompanying consolidated financial statements of BF&M Limited and its subsidiaries, which comprise the consolidated statements of financial position as at 31 December 2011, 31 December 2010 and 1 January 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2011 and 31 December 2010 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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.

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

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

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

AUDITOR'S REPORT TO THE SHAREHOLDERS

pwc

To the Shareholders of BF&M Limited
14 June 2012

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

Opinion
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of BF&M Limited and its subsidiaries, as at 31 December 2011, 31 December 2010 and 1 January 2010, and their financial performance and their cash flows for the years ended 31 December 2011 and 31 December 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December, 2011 and 2010 and 1 January, 2010

	Notes	2011 $	2010 $	1 January 2010 $
Assets				
Cash and cash equivalents	9	75,418,616	76,282,352	61,640,957
Investments	7	636,849,479	540,243,811	506,784,615
Insurance receivables and other assets	10	54,026,092	48,833,303	45,887,374
Reinsurance assets	14	42,852,723	32,744,555	32,524,074
Deferred policy acquisition costs	11	2,110,351	1,968,390	1,790,786
Property and equipment	16	13,560,116	14,426,463	15,032,851
Investment properties	17	41,283,692	41,963,312	39,940,361
Intangible assets	18	24,537,949	25,365,826	21,078,425
Tax recoverable		1,687,465	2,192,230	1,016,585
Total general fund assets		**892,326,483**	**784,020,242**	**725,696,028**
Segregated funds assets	8	424,885,718	453,638,847	339,796,340
Total assets		**1,317,212,201**	**1,237,659,089**	**1,065,492,368**
Liabilities				
Insurance contract liabilities	13	310,622,375	268,293,778	232,060,089
Investment contract liabilities	12	289,576,583	245,209,919	225,476,432
Other liabilities	20	42,764,594	36,768,875	34,805,462
Loan payable	21	3,715,444	4,379,328	4,999,728
Retirement benefit obligations	15	9,747,810	19,970,880	31,241,637
Deferred tax liability	19	426,569	350,985	365,647
Total general fund liabilities		**656,853,375**	**574,973,765**	**528,948,995**
Segregated funds liabilities	8	424,885,718	453,638,847	339,796,340
Total liabilities		**1,081,739,093**	**1,028,612,612**	**868,745,335**
Equity				
Share capital	22	8,384,746	8,370,294	8,339,970
Contributed surplus	22	1,481,976	1,481,976	1,409,705
Share premium	22	57,158,483	57,032,130	56,693,299
Accumulated other comprehensive loss	22	(2,033,020)	(1,280,549)	(1,336,784)
Retained earnings		128,049,308	102,010,952	91,202,934
Total shareholders' equity		193,041,493	167,614,803	156,309,124
Non-controlling interests		42,431,615	41,431,674	40,437,909
Total equity		**235,473,108**	**209,046,477**	**196,747,033**
Total liabilities and equity		**1,317,212,201**	**1,237,659,089**	**1,065,492,368**

Gavin R. Arton
Chairman

R. John Wight

R. John Wight, C.A, CPCU
President and Chief Executive Officer

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

CONSOLIDATED STATEMENTS OF INCOME

For the years ended 31 December, 2011 and 2010

	Notes	2011 $	2010 $
INCOME			
Gross premiums written		233,964,996	235,458,781
Reinsurance ceded		(67,014,219)	(63,997,598)
Net premiums written		166,950,777	171,461,183
Net change in unearned premiums	13	(15,969)	345,237
Net premiums earned		166,934,808	171,806,420
Investment income	7	42,425,130	19,678,946
Commission and other income	23	24,296,793	26,351,419
Rental income		4,252,167	3,853,412
Total income		237,908,898	221,690,197
EXPENSES			
Insurance contracts benefits and expenses			
Life and health policy benefits	24	115,359,828	114,068,322
Short term claim and adjustment expenses	24	15,707,507	22,660,110
Investment contract benefits		9,890,884	(14,764)
Paid or credited to policyholder accounts		1,244,271	1,180,211
Participating policyholders' net loss		459,477	125,375
Commission expense		10,573,469	11,900,842
Operating expenses	25	49,746,866	45,092,197
Employee benefit curtailment gain	15	(9,629,079)	-
Amortization expense		6,183,105	4,353,467
Interest on loans		180,080	184,335
Total benefits and expenses		**199,716,408**	**199,550,095**
Income before income taxes		**38,192,490**	**22,140,102**
Income taxes	19	(1,541,590)	(1,675,984)
Net income for the year		**36,650,900**	**20,464,118**
Non-controlling interests in subsidiaries		(3,911,359)	(2,963,133)
Shareholders' net income		**32,739,541**	**17,500,985**
Earnings per share			
- Basic	22	$3.91	$2.10
- Fully diluted	22	$3.90	$2.09

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended 31 December, 2011 and 2010

	2011 $	2010 $
Net income for the year after income taxes	36,650,900	20,464,118
Other comprehensive income		
Unrealized (loss) gain on assets held as available for sale	(744,299)	31,558
Unrealized foreign exchange (loss) gain on translation of foreign operations	(8,172)	24,677
Total other comprehensive (loss) income for the year after income taxes	(752,471)	56,235
Comprehensive income	**35,898,429**	**20,520,353**
Comprehensive income attributable to:		
Shareholders	31,987,070	17,557,220
Non-controlling interest in subsidiaries	3,911,359	2,963,133
Comprehensive income	**35,898,429**	**20,520,353**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December, 2011 and 2010

		Attributable to Shareholders							
	Note	Share capital $	Contributed surplus $	Share premium $	Accumulated other comprehensive income $	Retained earnings $	Total $	Non-controlling interest $	Total equity $
Year ended 31 December 2011									
At beginning of year		**8,370,294**	**1,481,976**	**57,032,130**	**(1,280,549)**	**102,010,952**	**167,614,803**	**41,431,674**	**209,046,477**
Comprehensive income for the period									
Net income for the year		-	-	-	-	32,739,541	32,739,541	3,911,359	36,650,900
Unrealized loss on assets held as available for sale		-	-	-	(744,299)	-	(744,299)	-	(744,299)
Currency translation differences		-	-	-	(8,172)	-	(8,172)	-	(8,172)
Total comprehensive income for the year		-	-	-	(752,471)	32,739,541	31,987,070	3,911,359	35,898,429
Sub-total Transactions with shareholders		**8,370,294**	**1,481,976**	**57,032,130**	**(2,033,020)**	**134,750,493**	**199,601,873**	**45,343,033**	**244,944,906**
Shares issued under employee share purchase plan	22	16,116	-	178,081	-	-	194,197	-	194,197
Stock grants forfeited under equity incentive plan	22	(3,600)	-	-	-	-	(3,600)	-	(3,600)
Stock options forfeited under the equity incentive plan	22	-	-	(62,880)	-	-	(62,880)	-	(62,880)
Shares issued on exercise of stock options	22	1,936	-	11,152	-	-	13,088	-	13,088
Cash dividends		-	-	-	-	(6,701,185)	(6,701,185)	(2,911,418)	(9,612,603)
Total transactions with shareholders		**14,452**	**-**	**126,353**	**-**	**(6,701,185)**	**(6,560,380)**	**(2,911,418)**	**(9,471,798)**
At end of year		**8,384,746**	**1,481,976**	**57,158,483**	**(2,033,020)**	**128,049,308**	**193,041,493**	**42,431,615**	**235,473,108**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December, 2011 and 2010

	Note	Attributable to Shareholders							
		Share capital $	Contributed surplus $	Share premium $	Accumulated other comprehensive income $	Retained earnings $	Total $	Non-controlling interest $	Total $
Year ended 31 December 2010									
At beginning of year – Restated		**8,339,970**	**1,409,705**	**56,693,299**	**(1,336,784)**	**91,202,934**	**156,309,124**	**40,437,909**	**196,747,033**
Comprehensive income for the period									
Net income for the year		-	-	-	-	17,500,985	17,500,985	2,963,133	20,464,118
Unrealized gain on assets held as available for sale		-	-	-	31,558	-	31,558	-	31,558
Currency translation differences		-	-	-	24,677	-	24,677	-	24,677
Total comprehensive income for the year		-	-	-	56,235	17,500,985	17,557,220	2,963,133	20,520,353
Sub-total Transactions with shareholders		**8,339,970**	**1,409,705**	**56,693,299**	**(1,280,549)**	**108,703,919**	**173,866,344**	**43,401,042**	**217,267,386**
Shares issued under employee share purchase plan	22	12,320	-	142,591	-	-	154,911	-	154,911
Amortization of unvested stock plans	22	-	72,271	-	-	-	72,271	-	72,271
Stock grants issued under equity incentive plan	22	23,754	-	309,990	-	-	333,744	-	333,744
Stock grants forfeited under equity incentive plan	22	(5,750)	-	-	-	-	(5,750)	-	(5,750)
Stock options forfeited under the equity incentive plan	22	-	-	(113,750)	-	-	(113,750)	-	(113,750)
Cash dividends		-	-	-	-	(6,692,967)	(6,692,967)	(1,969,368)	(8,662,335)
Total transactions with shareholders		**30,324**	**72,271**	**338,831**	**-**	**(6,692,967)**	**(6,251,541)**	**(1,969,368)**	**(8,220,909)**
At end of year		**8,370,294**	**1,481,976**	**57,032,130**	**(1,280,549)**	**102,010,952**	**167,614,803**	**41,431,674**	**209,046,477**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended 31 December, 2011 and 2010

	2011 $	2010 $
Cash flows from Operating activities		
Profit before tax	38,192,490	22,140,102
Adjustments for:		
Investment income	(24,894,544)	(25,243,714)
Change in fair value of investments	(25,651,916)	(2,590,202)
Unrealized gain on investments allocated to insurance contracts	(994,856)	-
Provision for losses on investments	482,248	759,412
Amortization of property and equipment	1,302,325	1,331,353
Amortization of investment properties	994,279	902,536
Amortization of intangible assets	3,157,500	2,119,578
Impairment of intangible assets	729,000	-
Gain on sale of property plant & equipment	(10,457)	(110)
Interest on loan	180,080	184,335
Compensation expense related to shares and options	75,860	280,132
Changes in assets and liabilities		
Insurance receivables and other assets	(3,087,078)	(845,252)
Deferred policy acquisition costs	(141,961)	(177,604)
Reinsurance assets	(10,108,168)	(220,481)
Insurance contract liabilities	42,328,597	36,233,689
Investment contract liabilities	44,366,664	19,733,487
Other liabilities	5,994,611	1,960,027
Retirement benefit obligations	(10,223,070)	(11,270,757)
Cash generated from operations	62,691,604	45,296,531
Interest paid	(181,897)	(187,132)
Income taxes paid	(902,868)	(2,866,291)
Interest received	22,273,260	22,407,222
Dividends received	515,572	735,815
Net cash generated by operating activities	84,395,671	65,386,145
Cash flows from investing activities		
Purchase of investments	(290,295,513)	(219,296,382)
Proceeds from sales of investments	219,329,434	187,838,387
Acquisition of property and equipment	(773,022)	(727,274)
Proceeds from sales of property and equipment	10,457	110
Acquisition of investment properties	(314,659)	(2,925,487)
Acquisition of intangible assets	(3,058,623)	(6,404,669)
Net cash used in investing activities	(75,101,926)	(41,515,315)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended 31 December, 2011 and 2010

	2011 $	2010 $
Cash flows from financing activities		
Cash dividends paid	(6,698,263)	(6,686,784)
Loans repaid	(663,884)	(620,400)
Cash dividends paid to non-controlling interest	(2,918,668)	(1,969,368)
Proceeds on issue of common shares	123,334	47,117
Net cash used in financing activities	(10,157,481)	(9,229,435)
(Decrease) increase in cash and short-term deposits	(863,736)	14,641,395
Cash and cash equivalents - beginning of year	76,282,352	61,640,957
Cash and cash equivalents - end of year	75,418,616	76,282,352

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

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. The address of its registered office is: 112 Pitts Bay Road, Pembroke HM08, Bermuda.

On 4 June, 2012, the Board of Directors approved the financial statements and authorized them for issue. The Board of Directors has the power to amend the financial statements after issue.

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
BF&M Properties Limited ("BF&M Properties")	100	Bermuda
Marchmont Insurance Company Limited ("Marchmont")	100	Bermuda
Hamilton Reinsurance Company Limited ("Hamilton")	100	Bermuda
BF&M Investment Services Limited ("BFMISL")	100	Bermuda
Bermuda International Insurance Services Limited ("Bermuda International")	100	Bermuda
Bermuda International Reinsurance Services Limited ("Bermuda International Re")	100	Bermuda
Hamilton Financial Limited ("Hamilton Financial")	100	St. Lucia
Scarborough Property Holdings Limited ("Scarborough")	60	Bermuda
Barr's Bay Properties Limited ("Barr's Bay")	60	Bermuda
Insurance Corporation of Barbados Limited ("ICBL")	51.6	Barbados
Insurance Corporation of Barbados Limited/ National Insurance Board Joint Venture ("ICBLJV")	37.4	Barbados
BF&M (Canada) Limited ("BF&M Canada")	100	Canada

All subsidiaries have a 31 December year-end.

BF&M Investment Services Limited was formerly named North Atlantic Asset Management Limited ("NAAM"). The name change became effective on 28 January, 2010, after filing with the Registrar of Companies and Bermuda Monetary Authority. BFMISL's objectives and licence remain otherwise unchanged.

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

The consolidated 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, estimation of claim costs and management of investment funds.

To further mitigate underwriting risk, 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.

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. BASIS OF PREPARATION

For all periods up to and including the year ended 31 December, 2010, the Group prepared its consolidated financial statements in accordance with accounting principles generally accepted in Bermuda and Canada ("Canadian GAAP" or "CGAAP"). These consolidated financial statements, for the year ended 31 December, 2011, are the first the Group has prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Accordingly, the Group has prepared consolidated financial statements which comply with IFRS applicable for periods beginning on or after 1 January, 2011 as described in the accounting policies. In preparing these consolidated financial statements, the Group's opening consolidated statement of financial position was adjusted as at 1 January, 2010, the Group's date of transition to IFRS. As these are the Group's first consolidated annual financial statements presented under IFRS, they were prepared in accordance with *IFRS 1 First-time adoption of International Financial Reports Standards.*

An explanation of how the transition to IFRS has affected the equity, comprehensive income and cash flows of the Group is provided in note 3.

All amounts in the notes are shown in Bermuda dollars unless otherwise stated.

B. CONSOLIDATION

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. ICBL has a 72.35% interest in ICBLJV and as a result fully consolidates ICBLJV in its financial statements. As a result of the control that the Group has on ICBL and by extension ICBLJV, the investment in ICBLJV is fully consolidated in these consolidated financial statements and the interest related to the non-controlling shareholder is accounted for as non-controlling interest. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, including liabilities arising from contingent consideration arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intra-group transactions, balances and gains and losses on intra-group transactions are eliminated. Where subsidiaries' accounting policies are different from the Group, appropriate adjustments have been made to ensure consistency with the policies adopted by the Group.

(ii) Transactions and non-controlling interest

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

C. CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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. Actual results can always differ from those estimates, possibly significantly. Areas where estimates and judgment are exercised by management include insurance and investment contract liabilities, intangible assets, fair value of investments, impairment of assets, retirement benefit obligations, and deferred income taxes. Areas where significant estimates and judgments have been applied by management are described further in the significant accounting policies described below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

D. 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.

E. 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"). The consolidated financial statements are presented in Bermuda dollars ($), which is the parent company's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

Translation differences on financial assets and liabilities held at fair value through profit and loss are reported as part of the fair value gain or loss.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- Income and expenses for each consolidated statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

The exchange rate between Barbadian and Bermudian dollars has essentially remained unchanged since the acquisition of the Barbadian operation in 2005 and as a result there are no unrealized translation gains and losses to be reported other than for BF&M Canada.

F. PROPERTY AND EQUIPMENT

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.

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

Buildings	50 years
Furniture and equipment	5 years – 10 years
Computer hardware	3 years – 5 years
Leasehold improvements	5 years

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.

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

G. INVESTMENT PROPERTIES
Investment properties are defined as properties held for long-term rental yields or capital appreciation. Properties that do not meet these criteria are classified as property and equipment. Expenditures relating to ongoing maintenance of properties are expensed.

Investment properties comprise freehold land and buildings. Buildings are carried at historical cost less depreciation. Depreciation on buildings is calculated using the straight-line method over 50 years, excluding its residual value.

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.

H. INTANGIBLE ASSETS
Intangible assets include goodwill and indefinite life and finite life intangible assets.

(i) Goodwill
Goodwill represents the excess of the acquisition cost of ICBL over the fair value of the Group's proportionate share of the net identifiable assets of ICBL at the acquisition date. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is assessed for impairment annually or more frequently if events or circumstances occur that may indicate that the carrying amounts may not be recoverable at the cash generating unit ("CGU"), which in this case is ICBL.

(ii) Indefinite life intangible assets
The ICBL brand is recorded at historical cost and was determined to have an indefinite life and is not amortized. Impairment of this asset is assessed on an annual basis or more frequently if events or circumstances occur that may indicate that the carrying amounts may not be recoverable.

(iii) Finite life intangible assets
Intangible assets that were determined to have finite lives are amortized on a straight line basis over varying periods of up to 10 years, being the estimated expected lives. The estimated life is re-evaluated annually. These assets include the following:

Customer lists
These customer lists are recorded at cost. This cost is amortized over 10 years, being the expected life of the business assumed.

Intangible assets acquired as part of a business combination
These assets, which comprise customer relationships and contracts in ICBL, 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. These assets are amortized over 10 years.

Software development costs
Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Group are recognised as intangible assets when:

- It can be demonstrated that the software product will generate probable future economic benefits; and
- The development costs 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. Capitalized software development costs are amortised over their useful lives, which range from 5 to 10 years.

I. INVESTMENTS
The Group classifies its investments into the following categories: financial assets at fair value through profit and loss, loans and receivables, available for sale financial assets and properties available for sale. The classification is determined by management at initial recognition and depends on the nature of the assets and the purpose for which the assets were acquired.

Recognition and measurement
Purchases and sales of investments are recognised on trade-date at fair value.

Investments are derecognised when the Group has transferred substantially all risks and rewards of ownership.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Estimated fair value is determined based on bid prices from recognised exchanges, broker-dealers or using valuation techniques derived from observable data in respect of similar financial instruments. Properties available for sale are carried at the lower of carrying value and fair value less costs to sell. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category and properties available for sale are included in the consolidated statement of income in the period in which they arise.

Changes in the fair value of securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of income.

Dividends on equity instruments are recognised in the consolidated statement of income on the ex-dividend date. Other investment income is recorded on the accruals basis.

J. IMPAIRMENT OF ASSETS

(i) Financial assets carried at amortised cost

The Group reviews the carrying value of its loans and receivables at each period end for evidence of impairment. A loan or receivable is impaired if its carrying value exceeds the estimated fair value and there is objective evidence of impairment. Such evidence includes failure to make scheduled payments of capital and/or interest, adverse changes in the payment pattern of the borrower and a significant deterioration in the fair value of the security underlying the loan.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, 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. 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.

(ii) Financial assets classified as available for sale

In the case of equity 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.

The cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in other comprehensive income, is removed from equity and recognised in the consolidated statement of income.

(iii) Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

K. 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. The carrying value of cash and cash equivalents approximates their fair value.

L. SEGREGATED FUNDS

Segregated funds are 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 funds. 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 policy holder 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. Income earned on the management of these service contracts is included in commission and other income within the consolidated statements of income. Investment income earned by the segregated funds and expenses incurred by the segregated funds are not presented in the consolidated statements of income and are disclosed in note 8.

In addition, segregated funds include the asset and liabilities for rent-a-captive segregated accounts. These are funding contracts which are arranged by the Group in accordance with a Private Act and comprise the cumulative excess of premiums received and interest allocated to the accounts over the repayment of premiums, losses and loss expenses. Assets for these accounts are segregated and invested in accordance with the terms of the underlying policy agreements and are only available to settle the corresponding segregated account liabilities.

M. INSURANCE AND INVESTMENT CONTRACT CLASSIFICATION

The Group issues contracts that transfer insurance risk or financial risk or both.

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.

Investment contracts are those contracts that do not transfer significant insurance risk but do transfer financial risk from the policyholder.

Contracts issued that do not transfer significant insurance or financial risk from the policyholder are referred to as service contracts.

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.

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.

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.

N. INSURANCE CONTRACT LIABILITIES

(i) 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 Company and industry specific experience in order to determine the best estimate assumptions and corresponding margins for adverse deviations, the largest of which, the group and individual health reserves, relies on a 5 year 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.

In certain life and health reinsurance contracts underwritten by Bermuda International Re, 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 program 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.

(ii) Short-term insurance contracts

Claims and loss adjustment expenses are charged to insurance contract benefits and expenses within 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 underwriting year or accident year development experience. The provision is determined using generally accepted actuarial practices in Canada or Barbados. The method of making such estimates and for establishing the resulting provisions is reviewed and updated annually and any adjustments resulting there-from 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.

(iii) Embedded derivatives

The Group is not required to separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

(iv) Liability adequacy test

At each end of the reporting period, liability adequacy tests are performed on short-term insurance contracts to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs ("DAC"). In performing these tests, current best estimates of future contractual cash flows and 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.

(v) Deferred policy acquisition costs ("DAC")

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 as premium is earned.

(vi) 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 within the consolidated statement of financial position.

O. INVESTMENT CONTRACT LIABILITIES

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 are measured at fair value through profit and loss ("FVTPL") or amortized cost. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period using CALM or an approximation of CALM. Contracts recorded at amortized cost are initially recorded at fair value and remeasured at amortized cost in each subsequent period using the effective interest rate. Changes in investment contract liabilities are recorded as a change in investment contract benefits expense within the consolidated statement of income. These liabilities are derecognized when the obligation of the contract is discharged, cancelled or expired.

P. REINSURANCE CONTRACTS HELD

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.

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. Amounts recoverable from or due to reinsurers are measured consistently with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are amortized 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 recoverable amount and recognises that impairment loss in the consolidated statement of income.

Q. 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 within 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 J (i) above. The impairment loss is calculated under the same method used for these financial assets.

R. CURRENT AND DEFERRED INCOME TAX

The tax expense for the period on the Group's Barbados and Canadian 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 financial statements. 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 effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

S. EMPLOYEE BENEFITS

(i) Pension obligations

The 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, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligation is calculated annually by independent actuaries. 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. Annual changes in net assets or obligations arising from plan amendments and transitional amounts are amortised over the expected average remaining service life of the employees covered by the plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

Actuarial gains and losses arise from experience adjustments and changes in actuarial assumptions. Actuarial gains and losses that are in excess of 10% of the greater of the benefit obligation and the fair value of plan assets are amortized over the average remaining service period of active employees.

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.

(ii) Other post-employment obligations

In addition to pension benefits, the Group provides post-retirement benefits for health care to existing 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 recognized on an accrual basis during the years when service is provided to the Group. Annual changes in the post-retirement benefits for health care obligations arising from plan amendments are amortized on a straight-line basis over the expected average remaining service life to full eligibility age of employees covered by the plan. Actuarial gains and losses that are in excess of 10% of the benefit obligation are amortized over the average remaining service period of active employees. Independent qualified actuaries value these obligations annually.

(iii) Share-based compensation

The Group has an Equity Incentive Plan which is described in Note 22. Stock grants are issued to employees equal to the fair value of the shares on the grant date. The amount of the benefit of these shares grants is amortized over the vesting period as operating expense within the consolidated statement of income.

If the Group grants share options to employees that vest in the future if they are still employed, 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 income statement 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.

(iv) Employee share purchase plan

The company operates an employee share purchase plan that allows its employees to purchase the company'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 recognized as revenue when due from the policyholder.

Premiums on life and health reinsurance contracts underwritten by Bermuda International Re are recognized based on receipts reported by the ceding company. This occurs when the timeliness and quality of information reported is not sufficient to otherwise record the revenue when due.

Contributions received on non-participating investment contracts and certain long-term insurance contracts within Bermuda International 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 on 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 within the consolidated statement of financial position.

(ii) Commission income

For short-term reinsurance contracts, commission income is recognized 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 recognized 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, rent-a-captive services and investment advisory and management offered by the Group is recognised in the accounting period in which the services are rendered. This revenue is included within commission and other income in the consolidated statement of income.

U. LEASES

The Group leases investment properties. A significant portion of the risks and rewards of ownership are retained by the Group as the lessor. These leases are therefore classified as operating leases. Lease arrangements are fixed and the tenant can renew his lease when his tenancy is nearing expiry. There are no contingent rentals included in the lease agreements.

Revenue under operating leases is recognized in the consolidated statement of income as rental income over the lease term.

3. IFRS – FIRST TIME ADOPTION

(i) First time adoption option exemptions and mandatory exceptions

IFRS has been applied retrospectively, except for certain optional and mandatory exemptions from full retrospective application, as provided for by IFRS1 (Revised) *First–Time Adoption of International Financial Reporting Standards*, as detailed below.

Business combinations

The Group has elected to apply IFRS 3 (Revised) *Business Combinations* prospectively only to business combinations which occurred on or after 1 January, 2010.

Employee benefits

The Group elected to recognize all cumulative unrecognized actuarial gains and losses at the date of transition in equity. The 'corridor' approach for recognizing actuarial gains and losses will be applied to gains and losses occurring after transition. The Group has recognized $13,433,000 as a charge against equity at 1 January, 2010 and increased shareholders' net income for the year by $223,096 for the year ended 31 December, 2010.

Designation of financial assets and financial liabilities

At the date of transition, the investments previously classified as held-for-trading investments under Canadian GAAP are now designated as 'financial assets at fair value through profit and loss' under IFRS. See note 7 for more details.

Insurance contracts

The Group has elected to disclose only five years of claims experience data in its claims development tables as permitted in the first financial year in which it adopts IFRS 4 *Insurance Contracts*. These disclosures will be extended for an additional year in each succeeding year until the 10-year information requirement has been satisfied.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

(ii) Reconciliation of total equity

The following table reconciles the total equity as previously reported under Canadian GAAP to the amounts reported under IFRS as at the transition date of 1 January, 2010 and 31 December, 2010. Explanations for adjustments to equity are included in (v).

	Item	31 December 2010	1 January 2010
Total equity under CGAAP		$ 180,502,315	$ 169,419,732
IFRS 1 optional election for employee benefits			
Shareholders	1	(12,887,512)	(13,110,608)
		167,614,803	156,309,124
Reclassification of non-controlling interest	2	41,748,048	40,760,301
IFRS 1 optional election for employee benefits			
Non-controlling interest	1	(316,374)	(322,392)
Total equity under IFRS		**$ 209,046,477**	**$ 196,747,033**

(iii) Reconciliation of comprehensive income

	Item	31 December 2010
Comprehensive income as under CGAAP		**$ 17,334,124**
Reclassification of non-controlling interest	2	2,957,115
Adjustment to net earnings:		
IFRS 1 optional election for employee benefits	1	
Shareholders		223,096
Non-controlling interest		6,018
Total comprehensive income under IFRS		**$ 20,520,353**

(iv) Reconciliation of opening consolidated statement of financial position from CGAAP to IFRS

	Reference (v) below	CGAAP	Reclassification	Remeasurement	IFRS
ASSETS					
Investments	(9)	264,349,043	242,435,572	-	506,784,615
Segregated funds with guaranteed return	(9)	242,552,271	(242,552,271)	-	-
Cash and short-term deposits	(10)	58,252,701	3,388,256	-	61,640,957
Investment properties	(5)	-	39,940,361	-	39,940,361
Insurance balances receivable and other assets	(4)	29,871,393	18,696,981	(2,681,000)	45,887,374
Deferred acquisitions costs		1,790,786	-	-	1,790,786
Reinsurers' share of:					
Claims provisions	(7)	18,135,428	(18,135,428)	-	-
Unearned premiums	(7)	17,515,285	(17,515,285)	-	-
Provision for participating policy benefits	(7)	63,861	(63,861)	-	-
Reinsurance assets		-	32,524,074	-	32,524,074
Accounts receivable and other	(10)	22,954,677	(22,954,677)	-	-
Property and equipment	(5)	54,973,212	(39,940,361)	-	15,032,851
Goodwill	(6)	2,628,848	(2,628,848)	-	-
Intangible assets	(6)	18,449,577	2,628,848	-	21,078,425
Tax recoverable	(3)	-	1,016,585	-	1,016,585
Total general funds		**731,537,082**	**(3,160,054)**	**(2,681,000)**	**725,696,028**
Total segregated funds		**-**	**339,796,340**	**-**	**339,796,340**
Total assets		**731,537,082**	**336,636,286**	**(2,681,000)**	**1,065,492,368**
LIABILITIES					
Provision for claims and adjustment expenses	(7,9)	66,861,723	(66,861,723)	-	-
Provision for future policy benefits	(7,9)	120,819,330	(120,819,330)	-	-
Insurance contract liabilities	(7)	-	232,060,089	-	232,060,089
Investment contract liabilities	(7)	-	225,476,432	-	225,476,432
Segregated funds with guaranteed return	(9)	242,552,271	(242,552,271)	-	-
Other liabilities	(4,10)	-	24,053,462	10,752,000	34,805,462
Claims payable	(7)	2,595,062	(2,595,062)	-	-
Insurance balances payable	(10)	6,637,200	(6,637,200)	-	-
Unearned premiums	(7)	40,028,070	(40,028,070)	-	-
Deferred commission income	(10)	5,321,672	(5,321,672)	-	-
Accounts payable and other	(10)	31,541,993	(31,541,993)	-	-
Loans payable		4,999,728	-		4,999,728
Non-controlling interest	(2)	40,760,301	(40,760,301)	-	-
Retirement benefit obligation	(4)	-	31,241,637	-	31,241,637
Deferred tax liability	(8)	-	365,647	-	365,647
Total general funds		**562,117,350**	**(43,920,355)**	**10,752,000**	**528,948,995**
Total segregated funds		**-**	**339,796,340**	**-**	**339,796,340**
Total liabilities		**562,117,350**	**295,875,985**	**10,752,000**	**868,745,335**
EQUITY					
Share capital		8,339,970	-	-	8,339,970
Contributed surplus		1,409,705	-	-	1,409,705
Share premium		56,693,299	-	-	56,693,299
Accumulated other comprehensive income		(1,336,784)	-	-	(1,336,784)
Retained Earnings	(1,2)	104,313,542	-	(13,110,608)	91,202,934
Equity attributable to owners		169,419,732	-	(13,110,608)	156,309,124
Non controlling interest	(1,2)	-	40,760,301	(322,392)	40,437,909
Total equity		**169,419,732**	**40,760,301**	**(13,433,000)**	**196,747,033**
Total equity and liabilities		**731,537,082**	**336,636,286**	**(2,681,000)**	**1,065,492,368**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

(v) Analysis of adjustments from transition to IFRS – explanation of item reference

1. Employee benefits.
   Under IFRS 1, the Group elected to recognize all cumulative unrecognized actuarial gains and losses at the date of transition. The 'corridor' approach for recognizing actuarial gains and losses will be applied to gains and losses occurring after the date of transition. The Group has recognized $13,433,000 as a charge against equity at 1 January, 2010 and increased net income for the year by $229,114 for the year ended 31 December, 2010. The non-controlling interest adjustment on this election was $322,392 at 1 January, 2010 and $6,018 at 31 December, 2010. The overall net impact to shareholders' equity was $13,110,608 at 1 January, 2010 and $12,887,512 at 31 December, 2010. The overall net impact to shareholders net income at 31 December, 2010 was $223,096.

2. Presentation of non-controlling interests within equity.
   Under the previous CGAAP, non-controlling interests were presented within liabilities on the consolidated balance sheet whereas under IFRS non-controlling interest is presented within the equity section of the consolidated statement of financial position. There was an increase of $40,760,301 to equity at 1 January 2010 ($41,748,048 – 31 December 2010) as a result of this change in presentation on transition to IFRS.

3. Under CGAAP tax recoverable was grouped within accounts receivable and other. Under IFRS it is presented separately within assets on the consolidated statement of financial position.

4. Under IFRS presentation requirements, liabilities associated with pension and other post retirement benefit obligations are disclosed separately under retirement benefit obligation within liabilities on the consolidated statement of financial position.

5. Certain properties previously classified as real estate under property and equipment are reclassified to investment properties in the consolidated statement of financial position.

6. Goodwill has been reclassified to be included within intangible assets on the consolidated statement of financial position.

7. Presentation of insurance and investment contract liabilities.
   Contracts issued by the Group that do not transfer significant insurance risk but do transfer financial risk from the policyholder to the Group are financial liabilities. These adjustments reclassify the balance from its previous classification to either insurance or investment contracts liabilities under IFRS. In addition claims payable and unearned premiums are grouped within insurance contract liabilities. Further liabilities previously disclosed on a net basis have been grossed up to present a gross liability and a reinsurance asset. Assets previously recorded as reinsurers' share of claims provisions and unearned premiums have been reclassed to reinsurance assets.

8. The deferred tax liability is now presented separately within liabilities on the consolidated statement of financial position.

9. Segregated funds assets with guaranteed returns are now included within investments and the corresponding segregated funds liabilities have been reclassified to either insurance contract liabilities or investment contract liabilities depending on their nature.

10. Various other reclassifications are a change in presentation only and consolidate certain receivables within insurance balances receivable and other assets and certain liabilities within other liabilities.

(vi) Consolidated Statement of Cash Flows

Under IFRS, the statement of cash flows will continue to be presented under the indirect method with limited presentation differences. The above changes have no net impact on cash flows.

4. NEW AND REVISED ACCOUNTING STANDARDS

In 2011, the Group did not early adopt any new, revised or amended standards.

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July, 2012. At this stage, the impact that these standards will have on the Group's consolidated financial statements is not known and cannot be reasonably estimated.

Standard / Interpretation	Content	Applicable for financial years beginning on/after
IFRS 9	Financial Instruments	1 January, 2015
IFRS 10	Consolidated Financial Statements	1 January, 2013
IFRS 11	Joint Arrangements	1 January, 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January, 2013
IFRS 13	Fair value measurement	1 January, 2013
IAS 1	Presentation of financial statements Presentation of items of other comprehensive income	1 July, 2012
IAS 19	Employee benefits	1 January, 2013
IAS 28	Investments in Associates and joint ventures	1 January, 2013
Exposure draft	Insurance contracts	Not finalized

IFRS 9 Financial Instruments: Classification and Measurement as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. It requires financial assets to be measured at fair value or amortized cost on the basis of their contractual cash flow characteristics and the entity's business model for managing assets. It also changes the accounting financial liabilities measured using the fair value option. In subsequent phases, the Board will address impairment, hedge accounting and asset and liability offsetting. We are currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

IFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The amendments to IFRS 10 are not expected to have a material impact on the consolidated financial statements.

IFRS 11 Joint Arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. It eliminates the option of using proportionate consolidation for accounting in the interests of the joint venture and requires the equity method in its place. We are currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. We are currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

IFRS 13 Fair value measurement guidance contained in individual IFRSs is replaced with a single, unified definition of fair value; it contains authoritative guidance on the application of fair value measurement in inactive markets. There are significant additional disclosures where fair values are used. We are currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

IAS 1 Presentation of Financial Statements was amended regarding the presentation of items in other comprehensive income. The amendments require separate presentation within other comprehensive income of items that are potentially reclassifiable to profit or loss subsequently and those that will not be classified to profit or loss. We are currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

IAS19 Employee Benefits (Revised): There is likely to be significant change to the recognition, measurement and presentation of defined benefit pension expense. Some of the key changes include removal of:

- the 'corridor and spreading approach';
- the expected return on assets from the measurement of pension expense; and
- flexibility regarding where components of pension expense are recognised in the income statement (i.e. interest cost as a component of finance cost).

We are currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

IAS28 Investment in Associates and Joint Ventures builds on the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amendments to IAS 28 are not expected to have a material impact on the consolidated financial statements.

Insurance contracts exposure draft - An exposure draft was issued in July 2010. At the core of the proposed new accounting standard is the measurement model.

Under this model, the liability for all insurance contracts (except for certain short duration contracts of 12 months or less) is determined by reference to the present value of the expected cash flows required to fulfill the insurance obligation. This is significantly different from the current measurement of insurance contract liabilities under CALM. The exposure draft also proposes changes to the presentation and disclosure within the consolidated financial statements.

5. 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, minimizing 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 recognizes 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 organizational 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 summarized in the following sections.

Risks are usually grouped by risk type: financial, including credit, liquidity and market, and insurance, including life and health insurance and short term insurance risk. Risk 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. The assets and liabilities from segregated account and private placement life insurance are excluded from the Group's financial risk management considerations to the extent that the risks are borne by the customers.

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 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 minimize undue concentration of assets in any single group, asset class or credit rating;
- Investment guidelines specify collateral requirements for mortgages and loans and receivables which include the underlying property or other security; and
- Transacting business with well-established reinsurance companies with strong credit ratings. All major reinsurers are rated A- or better with A.M. Best.

The Group faces credit risk on its financial assets.

Maximum exposure to credit risk – Financial assets

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

	2011 $	2010 $
Cash and short-term deposits	75,418,616	76,282,352
Investments	636,849,479	540,243,811
Insurance receivables and other assets	54,026,092	48,833,303
Reinsurance assets	42,852,723	32,744,555
	809,146,910	698,104,021

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

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

	2011 $	2010 $
Bonds issued or guaranteed by:		
Financials	80,542,187	107,418,776
Government	113,845,624	118,863,379
U.S. Treasury and other agencies	159,557,311	91,996,333
Utilities and energy	52,575,811	42,745,301
Consumer staples and discretionary	48,586,577	30,991,947
Telecom	11,754,812	9,415,920
Computer technology products and services	12,374,400	7,674,677
Other	29,569,776	16,310,182
Total bonds	508,806,498	425,416,515
United States	328,327,260	262,008,056
Barbados	108,559,824	95,224,448
Canada	35,574,099	28,954,547
Northern Europe	17,727,029	10,142,393
Caribbean	3,984,856	3,353,555
Germany	-	3,177,656
United Kingdom	4,053,328	6,684,145
Other	10,580,102	15,871,715
Total bonds	508,806,498	425,416,515

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

	2011 $	2010 $
Bermuda	93,241,846	91,601,235
Barbados	4,109,574	4,026,802
Total mortgages and loans	97,351,420	95,628,037

Credit quality of bonds

	2011 $	2010 $
Bonds		
AAA	43,330,372	130,737,732
AA	198,110,859	47,519,233
A	133,811,995	139,114,243
BBB	98,557,561	91,985,273
BB and lower	-	23,447
Not rated*	34,995,711	16,036,587
Total bonds	508,806,498	425,416,515

*Not rated bonds relate to assets held within ICBL's investment portfolio which are held by counterparties that are not rated by the rating agencies.

Mortgages and loans credit risk

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.

The following table provides carrying amounts of the loans past due but not impaired:

	2011	2010
	$	$
Not past due	75,306,508	73,425,443
Past due but not impaired:		
Past due less than 90 days	10,393,919	14,403,324
Past due 90 to 180 days	3,431,951	1,491,282
Past due 180 days or more	2,863,176	740,890
Impaired (net of impairment provisions)	5,355,866	5,567,098
Total mortgages and loans	97,351,420	95,628,037

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

	2011	2010
	$	$
At 1 January	**569,593**	100,000
Increase in impairment allowances	**337,058**	469,593
At 31 December	**906,651**	569,593

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. 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.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations as they become due. In order to manage liquidity risks, management maintains levels of cash and short-term deposits, which are sufficient to fulfill the Group's short-term obligations. The Group also closely manages operating liquidity through cash flow matching of assets and liabilities on its life insurance, annuities and pensions business.

A significant business objective of the insurance industry is to match the cash flows of the investment portfolio with the expected payment of policy liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

The maturity profile of investments at 31 December, 2011 was as follows:

	Within 1 year $	2 to 3 years $	4 to 5 years $	Over 5 years $	Total $	Effective interest rate ranges
Bonds	30,696,286	110,410,986	172,659,836	195,039,390	508,806,498	0.6%-10.25%
Mortgages	7,805,426	3,555,759	8,067,415	69,259,934	88,688,534	2.75%-9.0%
Policyholder loans	206,068	412,140	412,138	3,091,793	4,122,139	4.75%-8.25%
Corporate loans	3,486,847	-	1,053,900	-	4,540,747	1.9%-5.25%
	42,194,627	114,378,885	182,193,289	267,391,117	606,157,918	
Percent of total	7.0%	18.9%	30.0%	44.1%	100.0%	

The maturity profile of investments at 31 December, 2010 was as follows:

	Within 1 year $	2 to 3 years $	4 to 5 years $	Over 5 years $	Total $	Effective interest rate ranges
Bonds	78,022,772	86,890,380	126,786,606	133,718,757	425,418,515	0.4%-9.5%
Mortgages	12,320,321	3,902,463	5,623,855	62,676,222	84,522,861	5.0%-9.0%
Policyholder loans	221,081	442,161	442,162	3,316,211	4,421,615	5.0%-7.0%
Corporate loans	6,683,561	-	-	-	6,683,561	1.8%-8.7%
	97,247,735	91,235,004	132,852,623	199,711,190	521,046,552	
Percent of total	18.7%	17.5%	25.5%	38.3%	100.0%	

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

The maturity profile of liabilities at 31 December, 2011 is as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Insurance contract liabilities	86,678,497	57,057,278	166,886,600	310,622,375
Investment contract liabilities	42,598,375	246,682,385	295,823	289,576,583
Other liabilities	42,764,594	-	-	42,764,594
Loans payable	644,641	3,070,803	-	3,715,444
Total	172,686,107	306,810,466	167,182,423	646,678,996

The maturity profile of liabilities at 31 December, 2010 was as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Insurance contract liabilities	90,794,437	34,689,005	142,810,336	268,293,778
Investment contract liabilities	37,113,307	207,660,866	435,746	245,209,919
Other liabilities	36,768,875	-	-	36,768,875
Loans payable	664,404	3,483,875	231,049	4,379,328
Total	165,341,023	245,833,746	143,477,131	554,651,900

(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 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 or United States dollars;
- The Bermuda and United States dollar are at par;
- The exchange rate between Bermudian and Barbadian dollars has remained unchanged since the acquisition of the Barbadian entity;
- Contracts written in the Cayman Islands are denominated in United States dollars;
- Contracts written in the Bahamas are denominated in United States or Bahamian dollars which are at par; and
- The Group's Canadian operation is fully integrated. Its assets and liabilities are not considered material.

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;
- Utilization 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 and debt securities held to maturity are accounted for at amortized 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 assets backing fixed and guaranteed insurance and investment contract portfolios relate to the Group's operations, except in Barbados. An increase of 100 basis points in interest yields would result in a loss for the period of $23,664,233 (2010: loss of $11,740,162). A decrease of 100 basis points in interest yields would result in a gain for the period of $28,417,233 (2010: gain of $18,526,162). The portion of this gain that would be recognized directly in equity is $0 (2010: gain of $0). In Barbados, all of the Group's financial assets with fixed interest rates are carried at amortized cost, and any changes in fair value would not have a direct impact on the Group's results.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

B. INSURANCE RISK

(i) Life insurance risk

Life 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 insurance risks

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

The impact of life 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 Group level the overall exposure to life insurance risk is measured through management reporting and Dynamic Capital Adequacy Test ("DCAT") and Minimum Continuing Capital and Surplus Requirement ("MCCSR") analysis.

The Risk Committee monitors the application of the risk policy in each business, and receives management information on life insurance risks. The committee considers all areas of life insurance risk, but in particular has a remit to monitor mortality, longevity, morbidity, persistency, product design and pricing.

The Board of Directors considers the reinsurance coverage across the life 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 life 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 life insurance risk to ensure best practice is shared throughout the Group and common standards are adopted.

The individual life 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 appetite for credit risk.
- 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. The Group has used reinsurance solutions to reduce the risks from longevity where possible and desirable.
- 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 for 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.

Sensitivity testing is widely used to measure the capital required and volatility in earnings due to exposure to life 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.

Concentration Risk

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

	2011			2010			1 January, 2010		
	Gross	Ceded	Net	Gross	Ceded	Net	Gross	Ceded	Net
Bermuda	149,153,531	(85,659)	149,239,190	135,718,216	(1,721,603)	137,439,819	114,799,554	(1,070,233)	115,869,787
Barbados	2,236,299	-	2,236,299	1,525,917	-	1,525,917	1,035,295	-	1,035,295
Other Caribbean & Latin America	6,050,892	-	6,050,892	4,248,988	-	4,248,988	2,882,009	-	2,882,009
Other*	32,383,953	(8,367,722)	40,751,675	17,959,933	(3,793,220)	21,753,153	6,453,438	(2,056,406)	8,509,845
	189,824,675	(8,453,381)	198,278,056	159,453,054	(5,514,823)	164,967,877	125,170,296	(3,126,639)	128,296,935

*Other includes Europe, Asia, the Middle East and the Americas, but no one area is significant within the total.

Sensitivity test analysis

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.

The following provides information about the Group's life and health insurance contract liabilities sensitivities to managements best estimate of the approximate impact as a result of changes in assumptions used to determine the Group's liability associated with these contracts.

Mortality

Mortality refers to the rates at which death occurs for defined groups of people. For life products where higher mortality would be financially adverse to the Group, a 1% increase in the best estimate assumption would increase the actuarial liabilities by $130,259 (2010:$103,000). For annuity products where lower mortality would be financially adverse to the Group, a 1% decrease in the best estimate assumption would increase the actuarial liabilities by $221,385 (2010:$187,000).

Morbidity

Morbidity refers to both the rates of accident or sickness and the rates of recovery there from. The Group's long term disability and medical expense insurance is marketed mostly on a group basis. The most significant morbidity risk relates to the individual and group health business. A 1% increase in medical claims net of reinsurance would increase the actuarial liabilities by $900,405 (2010:$774,000).

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 the Canadian Asset Liability Method ("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 an immediate 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 flows by approximately $4,669,586 (2010: $2,817,000). The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash flows by approximately $4,632,740 (2010: $3,463,000). This reflects only the impact on liabilities since changes in interest would correspondingly change the assets backing these liabilities, at times mitigating the above impact.

The level of actuarial liabilities established under the CALM valuation provides for interest rate movements other than the 1% movements indicated above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

Expenses

Actuarial liabilities provide for future 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. Expense risk is the risk that future expenses are higher than assumed. 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. A 10% increase in the best estimate maintenance unit expense assumption would increase the actuarial liabilities by approximately $1,440,174 (2010:$1,249,000).

Persistency

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 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. A 10% adverse change in the best estimate policy termination assumption would increase the actuarial liabilities by $1,051,028 (2010:$983,000).

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. Changes in the best estimate assumptions for the participating business would, in our expectation, correspond to changes in policyholder dividend scales that would not result in a material net change in actuarial liabilities for participating business.

ii) General 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.

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 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 comprises a provision for 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.

Both BF&M General and ICBL 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.

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 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 surplus share, 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 our Reinsurance policy. The basis of these purchases is underpinned by extensive financial and capital modeling and actuarial analysis to optimize the cost and capital efficiency benefits from our 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.

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 benefit.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

31 December, 2011

Territory		Property $	Motor $	All Other $	Total $
Bermuda					
	Gross	10,700,155	3,266,348	2,487,684	16,454,187
	Net	859,279	2,315,430	1,565,706	4,740,415
Barbados					
	Gross	2,986,767	46,841,917	11,225,802	61,054,486
	Net	309,613	33,501,623	8,756,967	42,568,203
Total					
	Gross	13,686,922	50,108,265	13,713,486	77,508,673
	Net	1,168,892	35,817,053	10,322,673	47,308,618

31 December, 2010

Territory		Property $	Motor $	All Other $	Total $
Bermuda					
	Gross	3,103,546	2,780,085	2,511,609	8,395,240
	Net	828,080	2,637,330	1,146,350	4,611,760
Barbados					
	Gross	3,530,587	44,934,023	10,954,340	59,418,950
	Net	921,848	33,847,425	9,033,304	43,802,577
Total					
	Gross	6,634,133	47,714,108	13,465,949	67,814,190
	Net	1,749,928	36,484,755	10,179,654	48,414,337

1 January, 2010

Territory		Property $	Motor $	All Other $	Total $
Bermuda					
	Gross	2,606,079	4,618,773	1,832,859	9,057,711
	Net	725,533	3,208,995	1,241,438	5,175,966
Barbados					
	Gross	2,322,597	44,342,844	11,138,571	57,804,012
	Net	488,889	33,730,985	9,330,455	43,550,329
Total					
	Gross	4,928,676	48,961,617	12,971,430	66,861,723
	Net	1,214,422	36,939,980	10,571,893	48,726,295

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 a majority of the claims. 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 estimation of the claims incurred but not reported reserve ("IBNR") 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

Bermuda
Gross loss development:

Underwriting year Estimate of ultimate claims cost:	2007 $ 000's	2008 $ 000's	2009 $ 000's	2010 $ 000's	2011 $ 000's	Total $ 000's
At the end of the valuation year*	4,967	4,674	5,021	7,674	15,157	-
One year later	6,483	9,680	8,409	9,825	-	-
Two years later	6,197	9,654	9,142	-	-	-
Three years later	6,156	9,924	-	-	-	-
Four years later	6,133	-	-	-	-	-
Current estimates of cumulative claims	6,133	9,924	9,142	9,825	15,157	50,181
Cumulative payments to date	(6,029)	(8,720)	(8,388)	(8,586)	(3,395)	(35,118)
Liability recognized in the consolidated statement of financial position	104	1,204	754	1,239	11,762	15,063
Reserve in respect of prior years	-	-	-	-	-	1,190
Total reserve included in the consolidated statement of financial position	-	-	-	-	-	16,253

Net loss development:

Underwriting year Estimate of ultimate claims cost:	2007 $ 000's	2008 $ 000's	2009 $ 000's	2010 $ 000's	2011 $ 000's	Total $ 000's
At the end of the valuation year*	3,571	3,997	3,695	3,960	3,910	-
One year later	4,929	6,581	6,190	5,743	-	-
Two years later	4,758	6,376	6,789	-	-	-
Three years later	4,728	6,811	-	-	-	-
Four years later	4,703	-	-	-	-	-
Current estimates of cumulative claims	4,703	6,811	6,789	5,743	3,910	27,956
Cumulative payments to date	(4,618)	(6,242)	(6,362)	(4,872)	(1,824)	(23,918)
Net liability recognized in the consolidated statement of financial position	85	569	427	871	2,086	4,038
Reserve in respect of prior years	-	-	-	-	-	616
Total reserve included in the consolidated statement of financial position	**-**	**-**	**-**	**-**	**-**	**4,654**

*Year one estimates are presented on an accounting year basis and subsequent year estimates are presented on an underwriting year basis.

Barbados
Gross loss development:

Accident year	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims cost:	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
At the end of accident year	25,599	23,240	19,090	21,655	19,828	-
One year later	26,378	22,561	18,965	20,159	-	-
Two years later	24,117	19,020	17,955	-	-	-
Three years later	22,383	18,401	-	-	-	-
Four years later	23,244	-	-	-	-	-
Current estimates of cumulative claims	23,244	18,401	17,955	20,159	19,828	99,587
Cumulative payments to date	(12,141)	(13,774)	(11,190)	(11,610)	(8,051)	(56,766)
Liability recognized in the consolidated statement of financial position	11,103	4,627	6,765	8,549	11,777	42,821
Reserve in respect of prior years	-	-	-	-	-	18,233
Total reserve included in the consolidated statement of financial position	-	-	-	-	-	61,054

Net loss development:

Accident year	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims cost:	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
At the end of accident year	14,793	14,123	13,792	14,539	13,441	-
One year later	14,746	14,048	13,098	13,119	-	-
Two years later	13,067	11,182	11,986	-	-	-
Three years later	12,719	10,068	-	-	-	-
Four years later	12,974	-	-	-	-	-
Current estimates of cumulative claims	12,974	10,068	11,986	13,119	13,441	61,588
Cumulative payments to date	(9,096)	(6,676)	(7,758)	(7,757)	(5,975)	(37,262)
Net liability recognized in the consolidated statement of financial position	3,878	3,392	4,228	5,362	7,466	24,326
Net reserve in respect of prior years	-	-	-	-	-	15,056
Net liability - Unallocated Loss Adjustment Expenses	-	-	-	-	-	549
Gross liability - Group Life and Medical business	-	-	-	-	-	2,638
Total net reserve included in the consolidated statement of financial position	-	-	-	-	-	42,569

Total reserves included in the consolidated statement of financial position:

	Total $ 000's
Gross	
Bermuda	16,253
Barbados	61,054
Total*	**77,307**
Net	
Bermuda	4,654
Barbados	42,569
Total*	**47,223**

*Does not include unearned premium or claims payable of $85,618.

C. 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 capital regulatory 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 consists of share capital, contributed surplus, share premium, accumulated other comprehensive loss, and retained earnings as disclosed on the consolidated statement of financial position.

Management monitors the adequacy of the Group and its operating subsidiaries' capital from the perspective of both the Bermuda and Barbados Insurance Act and Companies Act. The Group's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate. In addition, while not a regulatory requirement, BF&M Life and Bermuda International follow the capital adequacy measurement established by the Office of the Superintendent of Financial Institutions in Canada known as the Minimum Continuing Capital and Surplus Requirements ("MCCSR"). The Group's investment policies emphasize the preservation of capital and the maintenance of a diversified investment portfolio, which together serve to minimize 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.

(i) Bermuda

Under The Insurance Act 1978 (Bermuda), Amendments Thereto and Related Regulations (the "1978 Act"), the Group's Bermuda-based insurance subsidiaries are required to annually prepare and file statutory financial statements and a statutory financial return. The 1978 Act also requires the Group's insurance subsidiaries to meet minimum liquidity ratios and minimum capital and surplus requirements.

The 1978 Insurance Act limits the maximum amount of annual dividends and distributions that may be paid by the Group's insurance subsidiaries. These insurance companies shall not pay dividends in any year which would exceed 25% of its prior year statutory capital and surplus or reduce its prior year statutory capital by 15% or more, without the prior notification to, and in certain cases the approval of, the BMA. In addition, The Bermuda Companies Act 1981 (the "Companies Act") 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 realizable value of its assets would be less than the aggregate of its liabilities, issued share capital and share premium accounts.

During 2011 and 2010, the Bermuda Monetary Authority ("BMA") issued several new legislative and regulatory initiatives, including Insurance Prudential Standards Rules and Group Supervision Rules, for insurance groups and insurance subsidiaries, which address solvency requirements and capital adequacy, as well as an Insurance Code of Conduct.

Subsidiaries holding a general insurance company license

Subsidiaries that hold a general insurance company license are required to monitor their capital adequacy using The Bermuda Solvency Capital Requirement – Small and Medium-sized Entities ("BSCR-SME") starting in 2011. Previously, commercial insurance companies holding a general license were required to maintain a minimum capital and surplus according to the greater of a minimum amount, a % of premium written and a % of loss and loss expense provisions. For all periods presented herein, the Group satisfied these requirements.

Subsidiaries holding a long term insurance company license

The Insurance Amendment (No. 3) Act 2010 (the "Amendment Act") came into force on 31 December, 2010 creating new classes of long-term insurance licenses and establishing a capital adequacy monitoring regime for life insurance companies based on total assets. Previously, Long-term insurance companies were required to maintain a minimum capital and surplus of $250,000. For all periods presented herein, the Group's long term insurance subsidiaries satisfied these requirements.

(ii) Barbados

The Barbados Insurance (Catastrophe Reserve Fund) Regulations 1998 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 and are accounted for as an appropriation of retained earnings in the financial statements of ICBL. Assets representing the fund in the amount of $3,942,746 (2010: $3,464,644; 1 Jan, 2010: $3,099,549) are placed in trust in accordance with the regulations of the 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 $16,289,121 as at 2011 (2010 - $15,170,635; 1 Jan, 2010: $14,081,387) is included in ICBL's shareholders' equity.

(iii) Other jurisdictions

Foreign operations in the Bahamas and the Cayman Islands must comply with local capital and solvency requirements. For all periods presented herein, these operations satisfied these requirements.

6. SEGMENTAL INFORMATION

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

6.1. Health, life, annuity and pension

This operating segment includes group and individual health and accident, life, disability, annuity and pension products.

6.2. Property and casualty

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.

6.3 Real estate

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.

6.4 Barbados operations

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

6.5 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, a financial reinsurance company, and an investment management company.

Measurement basis

The accounting policies of the segments are the same as those for the Group as a whole. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

The segmental information provided to the CEO for the reportable segments for the year ended 31 December, 2011 is as follows:

Industry segments	Health, life, annuity, and pension 2011 $'000	Property and casualty 2011 $'000	Real estate 2011 $'000	Barbados operations 2011 $'000	Corporate and other 2011 $'000	Total 2011 $'000
Income earned from external customers	163,482	30,595	3,030	39,332	1,470	237,909
Segment amortization	2,705	1,074	827	1,467	110	6,183
Segment interest expense	-	-	180	-	-	180
Segment income tax expense	-	-	-	1,386	156	1,542
Segment earnings	15,521	13,601	1,883	2,691	(956)	32,740
Segment assets	977,590	103,376	27,169	193,191	15,886	1,317,212
Segment fixed asset & software expenditures	1,687	1,647	54	383	60	3,831

The segmental information provided to the CEO for the reportable segments for the year ended 31 December, 2010 is as follows:

Industry segments	Health, life, annuity, and pension 2010 $'000	Property and casualty 2010 $'000	Real estate 2010 $'000	Barbados operations 2010 $'000	Corporate and other 2010 $'000	Total 2010 $'000
Income earned from external customers	143,814	33,406	2,644	40,444	1,382	221,690
Segment amortization	1,554	468	779	1,436	116	4,353
Segment interest expense	-	-	184	-	-	184
Segment income tax expense	-	-	-	1,570	106	1,676
Segment earnings	1,341	13,357	1,130	2,322	(649)	17,501
Segment assets	941,006	74,542	27,205	179,710	15,196	1,237,659
Segment fixed asset & software expenditures	3,328	3,239	276	2,947	49	9,839

7. INVESTMENTS

A. CARRYING AMOUNT AND FAIR VALUE OF INVESTMENTS

Investments comprise:

	2011		2010		1 January 2010	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $	Carrying amount $	Fair value $
At fair value through profit and loss						
- Bonds	397,406,614	397,406,614	326,887,726	326,887,726	292,375,455	292,375,455
- Equities*	22,271,866	22,271,866	10,124,428	10,124,428	11,184,703	11,184,703
- Derivatives*	849,835	849,835	-	-	-	-
Available for sale						
- Equities	7,082,252	7,082,252	7,777,762	7,777,762	8,907,300	8,907,300
- Residential properties	487,608	487,608	1,297,069	1,297,069	-	-
Loans and receivables						
- Bonds	111,399,884	115,136,049	98,528,789	101,296,909	100,934,923	105,370,873
- Mortgages	88,688,534	88,599,069	84,522,861	88,150,738	85,514,152	85,451,556
- Policyholder loans	4,122,139	4,122,139	4,421,615	4,421,615	3,824,183	3,824,183
- Other loans	4,540,747	4,537,940	6,683,561	6,754,449	4,043,899	4,097,536
	636,849,479	640,493,372	540,243,811	546,710,696	506,784,615	511,211,606

* Included within certain investments are assets that back private placement insurance contracts. They are segregated and managed to meet the specific investment objectives of the policyholder. Liabilities relating to these contracts are included within insurance contract liabilities. The investment risk of these assets is borne by the customer. These assets comprise:

	2011		2010		1 January 2010	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Equity / Mutual funds/Derivatives	13,558,368	13,558,368	57,093	57,093	30,446	30,446

Included in the investments balance of $636,849,479 (2010 - $540,243,811; 1 January, 2010 - $506,784,615) is $40,656,646 (2010 - $40,013,170, 1 January, 2010 – $41,584,456) which has been pledged to meet the requirements of Section 25(5) of the Barbados Insurance Act 1996-32 and $499,376 (2010 - $499,376, 1 January, 2010 - $499,376) of financial assets which are being held by the Supervisor of Insurance of Barbados as required under Section 23(2)(b) of the Barbados Insurance Act.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

B. FAIR VALUE HIERARCHY

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction.

The Group classifies the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The following table illustrates the classification of the Group's investments measured at fair value as at 31 December 2011:

	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets at fair value through profit and loss				
Bonds	-	397,406,614	-	397,406,614
Equities	13,196,309	9,075,557	-	22,271,866
Derivatives	-	849,835	-	849,835
Available for sale financial assets				
Equities	6,377,032	705,220	-	7,082,252
Residential properties	-	487,608		487,608
	19,573,341	408,524,834	-	428,098,175

The following table illustrates the classification of the Group's investments measured at fair value as at 31 December 2010:

	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets at fair value through profit and loss				
Bonds	-	326,887,726	-	326,887,726
Equities	3,729,112	6,395,316	-	10,124,428
Derivatives	-	-	-	-
Available for sale financial assets				
Equities	7,067,892	709,870	-	7,777,762
Residential properties	-	1,297,069		1,297,069
	10,797,004	335,289,981	-	346,086,985

The following table illustrates the classification of the Group's investments measured at fair value as at 1 January 2010:

	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets at fair value through profit and loss				
Bonds	-	292,375,455	-	292,375,455
Equities	3,830,409	7,354,294	-	11,184,703
Derivatives	-	-	-	-
Available for sale financial assets				
Equities	7,591,882	1,315,418	-	8,907,300
	11,422,291	301,045,167	-	312,467,458

The Group does not hold any Level 3 financial assets.

C. INVESTMENT INCOME

	2011 $	2010 $
Investment income		
Bonds – FVTPL	11,551,118	12,170,176
Bonds – amortized cost	6,406,517	5,685,875
Equities – FVTPL	409,518	440,901
Equities – available for sale	159,264	214,923
Mortgages and loans – loans and receivables	5,553,898	6,377,887
Bank deposits and policyholder loans	814,229	513,006
Net realized losses on available for sale assets	-	(159,054)
Change in fair value of financial assets at fair value through profit and loss		
Bonds	25,741,530	3,790,963
Equity	(89,614)	(1,200,760)
Less: Allocation to contracts for the account and risk of customers	(8,121,330)	(8,154,971)
Total	**42,425,130**	**19,678,946**

8. SEGREGATED FUNDS

(i) Segregated funds – consolidated net assets

	2011 $	2010 $	1 January 2010 $
Mutual funds	414,837,490	443,379,232	329,419,715
Fixed income investments and equities	-	2,709,286	2,104,332
Cash and short term deposits	10,048,228	7,550,329	8,272,293
Total segregated funds assets	**424,885,718**	**453,638,847**	**339,796,340**

(ii) Segregated funds – consolidated statements of changes in net assets

	2011 $	2010 $
Segregated funds assets – beginning of year	453,638,847	339,796,340
Additions:		
Rent-a-captive premiums	-	760,800
Pension contributions	65,522,722	77,123,060
Life insurance	55,021	-
Net realized and unrealized (losses) gains	(20,179,089)	36,029,031
Other investment income	107,827	65,185
Total additions	45,506,481	113,978,076
Deductions		
Payments to policyholders and their beneficiaries	(69,088,202)	(35,504,070)
Management fees	(5,065,452)	(3,790,512)
Losses paid	(85,591)	(1,000,000)
Underwriting expenses	(20,365)	(120,025)
Total deductions	(74,259,610)	(40,414,607)
Net additions to segregated funds	(28,753,129)	73,563,469
Segregated funds assumed in acquisition of book of business	-	40,279,038
Segregated funds assets – end of year	424,885,718	453,638,847

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

9. CASH AND CASH EQUIVALENTS

	2011 $	2010 $	1 January 2010 $
Cash at bank and in hand	49,751,376	35,457,298	47,773,587
Short-term bank deposits	25,667,240	40,825,054	13,867,370
	75,418,616	**76,282,352**	**61,640,957**

As at December, 2011, $1,212,163 (31 December, 2010 - $758,189; 1 January, 2010 - $478,276) was classified as restricted cash as the balance was required to be held in trust per statutory requirements of certain jurisdictions in which the Group operates.

10. INSURANCE RECEIVABLES AND OTHER ASSETS

These comprise:

	2011 $	2010 $	1 January 2010 $
Insurance receivables	24,223,303	32,899,541	26,047,210
Accounts receivable	24,580,995	11,336,589	14,618,370
Investment income due and accrued	5,221,794	4,597,173	5,221,794
	54,026,092	**48,833,303**	**45,887,374**

11. DEFERRED POLICY ACQUISITION COSTS

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

	2011 $	2010 $	1 January 2010 $
At 1 January	1,968,390	1,790,786	1,437,435
Recognized deferred acquisition costs	4,078,356	4,076,897	3,871,888
Amortization charge through income	(3,936,395)	(3,899,293)	(3,518,537)
At 31 December	**2,110,351**	**1,968,390**	**1,790,786**

12. INVESTMENT CONTRACT LIABILITIES

Investment contracts are those that do not transfer significant insurance risk from the contract holder to the issuer, and are therefore treated as financial instruments under IFRS. The composition of investment contract liabilities and the movement in liabilities is shown below:

	2011 $	2010 $	1 January 2010 $
Guaranteed interest pension			
Bermuda	243,450,480	204,382,592	189,807,060
Barbados	42,598,375	37,113,307	31,801,971
Term certain annuities	3,527,728	3,714,020	3,867,401
Total investment contract liabilities	289,576,583	245,209,919	225,476,432

	2011 $	2010 $
At 1 January	245,209,919	225,476,432
Pension contributions	50,336,559	48,490,381
Interest credited	16,877,158	8,001,800
Benefits paid	(37,438,544)	(37,712,376)
Management fees deducted	(252,216)	(223,483)
Net transfers in (out)	14,843,707	1,177,165
At 31 December	289,576,583	245,209,919

The fair value hierarchy level of investment contract liabilities is reported below. Refer to note 7B – Fair Value Hierarchy for a description of the hierarchy classification levels. These investments are not quoted in an active market and their fair values are determined using valuation techniques. 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. These investment contract liabilities are classified as Level 2 instruments in the fair value hierarchy.

	Level 1 $	Level 2 $	Level 3 $	Total $
Fair value by hierarchy level as at:				
31 December 2011	-	289,576,583	-	289,576,583
31 December 2010	-	245,209,919	-	245,209,919
1 January 2010	-	225,476,432	-	225,476,432

13. INSURANCE CONTRACT LIABILITIES

A. ASSUMPTIONS AND METHODOLOGY

(i) Life and health insurance contracts

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 valuation of liabilities was performed using the 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 company experience. Provisions for adverse deviations ("PfADs") were determined by applying appropriate margins for adverse deviations ("MfADs") to the best estimate assumptions.

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. Future reinvestments in investment grade bonds and mortgages are assumed to earn a credit spread 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.

Mortality

Mortality refers to the rates at which death is expected to occur for defined classes of insured. The Group's portfolio of business is too small to form the basis for any internally produced mortality assumption. 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 ASB.

Lapse

The best estimate lapse assumption is based on a combination of industry and the Group's 2009 lapse experience study and pricing assumptions for newer products.

Expenses

Actuarial liabilities provide for future administrative policy-related expenses. These include the costs of premium collection, claims adjudication and processing, relating 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.

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.

(ii) Short-term insurance contract liabilities

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 either accident period or underwriting period. Claims development is analysed for each geographical area as well as by line of business.

B. COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	2011 $	2010 $	1 January 2010 $
Gross			
Short term insurance contracts:			
Claims reported and loss adjustment expenses	60,858,946	51,467,023	49,610,611
Unearned premiums	43,289,027	41,026,534	40,028,070
Claims incurred but not reported	16,649,727	16,347,167	17,251,112
Total short-term insurance contracts	120,797,700	108,840,724	106,889,793
Life and health insurance contracts:			
Participating			
Individual life	30,930,041	30,018,502	27,337,399
Non-participating			
Individual life	52,201,067	36,885,626	18,941,034
Individual and group annuities	74,163,009	63,255,855	51,476,632
Group life	10,228,871	8,658,074	8,476,634
Health and accident	22,301,687	20,634,997	18,938,597
Total life and health insurance contracts	189,824,675	159,453,054	125,170,296
Total insurance liabilities - gross	**310,622,375**	**268,293,778**	**232,060,089**
Net			
Short term insurance contracts:			
Claims reported and loss adjustment expenses	34,971,141	34,850,293	33,853,204
Unearned premiums	22,182,978	22,167,009	22,512,785
Claims incurred but not reported	12,337,477	13,564,044	14,873,091
Total short term insurance contracts	69,491,596	70,581,346	71,239,080
Life and health insurance contracts:			
Participating			
Individual life	31,851,133	30,899,623	28,246,818
Non-participating			
Individual life	61,473,456	42,089,142	22,432,152
Individual and group annuities	74,163,009	63,255,855	51,432,120
Group life	8,488,771	8,088,260	7,247,248
Health and accident	22,301,687	20,634,997	18,938,597
Total life and health insurance contracts	198,278,056	164,967,877	128,296,935
Total insurance liabilities - net	**267,769,652**	**235,549,223**	**199,536,015**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

C. CHANGES IN SHORT TERM INSURANCE CONTRACT LIABILITIES

	2011 Gross $	2011 Reinsurers' Share $	2011 Net $	2010 Gross $	2010 Reinsurers' Share $	2010 Net $
At 1 January						
Claims and adjustment expenses	51,467,023	(16,616,730)	34,850,293	49,610,611	(15,757,407)	33,853,204
Claims incurred but not reported	16,347,167	(2,783,123)	13,564,044	17,251,112	(2,378,021)	14,873,091
Total at 1 January	67,814,190	(19,399,853)	48,414,337	66,861,723	(18,135,428)	48,726,295
Cash paid for claims settled in year	(23,230,741)	6,417,515	(16,813,226)	(30,476,006)	7,503,397	(22,972,609)
Increase in liabilities:						
Arising from current-year claims	29,393,964	(13,521,752)	15,872,212	34,868,964	(6,471,216)	28,397,748
Arising from prior-year claims	3,531,260	(3,695,965)	(164,705)	(3,440,491)	(2,296,606)	(5,737,097)
Total at 31 December	**77,508,673**	**(30,200,055)**	**47,308,618**	**67,814,190**	**(19,399,853)**	**48,414,337**
Claims and adjustment expenses	60,858,946	(25,887,805)	34,971,141	51,467,023	(16,616,730)	34,850,293
Claims incurred but not reported	16,649,727	(4,312,250)	12,337,477	16,347,167	(2,783,123)	13,564,044
Total at 31 December	**77,508,673**	**(30,200,055)**	**47,308,618**	**67,814,190**	**(19,399,853)**	**48,414,337**

The fair value of the net provision for claims and adjustment expenses of $47,308,618 (2010 - $48,414,337, 1 January 2010 - $48,726,295) is $40,388,142 (2010 - $37,779,921, 1 January 2010 - $43,678,900). The fair value is calculated by the Group's actuary and represents the discounted value of the net provision.

D. UNEARNED PREMIUM LIABILITY

	2011 Gross $	2011 Reinsurance $	2011 Net $	2010 Gross $	2010 Reinsurance $	2010 Net $
At 1 January	41,026,534	(18,859,525)	22,167,009	40,028,070	(17,515,285)	22,512,785
Premium written during the year	105,310,854	(58,014,332)	47,296,522	104,612,272	(55,818,204)	48,794,068
Premium earned during the year	(103,048,361)	55,767,808	(47,280,553)	(103,613,808)	54,473,964	(49,139,844)
Total at 31 December	**43,289,027**	**(21,106,049)**	**22,182,978**	**41,026,534**	**(18,859,525)**	**22,167,009**
Movement during the year	**2,262,493**	**(2,246,524)**	**15,969**	**998,464**	**(1,343,701)**	**(345,237)**

E. CHANGES IN LIFE AND HEALTH INSURANCE CONTRACT LIABILITIES

	2011			2010		
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Provision for policy benefits	152,442,518	(5,514,823)	157,957,341	122,639,096	(3,126,639)	125,765,735
Claims payable	6,949,022	-	6,949,022	2,595,061	-	2,595,061
Provision for participating policy holders	61,514	-	61,514	(63,861)	-	(63,861)
Life and health insurance contract liabilities - 1 January	159,453,054	(5,514,823)	164,967,877	125,170,296	(3,126,639)	128,296,935
Change in provision for policy benefits:						
Aging and changes in balances on in-force policies	24,100,399	71,620	24,028,779	22,570,746	(1,398,757)	23,969,503
Changes in assumptions:						
Investment returns	5,641,844	(2,009,287)	7,651,131	9,186,777	(984,634)	10,171,411
Mortality	148,945	(1,055,128)	1,204,073	(299,093)	13,173	(312,266)
Lapse	-	-	-	566,384	(24,944)	591,328
Expense	527,574	48,048	479,526	110,925	18,220	92,704
Premium payment patterns	373,277	25,673	347,604	229,531	(10,109)	239,640
Other	(163,878)	(19,483)	(144,395)	(2,810,340)	130,527	(2,940,867)
Other changes	1,338,772	-	1,338,772	248,490	(131,663)	380,153
	31,966,932	(2,938,558)	34,905,490	29,803,421	(2,388,186)	32,191,606
Provision for policy benefits	184,409,450	(8,453,381)	192,862,831	152,442,518	(5,514,823)	157,957,341
Claims payable	4,894,234	-	4,894,234	6,949,022	-	6,949,022
Provision for participating policyholders	520,991	-	520,991	61,514	-	61,514
Life and health insurance contract liabilities – 31 December	**189,824,675**	**(8,453,381)**	**198,278,056**	**159,453,054**	**(5,514,823)**	**164,967,877**

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 on the balance sheet, 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.

F. COMPOSITION OF THE ASSETS SUPPORTING LIABILITIES

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

2011

	Bonds $	Mortgages and loans $	Cash $	Total $
Participating				
Individual life	20,724,949	8,869,076	2,257,108	31,851,133
Non-participating				
Individual life	47,259,453	11,489,822	2,724,181	61,473,456
Individual and group annuities	49,902,565	20,626,689	3,633,755	74,163,009
Group life	6,350,294	-	2,138,477	8,488,771
Health and accident	13,949,569	-	8,352,118	22,301,687
	138,186,830	**40,985,587**	**19,105,639**	**198,278,056**

2010

	Bonds $	Mortgages and loans $	Cash $	Total $
Participating				
Individual life	23,454,121	5,509,335	1,936,167	30,899,623
Non-participating				
Individual life	27,060,954	8,296,387	6,731,801	42,089,142
Individual and group annuities	32,985,034	25,481,967	4,788,854	63,255,855
Group life	671,827	7,416,433	-	8,088,260
Health and accident	16,386,009	-	4,248,988	20,634,997
	100,557,945	**46,704,122**	**17,705,810**	**164,967,877**

1 January, 2010

	Bonds $	Mortgages and loans $	Cash $	Total $
Participating				
Individual life	24,273,799	2,058,758	1,914,261	28,246,818
Non-participating				
Individual life	15,584,219	4,379,191	2,468,742	22,432,152
Individual and group annuities	25,891,974	24,394,599	1,145,547	51,432,120
Group life	927,550	6,319,698	-	7,247,248
Health and accident	16,056,589	-	2,882,008	18,938,597
	82,734,131	**37,152,246**	**8,410,558**	**128,296,935**

14. REINSURANCE ASSETS

Reinsurance assets are comprised of the following:

	2011	2010	January 1 2010
Short-term insurance contracts:			
Claims reported and adjustment expenses	25,887,805	16,616,730	15,757,407
Unearned premiums ceded	21,106,049	18,859,525	17,515,285
Claims incurred but not reported	4,312,250	2,783,123	2,378,021
Total short-term insurance contracts	**51,306,104**	**38,259,378**	**35,650,713**
Life and health insurance contracts:			
Participating			
Individual life	(921,092)	(881,121)	(909,419)
Non-participating			
Individual life	(9,272,389)	(5,203,516)	(3,491,118)
Individual and group Annuities	-	-	44,512
Group life	1,740,100	569,814	1,229,386
Health and accident	-	-	-
Total life and health insurance contracts	**(8,453,381)**	**(5,514,823)**	**(3,126,639)**
Total reinsurance assets	**42,852,723**	**32,744,555**	**32,524,074**

15. RETIREMENT BENEFIT OBLIGATIONS

(i) Defined contribution pension plan

The Group sponsors a defined contribution pension plan for Bermuda employees who were hired after 1 January, 1999 and for those who elected to convert from the defined benefit plan as of 1 January, 1999. The cost of the defined contribution pension plan is not reflected in the tables below. Contributions of $1,099,934 (2010 - $1,135,150) equating to the service cost for the year for these employees were made to this plan. The employer portion was $546,667 (2010 - $564,275).

In 2007, ICBL introduced a defined contribution plan for new employees. Contributions of $72,220 (2010 - $62,524) equating to the service cost for the year for these employees were made to this plan.

(ii) Defined benefit pension plan

The Group sponsors a defined benefit pension plan for eligible employees. The pension amount at retirement is based on an employee's final average earnings. The scheme is generally funded through payments determined by periodic actuarial calculations.

(iii) Post-retirement medical plan and impact of curtailment

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. Under the Bermuda employee plan and effective 31 December, 2011, the Group pays 50% of the total premiums paid to the insurer for the pensioners at that date. Retirees after 31 December, 2011 will 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. This was treated as a curtailment in the following disclosures. The resulting change of $9,629,079 is reported as a gain in the consolidated statement of income.

The Group also offers medical insurance benefits to retired employees in Barbados. Sixty percent (60%) of the premium is funded by ICBL. The present value of this future benefit obligation is calculated by a qualified actuary and the amount is accrued at the end of each year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

The total cash payments made by the Group during 2011 were $4,238,473 (2010 - $3,874,043). The cash payments consisted of contributions required to fund the defined benefit pension plan and premiums paid for the other post-retirement medical benefit plan. The Group measures the fair value of assets and the accrued benefit obligations as of 31 December. The most recent actuarial valuation of the pension plan for funding and accounting purposes was as of 31 December, 2011.

The following table provides summaries of the defined benefit pension and post-retirement medical plans' estimated financial position at 31 December, 2011 and 2010:

	Defined benefit pension plans		Medical benefit plans	
	2011 $ (000's)	2010 $ (000's)	2011 $ (000's)	2010 $ (000's)
Accrued benefit obligation				
Balance - Beginning of year	47,035	47,233	14,566	12,315
Current service cost	849	944	1,160	1,145
Interest cost	2,769	2,954	843	776
Partial curtailment of liability	-	-	(11,948)	-
Past service cost	446	-	(3,687)	-
Benefits and expenses paid	(1,866)	(1,591)	(294)	(269)
Actuarial (loss) gain	(2,502)	(2,505)	5,636	599
Balance - End of year	**46,731**	**47,035**	**6,276**	**14,566**
Plan assets				
Fair value - Beginning of year	38,979	36,960	-	-
Actual return on plan assets	2,720	2,584	-	-
Contributions	3,692	3,310	294	269
Benefits and expenses paid	(1,866)	(1,591)	(294)	(269)
Actuarial (loss) gain on plan assets	(809)	(2,284)	-	-
Fair value - End of year	**42,716**	**38,979**	**-**	**-**
Funded Status – plan (deficit) surplus	(4,015)	(8,056)	(6,276)	(14,566)
Unamortized net actuarial loss	(22)	1,680	565	971
Accrued benefit (liability) asset	(4,037)	(6,376	(5,711)	(13,595)

Plan assets consist of the following:

	2011 %	2010 %	1 January 2010 $
Equities	9	11	15
Fixed income	71	71	68
Real estate	5	7	9
Other	15	11	8
Total	**100**	**100**	**100**

The significant actuarial assumptions adopted in measuring the Group's accrued benefit obligations vary depending on whether the obligation is the result of Bermuda or Barbados based operations. Those assumptions are as follows (weighted-average assumptions as of 31 December, 2011 and 2010):

	Defined benefit pension plans		Medical benefit plans	
	2011	2010	2011	2010
	%	%	%	%
Bermuda				
Benefit cost during the year				
Discount rate	5.00	6.00	6.00	5.25
Expected long-term rate				
of return on plan assets	7.00	7.00		
Rate of compensation increase	4.75	5.50		
Accrued benefit obligation at end of year				
Discount rate	4.25	5.25	5.25	5.25
Compensation increase	3.75	4.75		
Post-retirement indexation	0.00	1.50		

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed to be 8.5% for years 2011 to 2013, 6.5% for years 2014 to 2018, and 4.5% thereafter.

	Defined benefit pension plans		Medical benefit plans	
	2011	2010	2011	2010
	%	%	%	%
Barbados				
Benefit cost during the year				
Discount rate	7.75	7.75	7.75	7.75
Expected long-term rate				
of return on plan assets	6.50	6.50		
Rate of compensation increase	6.00	6.00		
Accrued benefit obligation at end of year				
Discount rate	7.75	7.75	7.75	7.75
Compensation increase	6.00	6.00		
Post-retirement indexation	2.50	2.50		

Medical premium inflation in Barbados was assumed to be 6 % (2010 – 5%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

The Group's net benefit plan expense recognised in the income statement is as follows:

	Defined benefit pension plan		Medical benefit plans	
	2011 $ (000's)	2010 $ (000's)	2011 $ (000's)	2010 $ (000's)
Current service cost	849	944	1,160	1,145
Interest cost	2,769	2,954	843	776
Expected return on plan assets	(2,720)	(2,584)	-	-
Net actuarial losses (gains) recognized during the year	9	476	6,042	(212)
Past service cost (credit)	446	-	(3,687)	-
Losses (gains) on curtailment and settlements	-	-	(11,948)	305
Difference between recognized and actual actuarial loss	-	-	-	249
Benefit plan expense (gain)	**1,353**	**1,790**	**(7,590)**	**2,263**
Gain recognized on partial curtailment of Medical benefit plans	**-**	**-**	**9,629**	**-**
Net benefit plan expense	**1,353**	**1,790**	**2,039**	**2,263**

Pension and health care cost calculations are based on trend rate assumptions which may differ from actual results. Changes in trend rate assumptions by 1% in either direction will change the retirement benefit obligation as follows:

	Defined benefit pension plan			Medical benefit plans		
	Increase 2011 $ (000's)	Increase 2010 $ (000's)	Increase 1 January 2010 $ (000's)	Decrease 2011 $ (000's)	Decrease 2010 $ (000's)	Decrease 1 January 2010 $ (000's)
Aggregate of current service cost and interest cost	1,031	491	456	(716)	(373)	(335)
Accrued benefit obligation	7,079	2,936	3,426	(5,606)	(2,215)	(2,519)

16. PROPERTY AND EQUIPMENT

	Land and buildings $	Furniture, equipment and leasehold improvements $	Computer hardware $	Total $
At 1 January, 2010				
Cost	13,386,215	7,050,263	6,410,184	26,846,662
Accumulated amortization	(1,854,223)	(5,135,720)	(4,823,868)	(11,813,811)
Net book amount	**11,531,992**	**1,914,543**	**1,586,316**	**15,032,851**
Year ended 31 December, 2010				
Additions	298,925	231,867	196,482	727,274
Disposals	-	-	(2,309)	(2,309)
Amortization charge	(232,614)	(556,583)	(542,156)	(1,331,353)
Closing net book amount	**11,598,303**	**1,589,827**	**1,238,333**	**14,426,463**
At 31 December, 2010				
Cost	13,865,140	7,282,130	6,604,357	27,571,627
Accumulated amortization	(2,086,837)	(5,692,303)	(5,366,024)	(13,145,164)
Net book amount	**11,598,303**	**1,589,827**	**1,238,333**	**14,426,463**
Year ended 31 December, 2011				
Additions	-	343,721	429,301	773,022
Disposals	(337,044)	-	-	(337,044)
Amortization charge	(238,972)	(544,161)	(519,192)	(1,302,325)
Closing net book amount	**11,022,287**	**1,389,387**	**1,148,442**	**13,560,116**
At 31 December, 2011				
Cost	13,348,096	7,625,851	7,033,658	28,007,605
Accumulated amortization	(2,325,809)	(6,236,464)	(5,885,216)	(14,447,489)
Net book amount	**11,022,287**	**1,389,387**	**1,148,442**	**13,560,116**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

17. INVESTMENT PROPERTIES

	2011 $	2010 $	1 January 2010 $
Cost	54,256,237	53,941,578	51,016,091
Accumulated amortization	(12,972,545)	(11,978,266)	(11,075,730)
Net book amount	**41,283,692**	**41,963,312**	**39,940,361**
Year ended 31 December			
At beginning of year	41,963,312	39,940,361	40,501,610
Net additions and capital improvements	314,659	2,925,487	228,366
Amortization	(994,279)	(902,536)	(789,615)
Closing net book amount	**41,283,692**	**41,963,312**	**39,940,361**

Investment properties consist of the Aon House (formerly ACE Tempest Re Building), owned by Scarborough, a 60% owned subsidiary, and Argo House (formerly PXRE House), owned by Barr's Bay, a 60% owned subsidiary. The minority shareholder of Barr's Bay holds an equitable mortgage as security for its loan to Barr's Bay. Additional investment properties located in Barbados include land being used for car parking facilities and two buildings being used for rental.

At 31 December, 2011, investment properties with a net book value of $41,283,692 (2010 - $41,963,312; 1 January, 2010 - $39,940,361) were estimated to be valued at $74,741,137 (2010 - $75,196,567; 1 January, 2010 - $75,977,978) on the basis of their estimated open market value for existing use. This value is based on the most recent formal appraisal which was performed in 2010 for the Bermuda and 2011 for the Barbados based properties.

Operating expenses incurred in support of generating rental income from investment properties was $2,044,624 (2010 - $2,601,822).

18. INTANGIBLE ASSETS

The carrying amounts of intangible assets are as follows:

	Finite life			Indefinite life		
	Customer lists $	ICBL customer relationships and contracts $	Software development costs $	ICBL brand $	Goodwill $	Total $
At 1 January, 2010						
Cost	6,836,359	5,086,472	12,622,373	696,629	2,628,848	27,870,681
Accumulated amortization & Impairment	(3,371,197)	(2,034,589)	(1,386,470)	-	-	(6,792,256)
Net book value	3,465,162	3,051,883	11,235,903	696,629	2,628,848	21,078,425
Year ended 31 December, 2010						
Opening net book value	3,465,162	3,051,883	11,235,903	696,629	2,628,848	21,078,425
Additions	-	-	6,406,978	-	-	6,406,978
Amortization	(737,932)	(508,647)	(872,998)	-	-	(2,119,577)
Closing net book value	2,727,230	2,543,236	16,769,883	696,629	2,628,848	25,365,826
At 1 January, 2011						
Cost	6,836,359	5,086,472	19,029,351	696,629	2,628,848	34,277,659
Accumulated amortization	(4,109,129)	(2,543,236)	(2,259,468)	-	-	(8,911,833)
Net book value	2,727,230	2,543,236	16,769,883	696,629	2,628,848	25,365,826
Year ended 31 December, 2011						
Opening net book value	2,727,230	2,543,236	16,769,883	696,629	2,628,848	25,365,826
Additions	-	-	3,058,623	-	-	3,058,623
Amortization	(707,558)	(508,647)	(1,941,295)	-	-	(3,157,500)
Impairment losses	(729,000)	-	-	-	-	(729,000)
Closing net book amount	**1,290,672**	**2,034,589**	**17,887,211**	**696,629**	**2,628,848**	**24,537,949**
At 31 December, 2011						
Cost	6,107,359	5,086,472	22,087,974	696,629	2,628,848	36,607,282
Accumulated amortization	(4,816,687)	(3,051,883)	(4,200,763)	-	-	(12,069,333)
Net book value	**1,290,672**	**2,034,589**	**17,887,211**	**696,629**	**2,628,848**	**24,537,949**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

Customer lists

During 2004, the Group purchased rights to certain customer lists in the health, life, annuity and pension business. During 2007, the Group purchased rights to another customer list in the amount of $1,215,000. During the year, the Group deemed these lists to be impaired and recognized an impairment of $729,000.

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 amortized over its useful life.

Annually, the Group reviews its software development costs for evidence of impairment.

ICBL intangibles

In 2005, the Group acquired intangible assets arising from the ICBL acquisition including the ICBL brand and customer relationships totalling $5,783,101. Of the total intangible assets acquired, $5,086,472 was identified as the value of intangible assets that have finite lives and are amortized over 10 years, being the estimated expected lives of the existing relationships. The remaining balance of $696,629 relates to the ICBL brand and was determined to have an indefinite life.

Goodwill

Goodwill represents the excess of the cost of ICBL at acquisition over the fair value of the net assets acquired. The entire balance of goodwill is therefore fully allocated to the Barbados operation which is identified as an operating segment.

When testing for impairment, the recoverable amount of ICBL is determined based on its fair value less costs to sell. Impairment of these intangibles is assessed on an annual basis.

19. INCOME TAXES

Income tax is calculated and payable on the profits of ICBL and BF&M Canada 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 expense comprises:

	2011 **$**	**2010** **$**
Current tax	1,466,006	1,690,646
Deferred tax	75,584	(14,662)
Total income tax expense	**1,541,590**	**1,675,984**

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

	2011 **$**	**2010** **$**
ICBL and BF&M Canada's income before corporation tax	7,749,867	9,758,066
Tax calculated at effective rates of 25% & 35% respectively	1,980,058	2,469,708
Effect of different tax rates on taxable income	373,704	276,751
Income not subject to tax	(83,651)	(134,449)
Tax effect of other amounts allowed	(974,810)	(875,031)
Expenses not deductible for tax	175,399	62,250
Tax effect of reduction in tax rate	70,890	(123,245)
	1,541,590	1,675,984

ICBL's life business is subject to tax at a rate of 5% of gross investment income. All other investment income of ICBL is subject to tax at a rate of 12.5%.

B. DEFERRED TAXES

The deferred tax liability relates to the following items:

	2011 $	2010 $	1 January 2010 $
Accelerated tax depreciation	434,718	439,445	650,553
Net pension plan asset	1,271,557	964,496	812,034
	1,706,275	**1,403,941**	**1,462,587**
Deferred tax liability at corporation tax rate of 25%	**426,569**	**350,985**	**365,647**

20. OTHER LIABILITIES

These include:

	2011 $	2010 $	1 January 2010 $
Insurance balances payable	9,043,174	10,109,495	6,637,200
Deferred commission income	5,979,002	5,585,463	5,321,672
Payables and accrued expenses	20,242,526	13,747,054	15,652,860
Dividends payable	1,677,088	1,674,166	1,665,926
Policyholder dividends payable	5,822,804	5,652,697	5,527,804
Total	**42,764,594**	**36,768,875**	**34,805,462**

Insurance balances payable include amounts payable to reinsurers and brokers.

21. LOAN PAYABLE

In prior years, the Group borrowed from an affiliated Company of the minority shareholder of Barr's Bay, $6,933,906 against the $7,000,000 in promissory notes available to finance the construction of Argo House.
Interest on the variable rate loan is adjusted quarterly at the lower of 7% or 2% less than the average of the prevailing per annum first mortgage rates of banks in Bermuda. Interest accrues on the date of each drawdown and is payable on the last day of each calendar quarter commencing one year after completion of the building but only to the extent that Barr's Bay has cash surplus to its needs arising from income in excess of all operating expenses (including payments of interest). Accrued interest on the loan at 31 December, 2011 was $43,713 (2010 - $45,530; 1 Jan, 2010 - $48,327). Repayment of accrued interest is made separately, and began in the year 2006. Repayment of loan principal commenced in the 2005 year and it is anticipated that the loan will be fully repaid by 30 June, 2017 (contract maturity – 1 January, 2026).

During the year $664,404 (2010 - $620,400) of the principal balance was repaid. Estimated principal repayments on the loan balance of $3,715,444 (2010 - $4,379,328; 1 Jan 2010 - $4,999,728) for the next five years are as follows:

	$
2012	644,641
2013	689,395
2014	712,387
2015	826,313
Thereafter	842,708
	3,715,444

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

	2011 $	2010 $	1 January 2010 $
Current liability portion (payable within 12 months)	644,641	664,404	620,400
Long-term liability portion	3,070,803	3,714,924	4,379,328
Total	**3,715,444**	**4,379,328**	**4,999,728**

The carrying amounts for the current liability portion of the loan disclosed above reasonably approximate fair value at the reporting date.

The fair value of the Barr's Bay loan with a minority shareholder does not approximate its fair value as it pays an interest rate of 2% below the average of the prevailing First Mortgage rates of banks in Bermuda. To estimate fair value, the expected cash flows of the loan have been discounted using a market interest rate. The fair value of the loan at 31 December, 2011 is $3,575,591 (2010 - $4,164,740; 1 Jan, 2010 - $4,669,598).

22. SHARE CAPITAL

	2011 $	2010 $	1 January 2010 $
Authorized -			
10,000,000 (2010 - 10,000,000) common share of a par value of $1 each	10,000,000	10,000,000	10,000,000
Issued and fully paid -			
Common shares of a par value of $1 each	8,384,746	8,370,294	8,339,970

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

	2011 $	2010 $	1 January 2010 $
At 1 January	8,370,294	8,339,970	8,327,193
Shares issued under the employee share purchase plan	16,116	12,320	9,492
Shares issued under the equity incentive plan	1,936	-	3,285
Stock grants issued under the equity incentive plan	-	23,754	-
Stock grants forfeited under the equity incentive plan	(3,600)	(5,750)	-
	8,384,746	**8,370,294**	**8,339,970**

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.

Accumulated other comprehensive loss
This consists of translation adjustments arising from the consolidation of the BF&M Canada operations and unrealized gains and losses on available for sale financial assets.

Employee share purchase plan
Under the plan 250,000 shares have been made available for employee share purchase. As at 31 December, 2011, 222,410 shares had been purchased (2010 – 211,739, 1 January, 2010 – 199,419). During the year 16,116 (2010 – 12,320) shares were issued. The fair value of the shares amounted to $194,197 (2010 - $154,911) which was credited to share capital and share premium. The discount of $23,599 (2010 - $23,247) was charged to compensation expense.

Shares held by the Group's defined benefit pension scheme
As at 31 December, 2011 55,992 (2010 – 55,992) shares of the Group were owned within the investment portfolio of the Group's defined benefit pension scheme.

A. EQUITY INCENTIVE PLAN

i) Stock options
The stock options granted have a ten-year term and vest to the grantees over a three-year period. The following table summarizes the stock options issued under the Group's Equity Incentive Plan:

	# of options	2011 Weighted average exercise price	# of options	2010 Weighted average exercise price	# of options	1 January, 2010 Weighted average exercise price
Outstanding at beginning of year	184,957	16.82	199,166	17.06	227,963	17.13
Exercised	(7,381)	6.76	-	-	(3,285)	5.76
Forfeited	-	-	(14,209)	18.31	(25,512)	19.24
Outstanding at end of year	177,576	16.39	184,957	16.82	199,166	17.06
Exercisable at 1 January 2012 and 2011	177,576	16.39	184,957	16.82	180,500	16.55

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

The following table summarizes information about stock options outstanding at year-end:

Stock options expiring 1 January	# of options outstanding	# of options exercisable as at 1 January, 2012	Exercise price
2013	7,381	7,381	8.97
2014	16,473	16,473	10.50
2015	-	-	13.43
2016	51,122	51,122	16.19
2017	50,600	50,600	16.82
2018	52,000	52,000	22.00
	177,576	**177,576**	

ii) Stock grants

During the year 0 (2010 – 23,754) common shares were issued to certain key employees in respect of restricted share awards. These shares are held by the Group and are restricted from sale or use by the employees for three years from the grant date. The amount of the benefit to these key employees totalled $0 (2010 – $333,744) and will be amortized through earnings over a three year period. The amount charged to compensation expense in the current year totalled $52,261(2010 – $184,616).

The following table summarizes information about the outstanding stock grants:

Restricted shares vesting	# of shares
1 January, 2012	-
1 January, 2013	22,154
1 January, 2014	-
Total	**22,154**

B. EARNINGS PER SHARE

Basic earnings per share amounts is calculated by dividing the shareholders' net earnings for the year by the weighted average number of ordinary shares outstanding at the reporting date.

Diluted earnings per share is calculated by dividing the shareholders' net earnings by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

		2011			2010	
	Income	Average weighted shares	Per share amount	Income	Average weighted shares	Per share amount
Net earnings	$ 32,739,541			$ 17,500,985		
Basic earnings per share Income available to common shares	32,739,541	8,377,520	$ 3.91	17,500,985	8,348,744	$ 2.10
Effect of dilutive securities Stock options		7,505			9,156	
Diluted earnings per share Income available to common shareholders and assumed conversions	$ 32,739,541	8,385,025	$ 3.90	$ 17,500,985	8,357,900	$ 2.09

The weighted average number of shares used in the calculation of diluted earnings per share for 2011 excludes 39,232 (2010 – 61,879) share options granted to employees of the Group, as these would have been anti-dilutive. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

23. COMMISSION AND OTHER INCOME

This includes commission earned from reinsurers and fee income from the management of segregated funds assets, pension administration and investment management services.

	2011 $	2010 $
Commission income	15,776,271	17,519,234
Fees earned from management of insurance contracts	1,033,493	1,971,628
Fees earned from management of investment contracts	1,653,345	1,459,615
Pension administration income	3,550,301	3,097,055
Fee income	2,283,383	2,303,887
Total	**24,296,793**	**26,351,419**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

24. INSURANCE CONTRACTS BENEFITS AND EXPENSES

	2011 $	2010 $
Gross life and health claims and benefits paid	103,270,662	104,480,876
Reinsurance recoveries	(6,616,664)	(8,249,030)
Change in insurance contract liabilities	21,946,910	16,886,668
Change in reinsurance assets	(3,241,080)	949,808
Total life and health policy benefits	115,359,828	114,068,322
Gross short term claim and adjustment expenses paid	30,621,127	29,141,030
Reinsurance recoveries	(14,100,862)	(7,109,698)
Change in insurance contract liabilities	1,631,921	1,628,883
Change in reinsurance assets	(2,444,679)	(1,000,105)
Total short term claim and adjustment expenses	**15,707,507**	**22,660,110**
Total insurance contracts benefits and expenses	**131,067,335**	**136,728,432**

25. OPERATING EXPENSES

	2011 $	2010 $
Wages and salaries	30,628,252	29,689,325
Share expense	75,860	280,132
Pension costs	(2,007,102)	(1,327,795)
Other post retirement expense	1,567,079	3,629,975
Advertising and business development	1,120,789	1,193,749
Bank charges and foreign currency purchase tax	1,179,008	1,187,438
IT maintenance contracts	1,711,430	1,354,444
Office rent	1,091,041	954,860
Professional and consulting fees	6,345,551	3,732,843
Other	8,034,958	4,397,226
Total	**49,746,866**	**45,092,197**

26. RELATED PARTIES

A number of the subsidiaries as disclosed in note 1 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 board of directors of the Group. The following transactions were carried out with key management:

A. SALES OF INSURANCE CONTRACTS AND OTHER SERVICES

	2011 $	2010 $
Sales of insurance contracts:		
- Key management	143,945	141,665
Purchase of services:		
- Key management	150,038	312,247

B. KEY MANAGEMENT COMPENSATION

The following table shows compensation to key management:

	2011 $	2010 $
Salaries and other short-term employee benefits	2,292,628	2,328,778
Post-employment benefits	130,150	142,680
Other long-term benefits	11,970	12,219
Share based payments	185,000	486,746
Termination benefits	-	110,535
Total	**2,619,748**	**3,080,958**

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, 2011 were 298,663 (2010 – 266,100; 1 January, 2010 – 245,602) 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 22.

C. LOANS TO RELATED PARTIES

Loans are extended to key management of the Group (and their families). These loans are collateralized by the property acquired with the proceeds of the loan. 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.

	2011 $	2010 $
At beginning of year	3,990,234	746,886
Loans advanced during year	-	3,450,000
Loan repayments received	(583,740)	(397,364)
Interest charges	276,949	190,712
At end of year	3,683,443	3,990,234

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December, 2011 and 2010

27. MAINTENANCE OF NET WORTH AGREEMENT

On 17 March, 2006, an agreement was signed between the Group and Bermuda International whereby the Group and Bermuda International desire to provide certain assurances to parties, who hold risk contracts with Bermuda International, with respect to the financial condition of Bermuda International. The Group will, in accordance with the terms of the agreement, ensure that Bermuda International has, at all times, sufficient net worth to meet any and all valid claims of the parties who hold risk contracts with Bermuda International. The Group agrees that it shall ensure that Bermuda International has a net worth at least equal to required regulatory minimum capitalization under The Insurance Act 1978, amendments thereto, and related regulations. If Bermuda International falls below the minimum net worth amount it will notify the Group and the Group will provide funds to Bermuda International within 10 business days.

28. SUBSEQUENT EVENTS – ACQUISITION OF ISLAND HERITAGE

A. Acquisition

On 30 March, 2012, BF&M Limited acquired 100% of the issued and outstanding shares of Island Heritage Holdings Ltd, a company incorporated in the Cayman Islands. The purchase price was US$68 million. The Group acquired a loan of $28 million in order to assist with the purchase. The remaining $40 million was funded from cash generated through ongoing operations. The term of the loan is 4 years, with an interest rate of 2.50% above LIBOR. In accordance with the terms of the agreement with the vendor, the purchase price of $68 million will be adjusted on a dollar for dollar basis based upon any increase or decrease in the net assets of Island Heritage Holdings Ltd. between 31 December, 2011 and 31 March, 2012. It is estimated that BF&M Limited will pay $2,100,000 in respect of this adjustment.

B. Dividends

On 16 March, 2012, the Group declared a dividend to be paid to shareholders of record at 30 March, 2012. The dividend was paid on 13 April, 2012. $1,677,817 was paid out in total, representing a $0.20 dividend paid on 8,389,084 shares.

Directors and Officers of Principal Operating Subsidiaries

BF&M GENERAL INSURANCE COMPANY LIMITED

DIRECTORS	**Nancy L. Gosling,** B.Comm., C.G.A. LL.D, *Chairman*
	Peter N. Cooper, *Deputy Chairman*
	Gavin R. Arton
	Gregory D. Haycock, FCA., J.P.
	L. Anthony Joaquin, FCA
	R. John Wight, C.A., CPCU
	David A. J. G. White
	Glen Gibbons, B.A., A.C.I.I., **Chartered Insurer**
OFFICERS	**R. John Wight,** C.A., CPCU, *President & Chief Executive Officer*
	Glen P. Gibbons, B.A., A.C.I.I., **Chartered Insurer,** *Senior Vice President*
	Heather A. Bisbee, C.A., *Head of Financial Reporting*
	Goulbourne Alleyne, FCII, ARe, ACIS, MBA, FLMI, *Vice President, Underwriting & Claims*
	Janet Carew, C.A., *Head of Special Projects*
	Lynda A. Davidson Leader, B.A., C.A., *Vice President, Corporate Services*
	Debby Graham, P.H.R., *Vice President, Human Resources*
	Paul Matthews, B.A., PMP, *Vice President, Information Technology*
	Patrick Neal, B.A., CPCU, *Vice President, Business Development*
	Henry Sutton, CPCU, ARe, *Vice President, Customer Relations*
	Angela R. Tucker, C.A., *Vice President and Group Controller*
	Jon Carey, M.C.P., CCENT, *Assistant Vice President, Business Services*
	Andrew Hanwell, *Assistant Vice President, Personal Insurance*
	Nicole Williams Smith, B.A., *Assistant Vice President, Communications*
ACTUARIAL	**Mylene Labelle,** FCIA, FCAS, **(Eckler Partners Limited, Toronto),** *Consultant Actuary*

BF&M LIFE INSURANCE COMPANY LIMITED

DIRECTORS	**Garry A. Madeiros,** FCA., J.P., OBE, *Chairman*
	Stephen W. Kempe, *Deputy Chairman*
	Gavin R. Arton
	Catherine S. Lord, B.Sc., J.P.
	S. Caesar "Sy" Raboy, CLU
	C.L.F. "Lee" Watchorn, FCIA, FSA
	R. John Wight, C.A., CPCU
	Susan M. Reed, B.A., CLU, FLMI
OFFICERS	**R. John Wight,** C.A., CPCU, *President & Chief Executive Officer*
	Susan M. Reed, B.A., CLU, FLMI, *Chief Operating Officer*
	Heather A. Bisbee, C.A., *Head of Financial Reporting*
	Gina A. Bradshaw, FLMI, *Vice President*
	Janet Carew, C.A., *Head of Special Projects*
	Lynda A. Davidson Leader, B.A., C.A., *Vice President, Corporate Services*
	Holly Flook, RN, BSN, *Vice President, Underwriting & Claims*
	Debby Graham, P.H.R., *Vice President, Human Resources*
	Rob Jackson, CFP, CLU, *Vice President, Sales and Customer Relations*
	Dennis Marinac, F.S.A., F.C.I.A., *Vice President and Life Actuary*
	Paul Matthews, B.A., PMP, *Vice President, Information Technology*
	Patrick Neal, B.A., CPCU, *Vice President, Business Development*
	Alyson L. Nicol, C.A., C.P.A., *Vice President, Pensions*
	Angela R. Tucker, C.A., *Vice President and Group Controller*
	Jon Carey, M.C.P., CCENT, *Assistant Vice President, Business Services*
	Michael Rawlins, *Assistant Vice President, Customer Relations & Sales*
	Nicole Williams Smith, B.A., *Assistant Vice President, Communications*
ACTUARIAL	**Hélène Pouliot,** F.C.I.A., F.S.A., CERA,**(Towers Watson, Toronto),** *Consultant Actuary*

Directors and Officers of Principal Operating Subsidiaries

BERMUDA INTERNATIONAL INSURANCE SERVICES LIMITED

DIRECTORS	**S. Caesar "Sy" Raboy,** CLU, *Chairman* **Richard D. Spurling,** *Deputy Chairman* **C.L.F. "Lee" Watchorn,** FCIA, FSA **R. John Wight,** C.A., CPCU **Michael Lima**
OFFICERS	**R. John Wight,** C.A., CPCU, *President & Chief Executive Officer* **Michael Lima,** *General Manager*

BERMUDA INTERNATIONAL REINSURANCE SERVICES LIMITED

DIRECTORS	**S. Caesar "Sy" Raboy,** CLU, *Chairman* **Richard D. Spurling,** *Deputy Chairman* **C.L.F. "Lee" Watchorn,** FCIA, FSA **R. John Wight,** C.A., CPCU
OFFICERS	**R. John Wight,** C.A., CPCU, *President & Chief Executive Officer*

BF&M INVESTMENT SERVICES LIMITED

DIRECTORS	**Stephen W. Kempe,** *Chairman* **Gavin R. Arton,** *Deputy Chairman* **R. John Wight,** C.A., CPCU **Lynda A. Davidson Leader,** B.A., C.A.
OFFICERS	**R. John Wight,** C.A., CPCU, *President & Chief Executive Officer* **Miguel DaPonte,** C.F.A., M.B.A., *Vice President*

INSURANCE CORPORATION OF BARBADOS LIMITED

DIRECTORS	**R. John Wight,** C.A., CPCU, *Chairman* **Carlos Holder,** J.P., B.A.(Hons), M.A.(Econ), *Vice Chairman* **Adrian D. Christie** **Goulbourne Alleyne,** FCII, ARe, ACIS, M.B.A., FLMI **Winston Beckles,** LL.B., LL.M.(Lond.) **Ingrid Innes,** AGDM, M.B.A. **Jennifer Hunte,** BSc., C.G.A. **Toni M.D. Jones** **Eric Smith** **Juanita Thorington-Powlett,** BSc., M.B.A., F.C.I.S. **Clyde Q. Williams,** B.A., CLU, FLMI, CPA
OFFICERS	**Ingrid Innes,** AGDM, M.B.A., *Managing Director & Chief Executive Officer* **Valentina J.G.R. Blackman,** LL.B.(Hons), LL.M, *Secretary*

Head Office
Insurance Building • 112 Pitts Bay Road • Pembroke HM 08 • Bermuda
P. O. Box HM 1007 • Hamilton HM DX • Bermuda
Telephone: 441-295-5566 • Fax: 441-292-8831 • www.bfm.bm

Subsidiary Companies
BF&M General Insurance Company Limited
BF&M Life Insurance Company Limited
BF&M(Canada) Limited
BF&M Properties Limited
Bermuda International Reinsurance Services Limited
Bermuda International Insurance Services Limited
Marchmont Insurance Company Limited
BF&M Investment Services Limited
Hamilton Reinsurance Company Limited
Insurance Corporation of Barbados Limited(51.6% ownership)
Scarborough Property Holdings Limited(60% ownership)
Barr's Bay Properties Limited(60% ownership)
Hamilton Financial Limited
All subsidiaries should be contacted through our Head Office address.