BF&M LIMITED

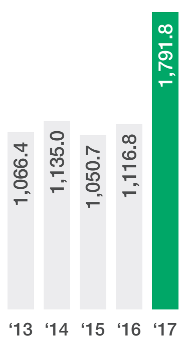
ANNUAL REPORT 2017

Contents

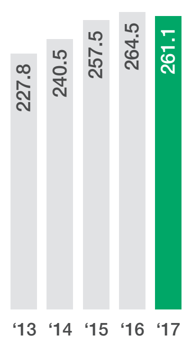
Financial and Statistical Summary

AT END OF YEAR

Total General Fund Assets
in millions of dollars



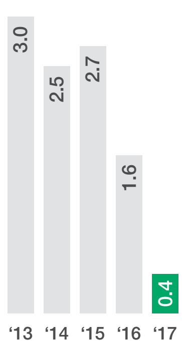
Shareholders' Equity
in millions of dollars



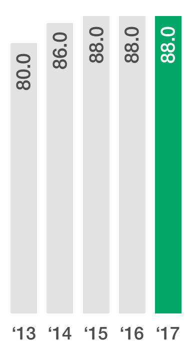
Number of Common Shares
in millions

PER COMMON SHARE

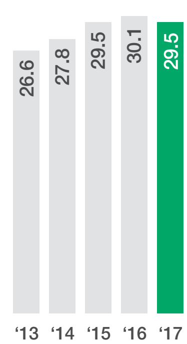
Net Earnings
in dollars



Cash Dividends
in cents

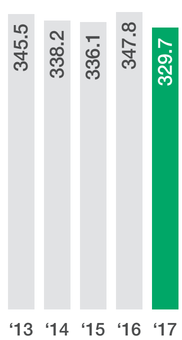


Book Value
in dollars

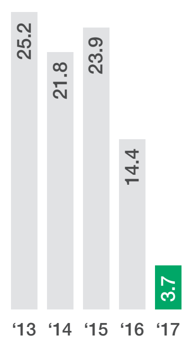


FOR THE YEAR

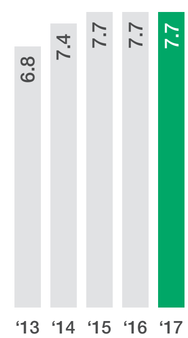
Gross Premiums Written
in millions of dollars



Shareholders’ Net Income
in millions of dollars

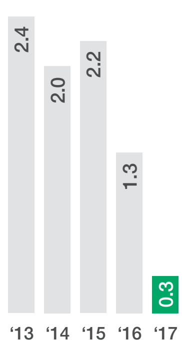


Dividends Declared
in millions of dollars

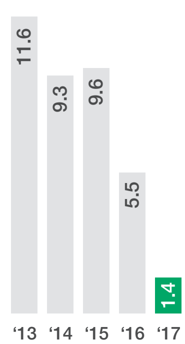


FINANCIAL RATIOS

Return on Assets
percentage



Return on Common Shareholders’ Equity
percentage



Group Executive Committee

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

Michael White, FIA
Group Chief
Financial Officer

Abigail Clifford, B.A., M.Sc.
Group Chief
Administrative Officer

Paul Matthews, B.A., PMP
Group Chief
Information Officer

Andrew Soares, ALMI, ARe, CPCU
Senior Vice President
Head of Life and Health

Directors

Gavin R. Arton
Chairman, BF&M Limited
Retired Senior Vice President,
XL Capital Ltd.

L. Anthony Joaquin
Deputy Chairman, BF&M Limited
Retired Managing Partner,
Ernst & Young

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

Nancy L. Gosling
President & CEO,
Gosling Brothers Limited

Gregory D. Haycock
Retired Senior Partner,
KPMG

Gordon J. Henderson
Retired President & CEO,
BMO Life Insurance Company

Stephen W. Kempe
President,
Admiral Management Services Limited

Catherine S. Lord
Retired

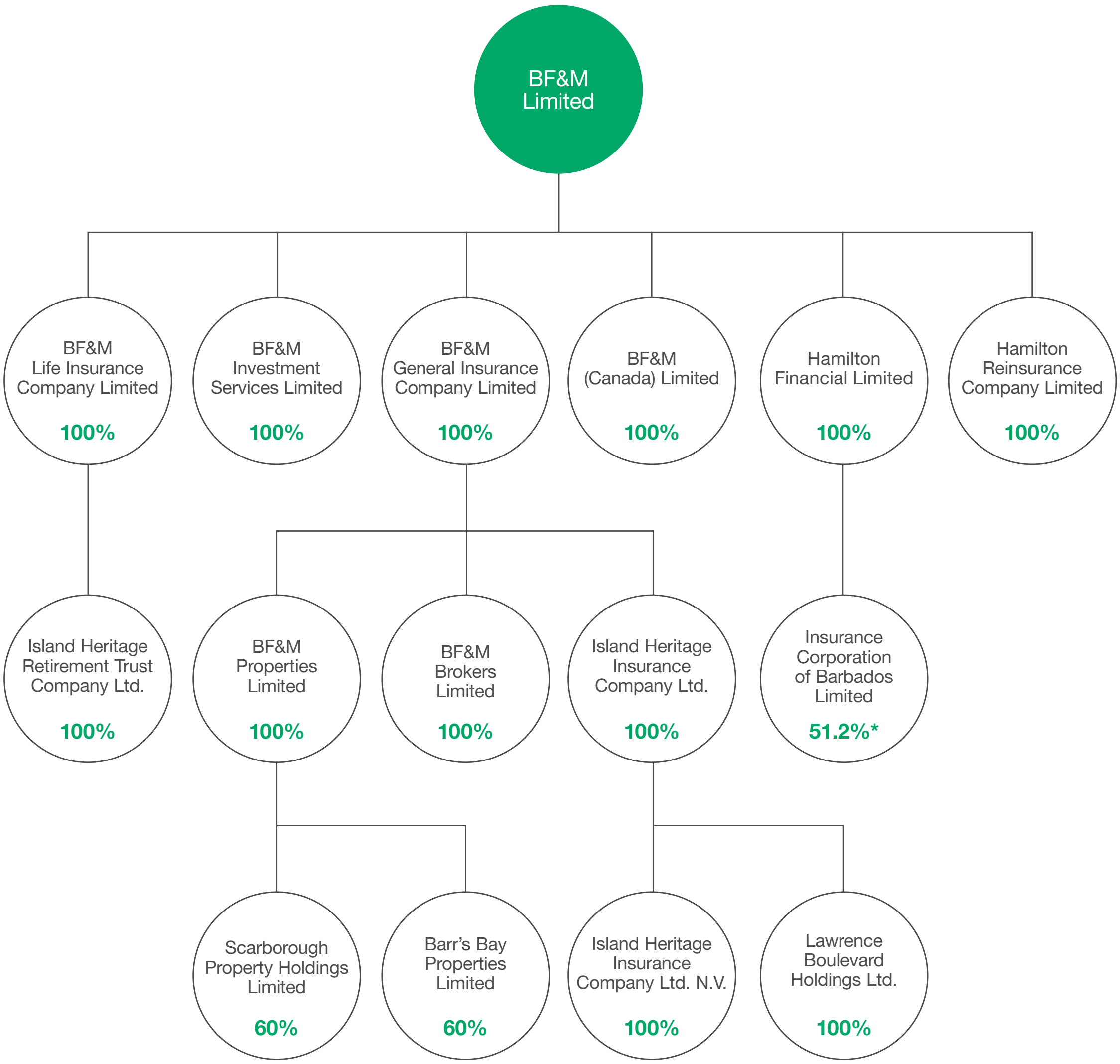
Garry Madeiros
Retired President & CEO,
Belco Holdings Limited
(named Ascendant Group Limited)

Paul Markey
Retired Chairman,
AON Bermuda

Richard Spurling
Retired Partner,
Appleby

C.L.F "Lee" Watchorn
President,
Watchorn Advisory Group

Corporate Structure



*Subject to immaterial adjustment for issue of shares to ICBL employees

Report to Shareholders

2017 saw the most destructive hurricane activity the Caribbean has ever seen. Although Bermuda was fortunate to have avoided a major storm, many of our Caribbean customers suffered dramatic and unprecedented losses from Irma and Maria—two category 5 hurricanes occurring back to back.

Nonetheless, the BF&M group of companies ("BF&M" or "the BF&M Group") demonstrated its financial strength. Despite record claims, we finished the year modestly profitable. Once again, we proved our ability to meet our obligations to our policyholders and to be there when they needed us.

The BF&M difference

Our track record of success over so many years can be attributed to a number of differentiators. One is our strategy of diversification, both by line of business (Property & Casualty and non-Property & Casualty) and by geography (we operate in Bermuda and 15 islands across the Caribbean region). While Hurricanes Irma and Maria caused significant property damage throughout the Caribbean, 2017 clearly demonstrated the value of this diversification strategy. When major events impact part of our book of business, uncorrelated business continues to perform successfully and profitably.

Gavin R. Arton
Chairman

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

The BF&M Group is one of the largest local Property & Casualty companies in Bermuda and the Caribbean.

Another differentiator is our size. The BF&M Group is one of the largest local Property & Casualty companies in Bermuda and the Caribbean. With size comes increased advantage from economies of scale. We are leveraging this benefit across our operations and positioning ourselves ahead of the competition.

A third and key differentiator is our strong capital base, derived from prudent risk and capital management. The BF&M Group stress tests various catastrophic events, including extreme hurricane activity. Further, as a conservatively operated insurer, our stringent reinsurance guidelines ensure that only the highest-rated global reinsurers participate on the BF&M Group's reinsurance program. In 2017, the Company's robust reinsurance programme responded as we expected it to, with timely payments to the Company to assist in paying hurricane and all other types of claims.

One independent indication of the BF&M Group's financial strength is the annual assessment conducted by rating agency A.M. Best on our four principle operating insurance companies. 2017 was a particularly testing year for Island Heritage as that rated company experienced the full impact from Hurricanes Irma and Maria. In the same year, however, not only were our ratings reaffirmed, but we were the first primary insurer in Bermuda and the Caribbean to have our ratings announced for reaffirmation after the storms.

Based on the BF&M Group's balance sheet strength, operating performance and business profile, and after a review of the impact of the hurricanes, A.M. Best maintained the financial strength ratings for all four of BF&M's principal operating companies, as follows:

- BF&M General Insurance Company Limited – "A" Excellent
- BF&M Life Insurance Company Limited – "A" Excellent
- Island Heritage Insurance Company Ltd – "A" Excellent
- Insurance Corporation of Barbados Limited – "A-" Excellent

There is no insurance group writing domestic insurance in Bermuda and the Caribbean with stronger ratings.

2017 results

BF&M recorded a strong operating year from its core insurance and investment advisory services, outside of the catastrophe claims and other impacts from the 2017 hurricanes.

Shareholders' net earnings of $3.7 million in 2017 resulted in a Return on Shareholders' Equity of 1.4%, as compared to earnings of $14.4 million in 2016 and a return of 5.5%. Before 2017, 2016 was the most event-impacted year ever for BF&M. For an extended period up to 2014, hurricane activity in Bermuda and the Caribbean was very light. It remains to be seen in 2018 and beyond whether we are experiencing a cycle or whether increased hurricane activity has become the new norm.

We are very proud of the dedication of our staff, who are committed to going the extra mile in times of need.

Net earnings in 2017 were impacted not only by the claims paid by BF&M to policyholders, net of reinsurance recovered, but also the elimination of profit commission earned from reinsurers, which can be considerable in a non-hurricane related year.

The BF&M Group remains very well capitalised and Shareholders' equity at 31st December 2017 was $261.1 million. Based on the strong capitalisation, the Board of Directors maintained the 22c per share per quarter dividend during the year.

As we note each year in our report, the accounting policy under International Financial Reporting Standards for valuing investments, in Life enterprises in particular, can and often does lead to significant volatility of financial results. The Company records a significant portion of its investments at fair value, which in 2017 resulted in an increase in income of $10.6 million due to favourable financial markets in the year. This increase of $10.6 million compared with a decrease of $0.7 million in 2016.

In order to mitigate some of this volatility, which from year to year can potentially have a significant influence on earnings, the Company follows a disciplined asset liability matching policy so that, increases (or decreases) in the fair value of the majority of its investments are matched with corresponding increases (or decreases) in insurance reserves, reducing the net effect on earnings in any one year. In 2017, the difference between fair valuing investments and reserves for BF&M's Life insurance companies produced a small net loss of approximately $0.9 million. In 2016, the difference resulted in a net gain of approximately $0.5 million.

While the core business operations performed well, the Company did however incur losses and set up impairments as a result of revaluing or disposing of commercial and residential properties that reduced in value in 2017.

Property & Casualty insurances
Net earnings were down considerably in 2017 over 2016 as a result of the two significant hurricanes previously mentioned. But it is at times like this that our customers with property, motor, and marine insurance depend upon our professionalism and responsiveness the most. We are very proud of the dedication of our staff, who are committed to going the extra mile in times of need. We are particularly proud of our team in Cayman that handled the claims servicing following these hurricanes.

Motor-related claims experienced an increase in severity in 2017. Unfortunately we saw an escalation in damages and injuries arising from reckless driving and serious road accidents. We fully support efforts and initiatives in our community to encourage safer, more responsible driving, not just because it impacts everyone's insurance premiums, but because it saves lives.

We rolled out a new medical administration system in Bermuda to facilitate customer service through automation.

Aggregate value of property risks in Bermuda and the Caribbean grew year over year. The business continues to expand, and the significant capital accumulated enables the Company to maximise earnings in non-wind years.

In 2017, we enjoyed the highest-profile event ever hosted in Bermuda, the 35th America's Cup. This prestigious sailing event was tremendously successful, and its economic impact on the island was significant. BF&M rose to the challenge of being a key partner and benefited from the opportunities to provide the full suite of insurance services that were required to develop and host an event of this magnitude.

Health & Life insurances

Health and Life insurances had a strong year for earnings in 2017. We rolled out a new medical administration system in Bermuda to facilitate customer service through automation, and to provide improved analytics for BF&M in areas such as disease impact trends and fraud detection.

We care about and listen to our clients and providers. Where we can, we strive to incorporate their feedback into our schedule of benefits. In 2017, we were delighted to partner and engage with organisations and families in the community living with autism (more on this later in this report). Through the year's activities and dialogue, we were able to modify and improve the benefits we offer to families living with autism and pervasive development disorders. New and improved benefits are now in place to cover treatments and ongoing therapies, including family or individual applied behavioral analysis therapies, family psychoeducational therapy, occupational/speech/physical therapy, and behavioural therapy.

There is no shortage of challenges to be addressed on an ongoing basis. The existence of more services does not necessarily translate to better quality health care delivery or outcomes. In a fee-for-service environment like Bermuda, overuse of non-essential services impacts spending per capita and overall health care efficiency. Many countries are seeking different reimbursement models combined with incentives for improved patient health outcomes. Additionally, alternative means of delivering healthcare are being employed. Telemedicine is one such approach which can provide cost-effective access to this care.

The burden of chronic disease is another issue with direct implications both on the health care system and on families and employers. Chronic disease increases the need for health care services and reduces overall productivity. Some studies demonstrate that per-person cost for those with chronic disease states can be up to five times higher than those without. Because many non-communicable chronic diseases are preventable and driven largely by lifestyle

Through BF&M's LiveWell programme as well as through the community awareness engagements we pursue, we aim to assist with lifestyle and chronic diseases management.

choices, there is an opportunity for our communities to become healthier. Through BF&M's LiveWell programme as well as through the community awareness engagements we pursue, we aim to assist with lifestyle and chronic diseases management.

Investment advisory, retirement income products and services
BF&M Investment Services Limited ("BFMISL") provides pension investment management and consulting services and is fully licensed with the Bermuda Monetary Authority under the Investment Business Act. The Company provides clients with a wide range of investment options.

Through 2017, we successfully established a restricted trust to provide pension administration services in the Cayman Islands. We operationalised our pension offering in Cayman preparing IT systems, collateral and staff, ready to service our new clients.

Barbados operations
The financial results of BF&M's Barbados-based businesses, through our 51.2% ownership interest in the Insurance Corporation of Barbados Limited ("ICBL"), were disappointing, and reflective of the Barbados economy, which continues to struggle. Standard & Poor's rating for Barbados is currently "CCC". ICBL holds a significant amount of Government debt and thus we continue to carefully monitor the economic situation in Barbados.

We were pleased to welcome Geoffrey Scott, who joined ICBL as Chief Executive Officer at the beginning of 2018. His experience and deep understanding of financial and business risks have already proven to be invaluable.

Our people and community

Nowhere is the BF&M difference more apparent than in our community engagement.

Bermuda
In Bermuda, BF&M supported over 80 local charities in 2017, with the goal of positively impacting the health and well-being of our community. Our signature event—the BF&M Breast Cancer Awareness Walk—raised over $126,000. This was the 21st year of the Walk and all funds raised go to Bermuda Cancer and Health Centre's Equal Access Fund (so that diagnostic imaging can be accessible to patients who do not have health insurance) and to Bermuda's new Radiation Therapy facility.

We also made a significant donation to the Bermuda Diabetes Association to support the development of new and improved facilities and services. The funds will be used to develop a comprehensive diabetes education and resource centre, and a full-service pharmacy, with a larger capacity to serve the diabetes community.

The BF&M No Limits sailing programme for children with autism has been incredibly successful. We are delighted to continue sponsoring the programme beyond 2017.

At BF&M, we believe we have a responsibility to make a difference in our communities and champion causes both large and small.

Throughout the year, we were delighted to support the Premier's Youth Fitness Programme (PYFP), an initiative set up by the Departments of Health and Education to encourage healthy behaviour in young people. Aside from time on the Committee, BF&M sponsored the programme and contributed towards the Healthy Habit Planners distributed to all P5-S3 students in all public and some private schools, as well as supporting the development of the *www.stepitup.bm* PYFP website. BF&M also participated in the Well Bermuda Partnership to facilitate the implementation of the Well Bermuda Action plans and to take part in the Ministry of Health's Celebrating Wellness Health Fair.

In addition, BF&M created the BF&M No Limits sailing programme for children with autism, in partnership with the America's Cup Endeavour Programme and Bermuda Autism Support and Education (BASE). As a sponsor of the broader Endeavour Community Sailing organisation, we are contributing to providing students aged 9-12 across all middle schools in Bermuda with a unique opportunity to learn Science, Technology, Engineering, Arts, and Math through sailing. With our dedicated BF&M No Limits sailing initiative, we extended this experience specifically to children on the autism spectrum. As a key sponsor of the 35th America's Cup, BF&M designed a space in the Event Village to showcase our No Limits sailing programme and provide an informative and interactive exhibit about autism for all ages. We are immensely proud that our No Limits sailing programme in partnership with Endeavour Community Sailing is continuing, even though the 35th America's Cup has concluded.

Among the many organisations we supported, BF&M partnered with the Bermuda Education Network's Horizons Programme to financially support extracurricular activities at Purvis Primary School. BF&M also donated school supplies to assist teachers with being able to deliver quality education.

At BF&M, we believe we have a responsibility to make a difference in our communities and champion causes both large and small. We are proud to give of our time, talents, and funds to build a stronger Bermuda.

Across the BF&M group of companies, we believe that our people are our strongest asset. In Bermuda we strengthened our management team this year with Stephanie Hanson joining us as Group General Counsel and Group Compliance Officer, Martin Noone as VP, Individual Life and Robin Anderson as AVP, Commercial Lines. We also celebrated the promotion of Sevonne Scott to AVP, Claims, as well as the achievement of professional designations by the following employees:

Associate, Life Management Institute
Joanne Benevides, Christopher Lima, Kyle Monkman, Tiffany Nelmes

Associate, Customer Service – Life Insurance
Joanne Benevides, Rickai Binns, Kyle Monkman, Krystle Ratteray

Associate, General Insurance
Rogernae Lightbourne

We congratulated a number of staff for completing their learning and development initiatives.

Halifax
Our Halifax office is the main hub of our information technology structure as well as certain financial services. Our employees in the region are fully committed to BF&M's focus on community service. Activities in 2017 included donating food to the local food bank, toys to a women's shelter, and glasses for the Dalhousie Global Brigades travelling to Honduras.

We also congratulated Jennifer Campbell on her promotion to VP, Human Resources, and our Canadian-based employees for achieving the following designations:

Associate, Life Management Institute
Philip Campbell, Daphne Duke, Michelle Horne

Project Management Professional
Alexander De Campos Guerra

Cayman
Our office in Cayman houses the headquarters for Island Heritage Insurance Company, Ltd. ("Island Heritage") operating in 15 other islands. Island Heritage is committed to the communities where our customers and employees live and work. In 2017, following the devastation caused to much of the Caribbean by hurricanes Irma and Maria, Island Heritage made a considerable donation to the Cayman Islands Red Cross's support appeal which, together with other locally-raised funds, went to relief efforts in the islands most affected.

The Company supports a number of charitable initiatives each year, donating not only funds, but also encouraging the involvement of their staff as well. Through their annual CharityDrive event, Island Heritage has donated over $200,000 to worthy causes. In 2017, the sixth annual CharityDrive raised over $35,000 for Cayman Animal Rescue Enthusiasts, Cayman Islands Little League and the Cayman Island Crisis Centre.

During the year, we launched the inaugural Island Heritage Educational Grant. The Grant is awarded annually to provide financial support to a Caymanian student proceeding with full-time studies at an accredited college or university. Criteria for selection include academic excellence, demonstrated leadership experience, and community engagement and service.

We congratulated a number of staff for completing their learning and development initiatives. Karina Giron achieved her Associate Chartered Insurance Institute designation from the Chartered Insurance Institute U.K. The following individuals were also congratulated for their promotions:

Victoria Rankin, VP, Group Reinsurance

Talia Wood, VP, Compliance

Karina Giron, AVP, Personal Lines

Kenrica Dominquez, AVP, Overseas

In addition, our management team welcomed Dawn McLean-Brady, Vice President, HR.

Close to 2,000 people take part in the BF&M Breast Cancer Awareness Walk every year.

The organisation has been strengthened as a result of coming through two of the most powerful hurricanes the Atlantic region has ever seen, managing the impacts very successfully.

Barbados

The Insurance Corporation of Barbados Limited ("ICBL") engages in a number of corporate social initiatives throughout the year, spanning the areas of youth, health, community and sports.

Throughout 2017, donations were made to a number of educational institutions: Erdiston Nursery School; St. Giles Primary School; Deacons Primary School; The Alexandra School; The Graydon Sealy Secondary School; PAREDOS and The Samuel Jackman Prescod Institute. ICBL also supported the School's Music Festival hosted by the Barbados Government.

ICBL prides itself in being a keen advocate for health awareness, health care development, healthy living and proactive health practices. The health awareness initiative saw significant contributions being made towards activities carried out by The Diabetes Association, Cancer Support Services and Barbados Association of Palliative Care. In addition, the annual Broadway to Barbados Show was once again sponsored by ICBL. This show raises funds to assist with the upgrade and upkeep of the Queen Elizabeth Hospital (QEH), particularly the Medical Intensive Care Unit and the Accident and Emergency Department.

The 8th annual ICBL Family Fun Walk and Run was attended by over 3,500 people. Not only did this promote healthy living but from this event, Special Olympics Barbados, PAREDOS and the QEH Asthma Bay each received financial donations of $5,000.

In celebrating our employees, we are delighted to report the following professional designation achievements in 2017:

Barbados Diploma in Insurance
Tito Grazette, Bernice Small, Gaylene Weekes

Acknowledgements

Our Board of Directors was further strengthened in 2017 with the addition of Gordon Henderson, a past CEO of the Bank of Montreal, Life Division. Gordon also serves on the Board of ICBL. We are grateful for his contributions and for our full Board's expanded commitment to the BF&M group operations, expertise, governance and guidance.

Our strong capital base and the foundations of the business continued to support the strongest A.M. Best ratings in the market.

Our Directors join us in thanking all of our employees across our operations in Bermuda, Halifax, Cayman, Barbados and The Bahamas, as well as all the other islands in which we operate, for their continued hard work and dedication to the customers that we serve.

Looking forward

There are always lessons to be learned from a year like 2017. Ultimately, the organisation has been strengthened as a result of coming through two of the most powerful hurricanes the Atlantic region has ever seen, managing the impacts very successfully. Our strong capital base and the foundations of the business continued to support the strongest A.M. Best ratings in the market.

The fundamentals of the BF&M Group remain sound. Our strategy of operating businesses in a region that we know so well, with experienced and committed employees, continues to serve customers and Shareholders alike. We will stay the course with a business model that has proven results and a track record of success.

Lastly, on behalf of the BF&M Group, sincere thanks to you our Shareholders, for your loyalty to our group of companies. Your support remains a critical component of our continued success.

Gavin R. Arton
Chairman

R. John Wight

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

Financial Statements

Responsibility for financial reporting

For the year ended 31 December 2017

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

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

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

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

These consolidated financial statements have been authorised for issue by the Board of Directors on 11 April 2018. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

R. John Wight

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

Michael White, FIA
Group Chief Financial Officer

Independent auditor's report

To the Shareholders of BF&M Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of BF&M Limited (the Company) and its subsidiaries (together 'the Group') as at 31 December 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

BF&M Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

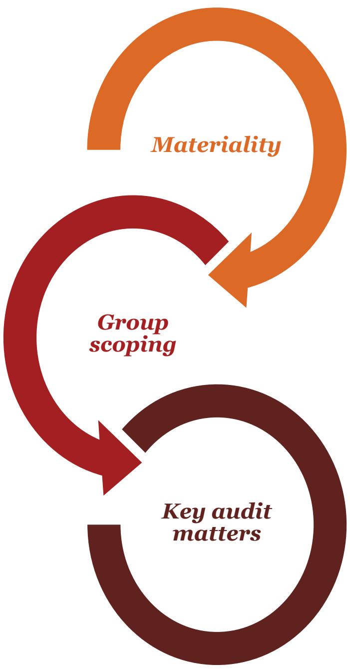
Independence

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

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

Our audit approach

Overview



- *Overall group materiality: $1.1 million, which represents 5% of average profit before tax for 2017, and the preceding four years.*

- *We conducted an audit of four full scope components covering over 90% of the Group's consolidated assets and revenues. Each of the four components were audited by component audit teams located in Bermuda, Barbados and the Cayman Islands. The Group engagement team has regular interaction with the aforementioned component teams. The engagement leader performed a site visit to the Cayman Islands during the year ended 31 December 2017.*

- *Valuation of incurred but not reported claims for property and casualty lines*
- *Methodologies and assumptions used for determining insurance contract liabilities for life and health claims*
- *Impairment of goodwill and certain indefinite life intangible assets*
- *Impairment of mortgage loans in the Group's Health, Life, Annuity and Pension segment*
- *Impairment of certain Level 3 investments in the Group's Barbados operations*
- *Impairment of investment properties in the Group's Barbados operations*

Audit scope

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

Materiality

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

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

Overall group materiality	*$1.1 million*
How we determined it	*5% of average profit before tax for 2017, and the preceding four years.*
Rationale for the materiality benchmark applied	*We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards. We have applied an average to the benchmark in order to take into account the volatility in earnings driven by catastrophe loss events.*

We agreed with the Audit Committee that we would report to them misstatements identified during our audit impacting net income above forty-six thousand dollars, and reclassification misstatements above $1.1 million dollars, as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of incurred but not reported claims for property and casualty lines *See notes 2, 4B and 23 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.*	
Total incurred but not reported reserves as at 31 December 2017 are $187.6 million. The methodologies and assumptions utilized to develop incurred but not reported reserves involves a significant degree of judgement.	We tested management's valuation of the relevant incurred but not reported claims for property and casualty lines as follows: • We tested the completeness, accuracy and reliability of the underlying data utilized by

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Key audit matter	How our audit addressed the Key audit matter
The liabilities are based on the best-estimate ultimate cost of all claims incurred but not reported, a provision for development on reported claims, together with the related claims handling costs. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims which are subject to assumptions and complex calculations. Management uses an external actuarial expert to assist in determining the value of claims incurred but not reported.	management and their external actuarial experts to support the actuarial valuation. • In order to challenge management's assumptions and methodologies, we were assisted by our actuarial experts, who performed independent re-projections on selected classes of business, particularly focusing on the largest and most volatile reserves as these were considered higher risk. For these classes we compared our independent claims reserve estimates to those booked by management, and sought to understand any significant differences. • For the remaining classes we evaluated the methodology and assumptions, or performed a diagnostic check to identify and follow up any anomalies. In performing this work we compared the Group's actuarial methodologies with those used in the insurance industry and with prior periods. The results of our procedures indicated that the estimates recorded by management are not unreasonable.
Methodologies and assumptions used for determining insurance contract liabilities for life and health claims *See notes 2, 4B and 23 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.*	
Total reserves for life and health insurance contracts for the year ended 31 December 2017 are $208.1 million. The valuation of the provision for the settlement of future claims involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities. The key	We tested management's methodologies and assumptions used for determining insurance contract liabilities for life and health claims as follows: • We tested the completeness, accuracy and reliability of the underlying data utilized by management and their actuarial experts to support the actuarial valuation. • We tested a sample of contracts to ascertain that

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Key audit matter	How our audit addressed the Key audit matter
assumptions include mortality, morbidity, lapse and expenses. Management uses both internal and external actuarial experts to assist in determining these assumptions and in valuing the actuarial liabilities.	contract features were appropriately reflected by the actuarial model. • We have utilized our internal actuarial experts to assist in the evaluation of the methodologies and assumptions utilized by management's actuarial expert in the context of industry and entity-specific facts and circumstances. • We updated our understanding for any changes impacting the key assumptions and for selected classes of business based on reserve volume, evaluated the key assumptions including mortality, morbidity, lapse, and expenses, all of which are based on the experience of the relevant component or published industry studies, and consistent with the required actuarial standards of practice. The results of our procedures indicated that the methods and assumptions used by management are not unreasonable.
Impairment of goodwill and certain indefinite life intangible assets *See notes 2 and 17 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates*	
The total carrying value of goodwill amounts to $7.7 million as at 31 December 2017. Software development costs not available for use related to BF&M General Insurance Company Limited amounts to $13.7 million as at 31 December 2017. The future cash flow forecasts utilized to develop management's assessment of potential impairment for these assets involve significant judgment, given both industry and relevant component facts and	We tested management's evaluation of impairment of goodwill and indefinite life intangible assets as follows: • We evaluated management's future cash flow forecasts for each of the significant Cash Generating Units ("CGU") that support the carrying value of these assets. The CGU supporting software development costs not available for use is BF&M General Insurance Company Limited. The CGU supporting goodwill is Island Heritage Insurance Company Limited. • With respect to management's assumptions

Key audit matter	How our audit addressed the Key audit matter
circumstances. The key inputs to the cash flow forecasts include expected cash inflows, expected cash outflows and the discount rate applied.	surrounding cash inflows and outflows, we performed the following: - Compared management's forecasts against historical performance of the entities, as well as the current market environment, - Evaluated the discount rates applied against market based inputs, - Performed sensitivities around the key assumptions and considered the likelihood of these outcomes. • Tested the mathematical accuracy of management's impairment model. • With respect to the Island Heritage Insurance Company Limited CGU, we were assisted by our internal valuation expert who performed an independent assessment of value-in-use using management's cash inflows and outflows. The range of values that resulted from this assessment were consistent with management's conclusion that there is no impairment of goodwill for the Island Heritage Insurance Company Limited CGU as at 31 December 2017. No impairment was identified as a result of the procedures we performed.
Impairment of mortgage loans in the Group's Health, Life, Annuity and Pension segment *See notes 2, 4A, 6 and 10 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.*	
The mortgage impairment provision at 31 December 2017 is $6.2 million. The impairment largely relates to exposures in the Group's Health, Life, Annuity and Pension segment as defined in Note 6 to the consolidated financial statements. Determining impairment of mortgage loans	We tested management's evaluation of impairment of the relevant mortgage exposures as follows: • Obtained an understanding of management's process for identifying and monitoring non-performing mortgages. • Evaluated the completeness of the population of

Key audit matter	How our audit addressed the Key audit matter
involves complex subjective judgment and consideration of both general market conditions and mortgage-specific facts and circumstances. In particular, determining the value of the underlying real-estate collateral ("property") involves a high degree of judgment, given the nature of the property market in Bermuda, and therefore is an area of audit focus. Other assumptions applied in determining impairment include the costs and time period expected to sell or take possession of the property. Management uses qualified external valuation experts as well as pending sales information to assist with the valuation of the property for certain non-performing mortgages.	non-performing mortgages by testing payment patterns on outstanding principal and interest for loans not included within management's assessment. • Checked the mathematical accuracy of management's impairment model. • Assessed the competence and objectivity of management's experts. • Inspected the work and findings of property valuations performed by external valuation experts and compared these to recent and pending sales of underlying property, general market indicators, and prior year valuations. • Evaluated the reasonableness of management's other assumptions used in determining the provision for impairment, including real estate agency fees, legal fees and other costs to sell or take possession of the property, and agreed to market data as applicable. • Performed sensitivities around the key assumptions noted above, as well as the time period expected to sell the property where applicable, and considered the likelihood of these outcomes. Overall in our view in the context of the inherent uncertainties disclosed in the financial statements, the impairments recorded, were not unreasonable.

Key audit matter	How our audit addressed the Key audit matter
Impairment of certain Level 3 investments in the Group's Barbados operations *See notes 2, 7 and 10 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.*	
The impairment on Level 3 investments not measured at fair value is $1.5 million as at 31 December 2017. The methodologies and assumptions utilized to develop the estimate of impairment for a Level 3 investment within the Group's Barbados operations involves significant judgment, given the lack of observable market inputs available for consideration, due to the macro-economic uncertainty within Barbados.	We tested management's methodologies and assumptions used for determining the impairment of Level 3 investments in the Group's Barbados operations ("Level 3 investments") as follows: • We tested the completeness, accuracy and reliability of the underlying data utilized by management to determine the impairment of the Level 3 investments in the Group's Barbados operations. • We were assisted by our internal valuation experts to evaluate the methodologies, assumptions and models utilized by management. Specifically we performed an independent impairment assessment and compared the results to management's recorded impairment. The results of our procedures indicated that the impairment recorded was within a reasonable range of outcomes, in the context of the inherent uncertainties disclosed in the notes to the financial statements.

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Key audit matter	How our audit addressed the Key audit matter
Impairment of investment properties in the Group's Barbados operations *See notes 2, 7 and 14 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.*	
At 31 December 2017 the carrying value of investment properties is $35.6 million of which $16.5 million relates to assets in the Group's Barbados operations. Given the ongoing depressed real estate market and macro-economic uncertainty within Barbados, property valuation continues to result in an area of higher risk, as significant judgement is required by management in estimating fair value (and thus any impairment) as market observable inputs are not readily available. Management's assessment of impairment is based on a comparison of carrying value to fair value for each investment property. Key assumptions used within the valuation models include rental growth rates, expenses and discount rates. Management uses qualified external valuation experts to assist with the valuation of the properties.	With the assistance of our external valuation expert, we assessed the valuation of the Barbados investment properties as at 31 December 2017 as follows: • Examined the valuation report prepared by management's expert and evaluated the methodologies and key assumptions including rental growth rates, expenses and discount rates used by management's experts. These assumptions were compared against economic outlooks, industry forecasts, prior year assessments and other appropriate benchmarks. • Tested the integrity of the underlying data used in the models and checked for mathematical accuracy. • Assessed the competence and objectivity of management's experts. • Compared the valuations determined by our external valuation expert to the values determined by management's expert. No material differences were identified as a result of the procedures we performed.

How we tailored our group audit scope

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

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

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

The Group's operations are significantly dominated by four legal entities which also represent four segments, and as such these components required an audit of their complete financial information which provided us with over 90% coverage of operations as measured by revenue and total assets. These components are: (i) Health, life, annuity and pension, (ii) Property and casualty, (iii) Barbados operations; and (iv) Cayman Islands and other Caribbean operations. Additionally, based on our professional judgment, certain audit procedures were conducted by the Group team over certain balances within the Group's real estate components, as well as analytical procedures over the remaining components. The Group engagement team had regular interaction with all component teams, and the engagement leader performed a site visit to the Cayman Islands during the year ended 31 December 2017. The Group team reviewed in detail all reports with regards to the audit approach and findings submitted of the full scope component auditors.

Other information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the full Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Colm A. Homan.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Hamilton, Bermuda

12 April 2018

Consolidated Statement of Financial Position

As at 31 December 2017
(in thousands of Bermuda dollars)

	Notes	2017 $	2016 $
Assets			
Cash and cash equivalents	8	205,072	108,896
Fixed deposits	9	7,765	15,215
Regulatory deposits	9	16,902	9,033
Investments	10	651,326	648,707
Insurance receivables and other assets	11	140,949	92,926
Deferred policy acquisition costs	12	9,577	9,895
Reinsurance assets	13	624,217	98,620
Investment properties	14	35,760	36,164
Property and equipment	15	23,740	24,580
Tax recoverable	16	3,455	2,442
Deferred tax asset	16	808	-
Intangible assets	17	53,123	51,179
Restricted cash	9	19,058	19,106
Total general fund assets		**1,791,752**	**1,116,763**
Segregated funds assets	18	828,567	685,938
Total assets		**2,620,319**	**1,802,701**
Liabilities			
Other liabilities	19	232,438	80,219
Deferred tax liability	16	-	829
Loan payable	20	-	477
Retirement benefit obligations	21	3,196	3,432
Investment contract liabilities	22	335,238	343,494
Insurance contract liabilities	23	916,152	379,028
Total general fund liabilities		**1,487,024**	**807,479**
Segregated funds liabilities	18	828,567	685,938
Total liabilities		**2,315,591**	**1,493,417**
Equity			
Share capital	24	8,847	8,784
Treasury shares	24	(2,031)	(1,265)
Contributed surplus	24	1,482	1,482
Share premium	24	63,249	62,162
Accumulated other comprehensive loss	29	(6,959)	(7,240)
Retained earnings		196,558	200,569
Total shareholders' equity		**261,146**	**264,492**
Non-controlling interests		43,582	44,792
Total equity		**304,728**	**309,284**
Total liabilities and equity		**2,620,319**	**1,802,701**

Approved by the Board of Directors

Gavin R. Arton
Chairman

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

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

Consolidated Statement of Income
For the year ended 31 December 2017
(in thousands of Bermuda dollars except for per share amounts)

	Notes	2017 $	2016 $
Income			
Gross premiums written		329,711	347,849
Reinsurance ceded		(155,539)	(135,726)
Net premiums written		**174,172**	**212,123**
Net change in unearned premiums	23	8,448	612
Net premiums earned		**182,620**	**212,735**
Investment income	10	19,113	13,415
Commission and other income	26	47,083	41,017
Rental income		4,037	4,031
Total income		**252,853**	**271,198**
Benefits and Expenses			
Insurance contracts benefits and expenses			
Life and health policy benefits	27	113,534	117,113
Short term claim and adjustment expenses	27	34,521	30,996
Investment contract benefits		(1,531)	(1,344)
Participating policyholders' net loss		71	581
Commission and acquisition expense		29,069	29,656
Operating expenses	28	65,999	64,314
Amortisation expense		9,278	11,982
Interest on loans		13	40
Total benefits and expenses		**250,954**	**253,338**
Net income before income taxes		**1,899**	**17,860**
Income tax recoverable (expense)	16	2,319	(831)
Net income for the year		**4,218**	**17,029**
Net income attributable to:			
Shareholders		**3,691**	**14,365**
Non-controlling interests in subsidiaries		527	2,664
Net income for the year		**4,218**	**17,029**
Earnings per share			
- Basic	30	$0.42	$1.64
- Fully diluted	30	$0.42	$1.64

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017
(in thousands of Bermuda dollars)

	2017 $	2016 $
Net income for the year	4,218	17,029
Other comprehensive income/ (loss):		
Items that will not be reclassified to profit or loss		
Re-measurement of retirement benefit obligations	(488)	583
Items that may be subsequently reclassified to profit or loss		
Investments classified as available for sale		
Fair value gains	461	267
Currency translation differences	186	(105)
	647	162
Total other comprehensive income for the year after income taxes	**159**	**745**
Total other comprehensive income/ (loss) attributable to:		
Shareholders	281	756
Non-controlling interests in subsidiaries	(122)	(11)
Total other comprehensive income for the year after income taxes	**159**	**745**
Comprehensive income	**4,377**	**17,774**
Comprehensive income attributable to:		
Shareholders	3,972	15,121
Non-controlling interests in subsidiaries	405	2,653
Comprehensive income	**4,377**	**17,774**

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017
(in thousands of Bermuda dollars except for per share amounts)

	Notes	2017 $	2016 $
Share capital			
Balance - beginning of year		8,784	8,722
Shares issued under employee share purchase plan	24	-	5
Share grants issued under equity incentive plan	24	77	72
Share grants forfeited under equity incentive plan	24	(14)	(15)
Balance - end of year		**8,847**	**8,784**
Treasury shares			
Balance – beginning of year		(1,265)	-
Acquisition of shares	24	(1,187)	(1,862)
Shares issued under employee share purchase plan	24	255	209
Shares issued under equity incentive plan	24	166	388
Balance – end of year		**(2,031)**	**(1,265)**
Contributed surplus – beginning and end of year		**1,482**	**1,482**
Share premium			
Balance - beginning of year		62,162	61,387
Shares issued under employee share purchase plan	24	-	78
Shares issued under equity incentive plan	24	5	-
Share grants issued under equity incentive plan	24	1,499	1,148
Share grants forfeited under equity incentive plan	24	(135)	(258)
Treasury shares allocated	24	79	4
Deferred share grant	24	(361)	(197)
Balance - end of year		**63,249**	**62,162**
Accumulated other comprehensive loss			
Balance – beginning of year		(7,240)	(7,996)
Other comprehensive income for the year		281	756
Balance - end of year		**(6,959)**	**(7,240)**
Retained earnings			
Balance - beginning of year		200,569	193,892
Net income for the year		3,691	14,365
Cash dividends		(7,702)	(7,688)
Balance – end of year		**196,558**	**200,569**
Total equity attributable to shareholders of the company		**261,146**	**264,492**
Attributable to non-controlling interests			
Balance - beginning of year		44,792	44,846
Net income for the year		527	2,664
Other comprehensive loss for the year		(122)	(11)
Cumulative foreign exchange adjustment		-	36
Shares issued to non-controlling interests		82	51
Cash dividends		(1,697)	(2,794)
Balance – end of year		**43,582**	**44,792**
Total equity		**304,728**	**309,284**

The dividends paid in 2017 and 2016 were $7,702 ($0.88 per share) and $7,688 ($0.88 per share) respectively.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017
(in thousands of Bermuda dollars)

	2017 $	2016 $
Cash flows from operating activities		
Net income for the year before income taxes	1,899	17,860
Adjustments for:		
Investment income	(20,248)	(20,365)
Net realised loss/ (gain) on investments	2,634	(862)
Change in fair value of investments	(13,254)	1,485
Impairment of investments	8,415	2,006
Amortisation of property and equipment	2,151	2,300
Amortisation of investment properties	1,106	922
Amortisation of intangible assets	5,973	5,434
Impairment of investment properties	180	453
Impairment of intangible assets	48	3,325
Loss on sale of property and equipment	-	8
Interest on loan	13	40
Compensation expense related to shares and options	1,487	1,137
Changes in assets and liabilities:		
Restricted cash	48	(1,072)
Fixed & regulatory deposits	-	8,353
Insurance receivables and other assets	(48,152)	(15,480)
Deferred policy acquisition costs	318	(943)
Reinsurance assets	(525,597)	(32,926)
Net tax payable	94	-
Insurance contract liabilities	537,124	49,570
Investment contract liabilities	(8,256)	808
Other liabilities	152,219	10,619
Retirement benefit obligations	(724)	(556)
Cash generated from operations	**97,478**	**32,116**
Income taxes paid	(425)	(2,415)
Interest received	20,485	20,317
Dividends received	684	738
Net cash generated from operating activities	**118,222**	**50,756**
Cash flows from investing activities		
Purchase of investments	(239,860)	(242,598)
Proceeds from sales of investments	239,115	227,271
Acquisition of property and equipment	(1,949)	(2,078)
(Purchase) maturity of fixed deposits	(419)	(2,017)
Proceeds from sales of property and equipment	302	66
(Acquisition)/ disposal of investment properties	(882)	(1,141)
Acquisition of intangible assets	(7,629)	(7,909)
Net cash used for investing activities	**(11,322)**	**(28,406)**
Cash flows from financing activities		
Cash dividends paid	(7,702)	(7,688)
Interest paid	(13)	(40)
Loan repaid	(477)	(646)
Acquisition of treasury shares	(1,187)	(1,862)
Cash dividends paid to non-controlling interest	(1,697)	(2,794)
Cash proceeds on issue of common shares	166	384
Net cash used for financing activities	**(10,910)**	**(12,646)**
Effect from changes in exchange rates	186	(105)
Increase in cash and cash equivalents	96,176	9,599
Cash and cash equivalents - beginning of year	108,896	99,297
Cash and cash equivalents - end of year	**205,072**	**108,896**

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

INDEX TO NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Bermuda dollars)

1. NATURE OF THE GROUP AND ITS BUSINESS

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

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

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

The Group has the following subsidiaries:

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

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

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

In addition, during the year, Kitson Insurance Services Ltd. changed its name to BF&M Brokers Limited.

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

On 11 April 2018 the Board of Directors approved the financial statements and authorised them for issue. The Board of Directors has the power to amend the financial statements after issue.

2. SIGNIFICANT ACCOUNTING POLICIES

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

A. STATEMENT OF COMPLIANCE

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

B. BASIS OF PREPARATION

i) Basis of measurement

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

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

ii) Critical estimates, judgments and assumptions

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

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

- The actuarial assumptions used in the valuation of life and health insurance and investment contract liabilities under the Canadian Asset Liability Method ("CALM") require significant judgment and estimation. Key assumptions and considerations in choosing assumptions are discussed in Note 2N and sensitivities are discussed in Note 4B.
- The estimate of the ultimate liability arising from claims under short-term insurance contracts. Refer to Note 4B.
- In the determination of the fair value of financial instruments, the Group's management exercises judgment in the determination of fair value inputs, particularly those items categorised within level 3 of the fair value hierarchy. Refer to Note 7.
- Management considers the synergies and future economic benefits to be realised in the initial recognition and measurement of goodwill and intangible assets as well as testing of recoverable amounts. The assessment of the carrying value of goodwill and intangible assets relies upon the use of forecasts and future results. Refer to Note 2M and Note 17.
- The actuarial assumptions used in determining the liability and expense of the Group's retirement benefit obligations. Management reviews previous experience of its plan members and market conditions for the year. Refer to Note 21.
- Management uses independent qualified appraisal services to assist in determining the fair value of investment properties or properties providing collateral for mortgages, for purposes of evaluating possible impairment. This fair value assessment requires judgments and estimates on future cash flows and general market conditions. Refer to Note 7 and 14.

iii) Impact of out of period adjustments

In conjunction with the preparation of the consolidated financial statements for the year-ended 31 December 2017, management identified certain out of period adjustments which were not reported in prior years. Management assessed the impact of these amounts against the consolidated financial statements of the relevant prior periods and concluded that the historical results were not material to any individual year. Management has reflected these adjustments in the 2017 year-end financial statements presented and concluded that the inclusion of the adjustments would not be misleading to users of the financial statements. The impact of these adjustments in 2017 was a reduction to net income after tax for the year of $1,512. ($916 attributable to common shareholders.)

C. CONSOLIDATION

i) Subsidiaries

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, 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 consolidated statement of income. Acquisition-related costs are expensed as incurred.

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

ii) Transactions with non-controlling interest

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

D. DETERMINATION OF FAIR VALUE

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

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

E. SEGMENT REPORTING

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

F. FOREIGN CURRENCY TRANSLATION

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). All amounts in the consolidated financial statements, excluding per share data or where otherwise stated, are in thousands of Bermuda dollars, which is the Group's presentation currency.

ii) Transactions and balances

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

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

iii) Group companies

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

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

G. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

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

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

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

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

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

Investment income

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

ii) Financial liabilities

Classification, recognition and subsequent measurement of financial liabilities

The Group has the following financial liabilities: a) financial liabilities at FVTPL and b) other financial liabilities. Management determines the classification at initial recognition.

a) FVTPL

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

b) Other financial liabilities

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

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

J. IMPAIRMENT OF ASSETS

i) Impairment of financial assets

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

a) Loans and receivables

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

b) Financial assets classified as available-for-sale

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

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

ii) Impairment of non-financial assets

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

K. INVESTMENT PROPERTIES

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

L. PROPERTY AND EQUIPMENT

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

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

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

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

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

M. INTANGIBLE ASSETS

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

i) Finite life intangible assets

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

Customer relationships and contracts

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

Distribution channels

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

Brands

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

Software development costs

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

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

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

ii) Goodwill

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

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

iii) Indefinite life intangible assets

Intangible assets that are determined to have an indefinite life are measured at fair value at the date of acquisition. Following initial recognition, they are measured at cost less any accumulated impairment losses. Impairment of these assets are assessed on an annual basis or more frequently if events or circumstances occur that may indicate that the carrying amounts may not be recoverable

N. INSURANCE AND INVESTMENT CONTRACTS

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

i) Insurance contracts

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

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

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

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

Section a) – d) outlines the recognition and measurement of material financial line items related specifically to insurance contracts.

a) Deferred policy acquisition costs (“DAC”) related to insurance contracts

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

b) Reinsurance contracts held related to insurance contracts

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

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

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

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

c) Insurance contract liabilities

Life and health insurance contracts

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

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

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

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

Short-term insurance contracts

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

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

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

d) Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed on short-term insurance contracts to ensure the adequacy of the contract liabilities net of related 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.

ii) Investment contracts

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.

The Group issues contracts that in some instances contain a discretionary participation feature ("DPF"). This feature entitles the holder to receive, as a supplement to guaranteed benefits, a dividend. Dividends are paid on the policy anniversary and as long as the policy is in force. These contracts are referred to as participating contracts. IFRS allows the non-guaranteed, or participating, elements of such contracts to be classified as either a liability or as equity, depending on the nature of the obligation to the policyholder. The contracts issued by the Group contain constructive obligations to the policyholder with respect to the DPF of the contracts. The Group has therefore elected to classify these features as a liability.

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

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

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

iii) Receivables and payables related to insurance contracts and investment contracts

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

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

O. SEGREGATED FUNDS ASSETS AND LIABILITIES

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

P. LOANS TO POLICYHOLDERS

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

Q. CURRENT AND DEFERRED INCOME TAX

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

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

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

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

R. EMPLOYEE BENEFITS

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

i) Pension obligations

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

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

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

ii) Other post-employment obligations

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

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

iii) Share-based compensation

The Group has an Equity Incentive Plan which is described in Note 25 under which the entity receives services from employees as consideration for equity instruments of the Group (both equity, and equity based but cash settled, transactions). Share grants are issued to employees equal to the fair value of the shares on the grant date. The amount of the benefit of these share grants is amortised over the vesting period as operating expense in the consolidated statement of income. If the Group grants share options to employees that vest in the future if service conditions are met, then the fair value of the options will be calculated at the date the options are granted. This fair value will be charged to the consolidated statement of income equally over the vesting period with adjustments made at each accounting date to reflect the best estimate of the number of options that will eventually vest. Where share grants are forfeited due to failure by the employee to satisfy the service conditions, any expense previously recognised in relation to such shares is reversed effective the date of forfeiture. Expenses previously recognised related to share options are not reversed on forfeit.

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

iv) Employee share purchase plan

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

S. REVENUE RECOGNITION

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

i) Premium income

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

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

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

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

ii) Commission income

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

iii) Service contracts

Revenue arising from the management of service contracts, pension administrative services and investment advisory and management services offered by the Group is 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.

T. LEASES

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

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

U. SHARE CAPITAL AND TREASURY SHARES

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

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

V. DIVIDEND DISTRIBUTION

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

W. EARNINGS PER SHARE

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

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

3. NEW AND REVISED ACCOUNTING STANDARDS

A. NEW AND REVISED ACCOUNTING STANDARDS ADOPTED IN 2017

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2017:

i) Annual improvements to IFRSs 2014-2016

ii) Amendments to *IAS 7 – Statement of Cash Flows*

iii) Amendments to *IAS 12 – Income Taxes*

The adoption of these amendments did not have a significant impact on the current period or any prior period. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

B. NEW AND REVISED ACCOUNTING STANDARDS TO BE ADOPTED IN 2018 OR LATER

The standards and interpretations that are issued, but not yet effective, are disclosed below. The Group intends to adopt these standards when they become effective.

IFRS 15 – Revenue from Contracts with Customers **("IFRS 15")** – IFRS 15 was issued in May 2014 with amendments issued in April 2016. IFRS 15 establishes principles about the nature, timing and uncertainty of revenue arising from contracts with customers and requires entities to recognize revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and is to be applied retrospectively, or on a modified retrospective basis. Insurance contracts, financial instruments and lease contracts are not in the scope of this standard. Adoption of IFRS 15 is not expected to have a significant impact to the Group.

IFRS 2 – Share based payments **("IFRS 2")** – The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The amendments are to be applied prospectively with retroactive application permitted. The amendments are effective for annual periods beginning on or after 1 January 2018. Adoption of these amendments is not expected to have a significant impact to the Group.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration **("IFRIC 22")** - IFRIC 22 was issued in December 2016 and is effective for annual periods beginning on or after 1 January 2018. IFRIC 22 addresses which foreign exchange rate to use to measure a foreign currency transaction when advance payments are made or received and non-monetary assets or liabilities are recognized prior to recognition of the underlying transaction. It clarifies that the foreign exchange rate on the day of the advance payment is used to measure the foreign currency transaction. Adoption of this standard is not expected to have a significant impact to the Group.

IAS 40 – Investment Property **("IAS 40")** - Amendments to this standard were issued in December 2016 and clarify that an entity shall transfer property to, or from, investment property when there is evidence of a change in use. The amendments are effective starting 1 January 2018. Adoption of these amendments are not expected to have a significant impact to the Group.

IFRS 16 – Leases **("IFRS 16")** – In January 2016, the IASB issued this standard which introduces new guidance for identifying leases as well as a new right-of-use accounting model for lessees, replacing the operating and finance lease accounting models that currently exist. The new accounting model will generally require all lessees to recognise lease assets and liabilities on the balance sheet, initially measured at the present value of unavoidable lease payments for all leases with a maximum possible term of more than 12 months. In contrast to the significant changes for lessees, the new standard will retain many key aspects of the current lessor accounting model. The standard also requires more note disclosure for both lessees and lessors. The standard is effective 1 January 2019 to be applied retrospectively or on a modified retrospective basis. The Group is evaluating the impact of the adoption of this standard.

IAS 28 – Investments in Associates and Joint Ventures **("IAS 28")** - Amendments to this standard were issued in October 2017 and clarify that an entity applies IFRS 9 to financial interests in an associate or joint venture to which the equity method is not applied. The amendments are effective starting 1 January 2019 and are to be applied retrospectively or prospectively. Adoption of these amendments are not expected to have a significant impact to the Group.

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

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

IFRS 9 - Financial Instruments **("IFRS 9")** – In July 2014, the IASB issued the final version of this standard that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard is effective for years beginning on or after 1 January 2018 and is to be applied either retrospectively or on a modified retrospective basis. The IASB issued amendments in October 2017 that are effective for annual periods beginning on or after 1 January 2019.

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

In October 2017, the IASB published a narrow-scope amendment to IFRS 9, allowing companies to measure particular pre-payable financial assets with so-called 'negative compensation' at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. The IASB also confirmed the accounting for modifications of financial liabilities. That is, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

The Group intends to defer IFRS 9 until 1 January 2021 as allowed under the amendments to IFRS 4 – *Insurance Contracts* outlined below. The Group is assessing the impact of this standard and will continue to apply IAS 39, the existing financial instrument standard until 2021.

IFRS 4 – Insurance Contracts **("IFRS 4")** – Amendments to IFRS 4 were issued in September 2016 and are effective for annual periods beginning on or after 1 January 2018. The amendments introduce two approaches to address concerns about the differing effective dates of IFRS 9 and IFRS 17 – *Insurance Contracts*. The 'Overlay Approach' provides an option for all issuers of insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9 before IFRS 17 is implemented. The 'Deferral Approach' provides companies whose activities are predominantly related to insurance an option temporary exemption from applying IFRS 9 until 1 January 2021. The Group qualifies for the exemption and intends to defer IFRS 9 until 1 January 2021.

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

There are no other new or amended IFRS, IAS or IFRIC interpretations that are not yet effective that would be applicable and expected to have a material impact on the Group.

4. MANAGEMENT OF FINANCIAL AND INSURANCE RISK

Risk management and objectives

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

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

(in thousands of Bermuda dollars)

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

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

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

A. FINANCIAL RISKS

i) Credit risk

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

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

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

Maximum exposure to credit risk

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

	2017 $	2016 $
Cash and cash equivalents	205,072	108,896
Fixed and regulatory deposits	24,667	24,248
Fixed income securities	535,009	526,961
Mortgages and loans	71,262	86,371
Insurance receivables and other assets	140,949	92,926
Reinsurance assets	624,217	98,620
Restricted cash	19,058	19,106
Total	**1,620,234**	**957,128**

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.

(in thousands of Bermuda dollars)

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

	2017 $	2016 $
Fixed income securities issued or guaranteed by:		
Financials	91,647	86,348
Government	76,378	88,552
U.S. Treasury and other agencies	137,403	145,173
Utilities and energy	86,241	82,500
Consumer staples and discretionary	37,744	47,291
Telecom	16,096	12,141
Computer technology products and services	23,710	15,644
Industrials	14,072	17,412
Other	51,718	31,900
Total Fixed income securities	**535,009**	**526,961**

	2017 $	2016 $
United States	411,427	377,243
Barbados	54,504	64,607
Canada	25,037	30,144
Northern Europe	15,154	17,757
Asia-Pacific	8,619	14,613
United Kingdom	4,262	7,184
Caribbean excluding Barbados	14,734	14,266
Other	1,272	1,147
Total Fixed income securities	**535,009**	**526,961**

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

	2017 $	2016 $
Bermuda	63,755	78,567
Barbados	7,507	7,804
Total Mortgages and loans	**71,262**	**86,371**

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

As at 31 December 2017

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

(in thousands of Bermuda dollars)

As at 31 December 2016

	AAA $	AA $	A $	BBB $	BB and lower $	Not rated $	Total $
Cash and cash equivalents	13,266	18,028	50,088	23,933	-	3,581	**108,896**
Fixed deposits	-	1,881	1,640	6,131	-	5,563	**15,215**
Regulatory deposits	-	-	3,938	1,037	1,662	2,396	**9,033**
Fixed income securities	39,492	225,230	162,923	33,559	58,575	7,182	**526,961**
Restricted cash	-	-	1,605	17,501	-	-	**19,106**
Total	**52,758**	**245,139**	**220,194**	**82,161**	**60,237**	**18,722**	**679,211**

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

Past due or credit impaired mortgages and loans.

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

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

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

	2017 $	2016 $
Not past due	52,509	66,386
Past due but not impaired:		
Past due less than 90 days	7,905	13,972
Past due 90 to 180 days	777	1,468
Past due 180 days or more	373	388
Impaired (net of impairment provisions)	9,698	4,157
Total Mortgages and loans	**71,262**	**86,371**

Of the $71,262 of mortgages and loans held, $20,578 are currently interest-only with future principal repayment schedules established.

Interest accrued on the impaired mortgages amounted to $367 as at 31 December 2017 (2016 - $4,050).

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

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

	2017 $	2016 $
At 1 January	19,260	17,341
Transfer to available for sale residential properties	(10,931)	-
Sale of foreclosed mortgage loans	(7,774)	(23)
Increase in impairment and provision allowances	5,691	1,942
Total At 31 December	**6,246**	**19,260**

(in thousands of Bermuda dollars)

A significant estimate in the determination of impairment is the timing of future collections, which is based on the expected timing of liquidating the underlying collateral. Market value fluctuations will impact the value of the collateral and can significantly impact the estimate of impairment. Management estimates that collection will occur within 12 months. An additional impairment of between $199 and $407 could be incurred if collection occurred within 18-24 months.

ii) Liquidity risk

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

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

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

	Within 1 year $	2 to 3 years $	4 to 5 years $	Over 5 years $	Total $	Effective interest rate ranges
Policyholder loans	168	337	337	2,524	3,366	4.75% - 8.25%
Mortgages	12,951	8,731	13,161	33,053	67,896	3.50% - 9.00%
Fixed income securities	64,350	105,689	160,904	204,066	535,009	0.08% - 9.75%
Insurance receivables and other assets	140,574	156	186	33	140,949	-
Total	**218,043**	**114,913**	**174,588**	**239,676**	**747,220**	
Percent of total	**29.2%**	**15.4%**	**23.4%**	**32.1%**	**100.0%**	

The maturity profile of financial assets at 31 December 2016 was as follows:

	Within 1 year $	2 to 3 years $	4 to 5 years $	Over 5 years $	Total $	Effective interest rate ranges
Corporate loans	1,979	-	-	-	1,979	1.56% - 2.70%
Policyholder loans	178	357	357	2,677	3,569	4.75% - 8.25%
Mortgages	11,987	7,117	16,117	45,602	80,823	3.50% - 9.00%
Fixed income securities	53,004	110,623	165,568	197,766	526,961	0.24% - 9.75%
Insurance receivables and other assets	92,420	216	254	36	92,926	-
Total	**159,568**	**118,313**	**182,296**	**246,081**	**706,258**	
Percent of total	**22.6%**	**16.8%**	**25.8%**	**34.8%**	**100.0%**	

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

(in thousands of Bermuda dollars)

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

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

The maturity profile of liabilities at 31 December 2016 was as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Other liabilities	80,219	-	-	80,219
Loans payable	477	-	-	477
Investment contract liabilities	109,786	232,905	803	343,494
Insurance contract liabilities – net of reinsurance	101,778	3,662	174,968	280,408
Total	**292,260**	**236,567**	**175,771**	**704,598**

iii) Market risk

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

Currency risk

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

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

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

Interest rate risk

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

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

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

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

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

The impact of interest rate risk for the Group's actuarial liabilities and the assets supporting those liabilities is included in Note 4B - Insurance Risk below. The Group also holds fixed income investments which support non-life insurance liabilities and surplus. If the base interest rates, as measured by the US Treasury yield curve, shifted parallel by 100 basis points higher/lower, the immediate impact to net income would have been $1,987 / 1,852 (2016 – $1,926 / 1,898) lower/higher. The interest rate sensitivity impact was calculated using the modified duration method.

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

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

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

A 5% increase/decrease in the value of the Group's equity portfolio would increase/decrease the Group's comprehensive income by $1,416 (2016 - $1,188) and the Group's other components of equity by $388 (2016 - $218). The price risk sensitivity impact was calculated by using the ending balances in equity at a 5% increase/decrease.

B. INSURANCE RISK

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. Insurance risk is implicit in the Group's insurance business and arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks.

i) Life and health insurance risk

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

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

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

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

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

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

- Mortality and morbidity risks are mitigated by use of reinsurance. The Group companies select reinsurers, from those approved by the Group, based on local factors, but assess the overall programme to manage Group-wide risk exposures and monitor that the aggregation of risk ceded to individual reinsurers is within the Group appetite for credit risk. In the case of default by a reinsurer, this does not release the Group from its liability to the insured policyholders.
- Longevity risk: Whilst individual Group companies are responsible for reserving and pricing for annuity business, the Group monitors the exposure to this risk and the capital implications to manage the impact on the Group-wide exposure and the capital funding that Group companies may require as a consequence.

(in thousands of Bermuda dollars)

- Persistency risk: Where possible the financial impact of lapses is reduced through appropriate product design. Group companies also implement specific initiatives to improve retention of policies which may otherwise lapse.
- Product design and pricing risk arises from poorly designed or inadequately priced products and can lead to both financial loss and reputational damage to the Group. Guidelines have been developed to support the Group companies through the complete cycle of the product development process, financial analysis and pricing.
- Expense risk is primarily managed by the Group companies through the assessment of profitability and frequent monitoring of expense levels.

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

	2017			2016		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Bermuda	191,516	4,489	196,005	180,027	2,976	183,003
Bahamas	3,160	773	3,933	2,748	655	3,403
Barbados	10,993	(22)	10,971	9,422	(25)	9,397
Other Caribbean & Latin America	2,454	-	2,454	2,140	-	2,140
Total	**208,123**	**5,240**	**213,363**	**194,337**	**3,606**	**197,943**

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

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

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

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

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

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

(in thousands of Bermuda dollars)

c) Investment returns

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

d) Expenses

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

e) Lapse

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

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

f) Premium payment patterns

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

g) Policyholder dividends

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

Sensitivity test analysis

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

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

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

		Increase in liability	
	Change in assumption	2017 $	2016 $
Mortality rate – life products	+1%	141	133
Mortality rate – annuity products	-1%	369	338
Morbidity – medical claims	+1%	847	865
Expenses	+10%	1,875	1,792
Termination rate	+10%	1,669	1,478

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

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

The effect of an immediate 1% increase in interest rates would be to decrease the present value of these net projected cash flows by approximately $4,737 (2016 - $2,705). 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 $5,294 (2016 - $3,208).

ii) General insurance risk

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

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

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

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

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

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

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

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

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

(in thousands of Bermuda dollars)

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

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

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

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

31 December 2017

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

31 December 2016

Territory		Property $	Motor $	All Other $	Total $
Bermuda					
	Gross	5,939	5,261	3,899	15,099
	Net	1,828	4,463	2,175	8,466
Cayman/Other Caribbean					
	Gross	31,805	3,390	3,079	38,274
	Net	381	2,508	1,652	4,541
Barbados					
	Gross	1,520	38,107	7,417	47,044
	Net	305	26,401	5,870	32,576
Total					
	Gross	**39,264**	**46,758**	**14,395**	**100,417**
	Net	**2,514**	**33,372**	**9,697**	**45,583**

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

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

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

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

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

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

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

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

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

During the year the Group has harmonized the presentation of the loss development table to be on an accident year basis for all short duration contracts. Previously BF&M General presented the loss development information on an underwriting year basis. Management has concluded that the impact of the change to the disclosure is not material.

(in thousands of Bermuda dollars)

Gross loss development

Accident year Estimate of ultimate claims cost:	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	Total $
At the end of accident year	52,574	34,365	38,847	52,617	39,436	35,710	71,901	37,086	99,281	681,460	
One year later	49,663	33,126	36,722	49,226	35,857	35,402	61,994	35,714	94,564	-	
Two years later	45,405	31,911	34,742	48,464	34,688	32,404	59,901	34,078	-	-	
Three years later	44,912	31,240	34,046	47,058	34,027	32,479	60,044	-	-	-	
Four years later	43,517	31,135	34,153	46,856	33,648	35,888	-	-	-	-	
Five years later	43,230	33,801	34,096	46,781	33,633	-	-	-	-	-	
Six years later	43,167	34,258	33,919	46,968	-	-	-	-	-	-	
Seven years later	42,911	34,593	34,104	-	-	-	-	-	-	-	
Eight years later	42,803	34,472	-	-	-	-	-	-	-	-	
Nine years later	42,654	-	-	-	-	-	-	-	-	-	
Current estimates of cumulative claims	42,654	34,472	34,104	46,968	33,633	35,888	60,044	34,078	94,564	681,460	1,097,865
Cumulative payments to date	(41,658)	(32,204)	(32,316)	(43,913)	(30,783)	(28,029)	(55,806)	(28,096)	(79,300)	(119,742)	(491,847)
Gross Liability recognised in the consolidated statement of financial position	996	2,268	1,788	3,055	2,850	7,859	4,238	5,982	15,264	561,718	606,018
Reserve in respect of prior years											18,649
Total reserve included in the consolidated statement of financial position											**624,667**

Net loss development

Accident year Estimate of ultimate claims cost:	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	Total $
At the end of accident year	24,077	22,422	23,470	22,492	22,592	24,367	29,523	25,481	34,259	35,760	
One year later	23,704	20,917	21,041	21,553	21,727	23,884	28,375	24,204	31,729	-	
Two years later	19,913	19,899	19,985	21,821	21,261	22,134	26,805	23,239	-	-	
Three years later	19,422	18,898	20,114	21,649	20,739	22,132	26,093	-	-	-	
Four years later	18,541	18,809	20,231	21,899	20,509	21,958	-	-	-	-	
Five years later	18,068	18,559	20,398	21,969	20,387	-	-	-	-	-	
Six years later	18,156	18,524	20,235	22,180	-	-	-	-	-	-	
Seven years later	18,144	18,700	20,447	-	-	-	-	-	-	-	
Eight years later	17,970	18,597	-	-	-	-	-	-	-	-	
Nine years later	17,832	-	-	-	-	-	-	-	-	-	
Current estimates of cumulative claims	17,832	18,597	20,447	22,180	20,387	21,958	26,093	23,239	31,729	35,760	238,222
Cumulative payments to date	(17,036)	(17,717)	(19,029)	(19,648)	(18,228)	(19,408)	(22,973)	(18,754)	(25,308)	(17,937)	(196,038)
Net Liability recognised in the consolidated statement of financial position	796	880	1,418	2,532	2,159	2,550	3,120	4,485	6,421	17,823	42,184
Reserve in respect of prior years											7,960
Total reserve included in the consolidated statement of financial position											**50,144**

5. CAPITAL MANAGEMENT AND REGULATORY COMPLIANCE

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

The Bermuda Monetary Authority ("BMA") is the regulator of the Group. Under the laws and regulations of Bermuda, the Group must maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As at 31 December 2017, the Group exceeded the minimum requirement.

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

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

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

A. BERMUDA

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

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

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

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

B. BARBADOS

The Barbados Insurance (Catastrophe Reserve Fund) Regulations 2003-88 require the establishment of a catastrophe reserve fund. Annual amounts of up to 25% of net premium income from property insurance business are allocated to the fund. Assets representing the fund in the amount of $7,987 (2016 - $7,483) are placed in trust in accordance with the regulations of the Barbados Insurance Act.

Section 152 of the Barbados Insurance Act requires the appropriation towards a surplus reserve of at least 25% of net income until such time as the surplus reserve of the ICBL equals or exceeds the liability in respect of unearned premiums. A surplus reserve of $18,694 as at 2017 (2016 - $18,694) is included in ICBL's shareholders' equity in accordance with the requirements.

C. CAYMAN ISLANDS

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

As at 31 December 2017, the Group was in compliance with regulatory requirements in the various jurisdictions in which it operates.

6. SEGMENTAL INFORMATION

Management has determined the operating segments based on a combination of factors, including the products and geographical areas 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.

Health, life, annuity and pension

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

Property and casualty (Bermuda)

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

Real estate (Bermuda)

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

Barbados operations

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

Cayman Islands and other Caribbean operations

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

Corporate and other

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

Measurement basis

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

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

(in thousands of Bermuda dollars)

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

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

*The table below summarises impairment losses by asset type:

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

(in thousands of Bermuda dollars)

The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2016 is as follows:

Segments	Health, life, annunity, and pension 2016 $	Property and casualty 2016 $	Real estate 2016 $	Barbados operations 2016 $	Cayman & Other Caribbean operations 2016 $	Corporate and other 2016 $	Total 2016 $
Income earned from external customers	138,949	32,018	2,910	44,583	39,200	123	257,783
Investment income	6,665	2,380	-	3,337	884	149	13,415
Total income	145,614	34,398	2,910	47,920	40,084	272	271,198
Insurance contracts benefits and expenses	108,860	8,922	-	19,784	10,543	-	148,109
Commission and acquisition expense	2,378	4,015	-	4,910	18,353	-	29,656
Operating expenses	22,727	13,032	699	17,650	9,948	258	64,314
Amortisation expense	1,835	3,818	785	1,272	719	3,553	11,982
Interest on loans	-	-	40	-	-	-	40
Income tax expense	-	-	-	579	117	135	831
Non-controlling interest	-	-	957	163	-	1,544	2,664
Shareholders' net income	8,974	6,307	1,420	3,236	(1,147)	(4,425)	14,365
Impairment losses recognised in income *	1,942	-	-	475	-	3,325	5,742
Assets	1,273,825	111,641	24,631	212,645	171,822	8,137	1,802,701
Fixed asset & intangible expenditures	3,168	4,560	81	1,755	54	403	10,021
Liabilities	1,184,206	58,088	1,493	138,681	107,112	3,837	1,493,417

*The table below summarises impairment losses by asset type:

Segments	Health, life, annunity, and pension 2016 $	Property and casualty 2016 $	Barbados operations 2016 $	Total 2016 $
Mortgages	1,942	-	-	1,942
Available-for-sale investments	-	64	-	64
Intangible assets	-	-	3,325	3,325
Investment properties	-	412	-	412
Total	**1,942**	**476**	**3,325**	**5,743**

7. FAIR VALUE MEASUREMENTS

A. FAIR VALUE METHODOLOGIES AND ASSUMPTIONS

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

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

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

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

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

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

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

B. FAIR VALUE HIERARCHY

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

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

i) Level 1

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

(in thousands of Bermuda dollars)

ii) **Level 2**

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

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

iii) **Level 3**

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

C. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

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

(in thousands of Bermuda dollars)

31 December 2016	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Cash and cash equivalents	108,896	-	-	108,896
Fixed deposits	15,215	-	-	15,215
Regulatory deposits	9,033	-	-	9,033
Restricted cash	19,106	-	-	19,106
Financial assets at FVTPL				
Fixed income securities	145,319	303,936	-	449,255
Equities	20,529	9,537	-	30,066
Available for sale financial assets				
Equities	3,507	848	-	4,355
Residential properties	-	-	954	954
Segregated fund assets	531,837	154,101	-	685,938
Total assets	**853,442**	**468,422**	**954**	**1,322,818**
Liabilities				
Investment contract liabilities	-	286,605	-	286,605
Segregated fund liabilities	-	685,938	-	685,938
Total liabilities	**-**	**972,543**	**-**	**972,543**

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

	2017 $	2016 $
Opening balance	954	1,500
Transfers into Level 3	4,124	-
Purchases / (Sales)	-	(568)
Gains or losses recognised in income	(1,599)	22
Total	3,479	954

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

(in thousands of Bermuda dollars)

D. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

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

31 December 2016	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Held-to-maturity financial assets				
Fixed income securities	-	12,385	-	12,385
Loans and receivable financial assets				
Fixed income securities	-	-	68,851	68,851
Mortgages	-	-	79,370	79,370
Policyholder loans	-	-	3,569	3,569
Other loans	-	-	1,979	1,979
Investment properties	-	-	71,445	71,445
Total assets	**-**	**12,385**	**225,214**	**237,599**
Liabilities				
Investment contract liabilities	-	56,889	-	56,889
Loans payable	-	477	-	477
Total liabilities	**-**	**57,366**	**-**	**57,366**

8. CASH AND CASH EQUIVALENTS

	2017 $	2016 $
Cash at bank and in hand	189,140	93,120
Short-term bank deposits	15,932	15,776
Total	**205,072**	**108,896**

(in thousands of Bermuda dollars)

9. REGULATORY DEPOSITS, FIXED DEPOSITS AND RESTRICTED CASH

	2017 $	2016 $
Fixed deposits	7,765	15,215
Regulatory deposits	16,902	9,033
Restricted cash	19,058	19,106
Total	43,725	43,354

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

The fixed deposits have terms of 365 days with various independent financial institutions. The fixed deposits have various maturity dates, and earn interest of 0.02% - 1.0% per annum.

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

10. INVESTMENTS

A. CARRYING AMOUNT AND FAIR VALUE OF INVESTMENTS

Investments comprise:

	2017		2016	
31 December	Carrying amount $	Fair value $	Carrying amount $	Fair value $
At fair value through profit and loss				
- Fixed income securities	467,656	467,656	449,255	449,255
- Equities	33,817	33,817	30,066	30,066
Held-to-maturity				
- Fixed income securities	12,147	11,403	12,247	12,385
Loans and receivables				
- Other loans	-	-	1,979	1,979
- Policyholder loans	3,366	3,366	3,569	3,569
- Mortgages	67,896	67,216	80,823	79,370
- Fixed income securities	55,206	57,676	65,459	68,851
	640,088	641,134	643,398	645,475
Available for sale				
- Equities	7,759	7,759	4,355	4,355
- Residential properties	3,479	3,479	954	954
	11,238	11,238	5,309	5,309
Total	651,326	652,372	648,707	650,784

(in thousands of Bermuda dollars)

B. INVESTMENT INCOME

	2017 $	2016 $
Interest income		
Fixed income securities - at FVTPL	9,921	9,120
Fixed income securities - at amortised cost	5,311	5,950
Mortgages and loans	4,500	5,194
Bank deposits and policyholder loans	626	338
	20,358	20,602
Dividend income		
Equities - at FVTPL	591	637
Equities - available for sale	94	102
	685	739
Net realised gains/(losses) on sale of investments		
Equities - at FVTPL	209	(46)
Fixed income securities - at FVTPL	(2,843)	908
Equities - available for sale	-	-
	(2,634)	862
Change in fair value arising from		
Fixed income securities	10,000	(3,641)
Equities	3,254	2,156
	13,254	(1,485)
Impairments and deductions		
Less: Impairment loss on investments	(8,415)	(2,006)
Less: Impairment loss on investment properties	(180)	(412)
Less: Allocation to contracts for the account and risk of customers	(3,955)	(4,885)
	(12,550)	(7,303)
Total Investment income	**19,113**	**13,415**

11. INSURANCE RECEIVABLES AND OTHER ASSETS

	2017 $	2016 $
Insurance receivables	118,057	73,155
Accounts receivable	18,263	11,734
Accrued investment income	4,629	8,037
Total	**140,949**	**92,926**

12. DEFERRED POLICY ACQUISITION COSTS

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

	2017 $	2016 $
At 1 January	9,895	8,952
Recognised deferred acquisition costs	22,934	27,161
Amortisation charge through income	(23,252)	(26,218)
At 31 December	**9,577**	**9,895**

(in thousands of Bermuda dollars)

13. REINSURANCE ASSETS

Reinsurance assets are comprised of the following:

	2017 $	2016 $
Short-term insurance contracts:		
Claims reported and adjustment expenses	398,252	44,155
Unearned premiums ceded	54,934	47,392
Claims incurred but not reported	176,271	10,679
Total short-term insurance contracts	**629,457**	**102,226**
Life and health insurance contracts:		
Participating		
Individual life	(2,094)	(1,818)
Non-participating		
Individual life	(4,908)	(4,000)
Individual and group annuities	-	-
Group life	1,736	2,192
Health and accident	26	20
Total life and health insurance contracts	**(5,240)**	**(3,606)**
Total Reinsurance assets	**624,217**	**98,620**

14. INVESTMENT PROPERTIES

	2017 $	2016 $
Cost	56,518	55,636
Accumulated depreciation	(20,758)	(19,472)
Net book value	**35,760**	**36,164**
Year ended 31 December		
At beginning of year	36,164	36,398
Net additions / (disposals) and capital improvements	882	1,141
(Impairment)/Reversal	(180)	(453)
Depreciation	(1,106)	(922)
Closing net book value	**35,760**	**36,164**

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

At 31 December 2017, investment properties with a net book value of $35,760 (2016 - $36,164) were estimated to be valued at $66,568 (2016 - $71,445) on the basis of their estimated open market value for existing use. During the year ended 31 December 2017 certain investment properties' carrying values exceeded their market values, which resulted in impairment losses of $180 (2016 - $453).

Rental income generated from these investment properties during the year amounted to $4,559 (2016 - $4,549). Operating expenses incurred in support of generating rental income from investment properties was $1,287 (2016 - $1,241).

(in thousands of Bermuda dollars)

15. PROPERTY AND EQUIPMENT

	Land and buildings $	Furniture, equipment and leasehold improvements $	Computer hardware $	Motor Vehicles $	Total $
At 1 January 2016					
Cost	22,569	10,598	8,549	1,123	42,839
Accumulated amortisation	(3,773)	(7,184)	(6,314)	(692)	(17,963)
Net book value	**18,796**	**3,414**	**2,235**	**431**	**24,876**
Year ended 31 December 2016					
Additions	870	390	807	148	2,215
Disposals	-	(169)	(520)	(158)	(847)
Disposals – accumulated amortisation	-	165	512	96	773
Amortisation charge	(385)	(739)	(981)	(195)	(2,300)
Effect of movement in exchange rates	-	(58)	(79)	-	(137)
Closing net book value	**19,281**	**3,003**	**1,974**	**322**	**24,580**
At 31 December 2016					
Cost	23,439	10,819	8,836	1,113	44,207
Accumulated amortisation	(4,158)	(7,816)	(6,862)	(791)	(19,627)
Net book value	**19,281**	**3,003**	**1,974**	**322**	**24,580**
Year ended 31 December 2017					
Additions	688	539	502	109	1,838
Disposals	793	(1,394)	(651)	(348)	(1,600)
Disposals – accumulated amortisation	(803)	1,221	315	288	1,021
Amortisation charge	(488)	(737)	(769)	(157)	(2,151)
Effect of movement in exchange rates	-	9	43	-	52
Closing net book value	**19,471**	**2,641**	**1,414**	**214**	**23,740**
At 31 December 2017					
Cost	24,920	9,987	8,775	874	44,556
Accumulated amortisation	(5,449)	(7,346)	(7,361)	(660)	(20,816)
Total Net book value	**19,471**	**2,641**	**1,414**	**214**	**23,740**

16. INCOME TAXES

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

A. INCOME TAX

The income tax (recoverable) expense comprises:

	2017 $	2016 $
Current tax	(712)	901
Deferred tax	(1,607)	(70)
Total Income tax (recoverable) expense	**(2,319)**	**831**

(in thousands of Bermuda dollars)

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

	2017 $	2016 $
ICBL, BF&M Canada and IHIC's (loss) income before corporation tax	(9,418)	3,694
Tax calculated at effective rates of 25%*, 31% and 19% respectively	(2,451)	1,333
Prior year adjustments	(372)	(60)
Effect of different tax rates on taxable income	171	218
Income not subject to tax	(272)	(814)
Expenses not deductible for tax	850	154
Tax under accrual	(245)	-
Total Income tax (recoverable) expense	**(2,319)**	**831**

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

	2017 $	2016 $
Deferred tax assets:		
Taxable losses carried forward	777	-
Net unearned premium	-	290
Deferred ceding commissions	12	23
Outstanding claims	252	328
Tax charge related to components of other comprehensive income	866	4
Deferred tax asset	**1,907**	**645**
Deferred tax liabilities:		
Net unearned premium	(17)	-
Accelerated tax depreciation	(204)	(265)
Net pension plan liability	(654)	(415)
Tax charge to components of other comprehensive income/ (loss)	245	(111)
Deferred acquisition cost	(469)	(683)
Deferred tax liability	**(1,099)**	**(1,474)**
Net deferred tax asset (liability)	**808**	**(829)**

(in thousands of Bermuda dollars)

C. TAX RECOVERABLE (PAYABLE)

	2017 $	2016 $
Tax recoverable at beginning of year	2,503	925
Tax payments made	425	2,415
Current tax expense for year	721	(840)
Tax over/(under) accrual	(96)	3
Other	35	-
Total Tax recoverable at end of year	**3,588**	**2,503**
Tax payable at beginning of year	(61)	-
Tax payments made	34	-
Current tax expense for year	(9)	(61)
Tax over accrual	(62)	-
Other	(35)	-
Total Tax payable at end of year	**(133)**	**(61)**
Net tax recoverable	**3,455**	**2,442**

D. IMPACT TO OTHER COMPREHENSIVE INCOME / (LOSS)

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

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

		2016	
	Before tax $	Tax (charge) / credit $	After tax $
Re-measurements of retirement benefit obligations	694	(111)	583
Investments classified as available for sale			
Fair value gains	267	-	267
Currency translation differences	(105)	-	(105)
Total Other comprehensive income / (loss)	**856**	**(111)**	**745**

(in thousands of Bermuda dollars)

17. INTANGIBLE ASSETS

The carrying amounts of intangible assets are as follows:

	Finite life				Indefinite life		
	Customer relationships & contracts $	Distribution channels $	Brands $	Software development costs $	ICBL brand $	Goodwill $	Total $
At 1 January 2016							
Cost	12,156	14,500	2,040	38,590	697	10,328	78,311
Accumulated amortisation	(6,022)	(5,437)	(1,505)	(13,318)	-	-	(26,282)
Net book value	**6,134**	**9,063**	**535**	**25,272**	**697**	**10,328**	**52,029**
Year ended 31 December 2016							
Additions	-	-	-	7,943	-	-	7,943
Disposals	-	-	-	(34)	-	-	(34)
Disposals - accumulated amortisation	-	-	-	-	-	-	-
Amortisation	(676)	(1,450)	(420)	(2,888)	-	-	(5,434)
Impairment losses	-	-	-	-	(697)	(2,628)	(3,325)
Closing net book value	**5,458**	**7,613**	**115**	**30,293**	**-**	**7,700**	**51,179**
At 31 December 2016							
Cost	12,156	14,500	2,040	46,499	697	10,328	86,220
Accumulated amortisation	(6,698)	(6,887)	(1,925)	(16,206)	(697)	(2,628)	(35,041)
Net book value	**5,458**	**7,613**	**115**	**30,293**	**-**	**7,700**	**51,179**
Year ended 31 December 2017							
Additions [(1)]	1,000	-	-	6,609	-	-	7,609
Disposals	-	-	-	438	-	-	438
Disposals - accumulated amortisation	-	-	-	(82)	-	-	(82)
Amortisation	(818)	(1,450)	(115)	(3,590)	-	-	(5,973)
Impairment losses	-	-	-	(48)	-	-	(48)
Closing net book value	**5,640**	**6,163**	**-**	**33,620**	**-**	**7,700**	**53,123**
At 31 December 2017							
Cost	13,157	14,500	2,040	53,545	697	10,328	94,267
Accumulated amortisation	(7,517)	(8,337)	(2,040)	(19,925)	(697)	(2,628)	(41,144)
Total Net book value	**5,640**	**6,163**	**-**	**33,620**	**-**	**7,700**	**53,123**
Remaining weighted average amortisation period in years	4.3 years	4.3 years	Nil years	6.3 years	n/a	n/a	

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

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

(in thousands of Bermuda dollars)

A. GOODWILL AND INDEFINITE LIFE INTANGIBLES

Goodwill represents the excess of the cost of ICBL and IHIC at acquisition over the fair value of the net assets acquired. The goodwill at acquisition was allocated to the ICBL and IHIC operations which are identified as separate CGUs. When testing for impairment, the recoverable amount of each CGU is determined based on value in use. Changes in the carrying value of the goodwill and indefinite life intangibles for the CGUs with balances is shown below:

	ICBL goodwill $	IHIC goodwill $	Total goodwill $	ICBL Brand $	Total goodwill and indefinite life intangibles $
At 1 January 2016	2,628	7,700	10,328	697	11,025
Additions	-	-	-	-	-
Impairment	(2,628)	-	(2,628)	(697)	(3,325)
At 31 December 2016	-	7,700	7,700	-	7,700
Year ended 31 December 2017					
Additions	-	-	-	-	-
Impairment	-	-	-	-	-
At 31 December 2017	**-**	**7,700**	**7,700**	**-**	**7,700**

Goodwill and intangibles with an indefinite life are assessed for impairment as per the accounting policy described in Note 2J. The recoverable amount of all CGU's has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the 2018 financial business plans approved by management and are extrapolated using a steady growth rate over the subsequent four years and a terminal value in the calculation. The plans reflect management's best estimate of future profits based on both historical experience and target growth rates. The target growth rates reflect the local insurance market conditions, macro-economic factors of the region, and overall Group targets to grow the business and manage costs. Future profits are discounted using a weighted average cost of capital which is risk adjusted for risks specific to that CGU.

i) ICBL

During 2016, the forecast future cash flows for ICBL were revised to reflect the current and expected future economic environment in Barbados and at ICBL. As a result of the revised expected cash flows, the Group assessed that the present value of these net cash flows, the recoverable amount, was less than the carrying value of the CGU. As a result, an impairment charge of $3,325 was reported which was allocated against the carrying value of goodwill and the ICBL brand indefinite life asset. The impairment charge was recognised in the consolidated statement of income.

ii) IHIC

The recoverable amount of the CGU was assessed to be more than the carrying value and as a result no goodwill impairment charge was recognised in the consolidated statement of income. This assessment was based on:

	Assumption
Expected growth rate (cash inflows)	2018 plan plus growth of 55.9%, 0%, 19.6%, 3.8% in the subsequent 4 years (reflecting a return to non-catastrophic activity levels), terminal growth rate 0%
Operating expense assumption (cash outflow)	terminal growth rate 0% post 2018
Discount rate (WACC)	12.7%

A sensitivity on these assumptions was noted as follows:

	Impact to recoverable amount
1% annual reduction in expected growth rate (cash inflows) post 2019	Reduction of $3,223
1% increase in operating expense assumption (cash outflow) post 2018	Reduction of $2,106
100 basis point increase Discount rate (WACC)	Reduction of $1,845

None of these reductions individually would cause an impairment.

(in thousands of Bermuda dollars)

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

B. SOFTWARE DEVELOPMENT COSTS

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

18. SEGREGATED FUNDS

The Group's segregated funds net assets were comprised entirely of mutual funds for both the 2017 and 2016 years.

SEGREGATED FUNDS – CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	2017 $	2016 $
Segregated funds assets – beginning of year	685,938	631,059
Additions:		
Pension contributions	108,538	104,144
Net realised and unrealised gains/(losses)	113,598	28,348
Total additions	**222,136**	**132,492**
Deductions:		
Payments to policyholders and their beneficiaries	(71,915)	(71,058)
Management fees	(7,592)	(6,555)
Total deductions	**(79,507)**	**(77,613)**
Net additions to segregated funds	**142,629**	**54,879**
Total Segregated funds assets – end of year	**828,567**	**685,938**

19. OTHER LIABILITIES

	2017 $	2016 $
Advances from reinsurers	148,808	-
Insurance balances payable	36,744	34,917
Payables and accrued expenses	25,968	28,629
Deferred commission income	13,543	9,904
Policyholder dividends payable	4,906	4,828
Dividends payable	2,469	1,941
Total	**232,438**	**80,219**

Insurance balances payable include amounts payable to reinsurers and brokers.

(in thousands of Bermuda dollars)

20. LOAN PAYABLE

In prior years, the Group borrowed $6,934 from an affiliated Company of the minority shareholder of Barr's Bay, to finance the construction of Argo House.

The loan was fully repaid during 2017.

	2017 $	2016 $
Current liability portion (payable within 12 months)	-	477

21. RETIREMENT BENEFIT OBLIGATIONS

A. DEFINED CONTRIBUTION PENSION PLAN

The Group has established defined contribution pension plans for eligible qualifying employees. Contributions by the Group to these defined contribution plans are subject to certain vesting requirements and are generally a set percentage of an employee's annual income and matched against employee contributions. The cost of the defined contribution pension plans are not reflected in the tables below. An expense of $1,135 (2016 - $1,057) equating to the service cost for the year for these employees was reported during the year.

B. POST RETIREMENT MEDICAL PLAN

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

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

Cash contributions to the plan by the Group during 2017 were $286 (2016 - $306).

C. DEFINED BENEFIT PENSION PLAN

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

Under the plans, the pension amount at retirement is based on an employee's final average earnings. The schemes are generally funded through payments determined by periodic actuarial calculations. Cash contributions to the plan by the Group during 2017 were $1,189 (2016 - $1,196).

The Group measures the fair value of assets and the accrued benefit obligations as of 31 December. The most recent actuarial valuation of the plan's assets and the present value of the defined benefit obligation were carried out as of 31 December 2016.

The following table provides summaries of the defined benefit pension and post-retirement medical plans' estimated financial position at 31 December 2017 and 2016:

	2017 $	2016 $
Defined benefit pension plan	(648)	(771)
Medical benefit plan	3,844	4,203
Total Retirement benefit obligations	**3,196**	**3,432**

(in thousands of Bermuda dollars)

	Defined benefit pension plans		Medical benefit plans	
Changes in Benefit Obligation	**2017 $**	**2016 $**	**2017 $**	**2016 $**
Balance - beginning of year	53,814	51,676	4,203	4,549
Current service cost	690	704	-	-
Interest expense	2,387	2,420	141	152
Past service cost and gains and losses on settlements	(257)	-	-	-
Actuarial (gains) and losses due to changes in:				
Experience	(62)	17	(278)	(183)
Economic assumption changes	964	749	64	(9)
Changes in asset ceiling, excluding amounts included in interest expense	2,057	698	-	-
Benefits paid	(2,837)	(2,450)	(286)	(306)
Total Benefit Obligation - End of year	**56,756**	**53,814**	**3,844**	**4,203**

	Defined benefit pension plans		Medical benefit plans	
Change in Plan Assets	**2017 $**	**2016 $**	**2017 $**	**2016 $**
Fair value - beginning of year	54,585	51,654	-	-
Interest income	3,834	3,515	-	-
Return on plan assets, excluding amounts included in interest income	697	740	-	-
Employer contributions	1,189	1,196	286	306
Plan expenses	(64)	(70)	-	-
Benefits paid	(2,837)	(2,450)	(286)	(306)
Total Fair value of plan assets - End of year	**57,404**	**54,585**	**-**	**-**
NET (benefit) liability recognised in the Consolidated Statement of Financial Position	**(648)**	**(771)**	**3,844**	**4,203**

Amounts recognised in respect of these defined benefit plans:

	Defined benefit pension plans		Medical benefit plans	
Net benefit cost recognised in Consolidated Statement of Income	**2017 $**	**2016 $**	**2017 $**	**2016 $**
Current service cost	690	704	-	-
Interest expense / (income)	2,387	2,420	141	152
Expected return on plan assets	(2,523)	(2,510)	-	-
Administrative expense	64	70	-	-
Past services cost and gains and losses	(257)	-	-	-
Total Net benefit cost	**361**	**684**	**141**	**152**

(in thousands of Bermuda dollars)

	Defined benefit pension plans		Medical benefit plans	
Re-measurement effects recognised in OCI	2017 $	2016 $	2017 $	2016 $
Return on plan assets (excluding amounts included in interest income)	(2,017)	(1,752)	-	-
Actuarial gains and losses due to change in:				
Experience	3	45	(296)	(192)
Financial assumptions	964	797	83	-
Adjustments for restrictions on the defined benefit asset	1,751	519	-	-
Total Re-measurements effects	**701**	**(391)**	**(213)**	**(192)**

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

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

At 31 December 2016	Bermuda $	Barbados $	Total $
Present value of obligation	40,040	17,977	58,017
Fair value of plan assets	(34,508)	(20,077)	(54,585)
Total	**5,532**	**(2,100)**	**3,432**

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

	2017			2016		
	Quoted $	Unquoted $	Total $	Quoted $	Unquoted $	Total $
Equity instruments	19,637	-	19,637	6,877	-	6,877
Fixed income instruments	14,852	10,553	25,405	24,453	10,460	34,913
Real estate	-	2,675	2,675	-	2,868	2,868
Other	-	9,687	9,687	-	9,927	9,927
Total Asset allocation	**34,489**	**22,915**	**57,404**	**31,330**	**23,255**	**54,585**

Pension and medical plan assets include the Group's ordinary shares with a fair value of $966 (2016 - $1,148).

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

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

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

(in thousands of Bermuda dollars)

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

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

Actuarial assumptions

The principal actuarial assumptions used in measuring the Group's defined benefit obligations vary depending on whether the obligation is the result of Bermuda or Barbados based operations. The significant weighted-average assumptions as of 31 December 2017 and 2016 are:

	Defined benefit pension plans		Medical benefit plans	
Bermuda	2017 %	2016 %	2017 %	2016 %
Benefit cost during the year:				
Discount rate	3.25	3.50	3.00	3.25
Compensation increase	1.75	2.00	-	-
Medical claims inflation*	-	-	6.50	6.50
Defined benefit obligation at end of year:				
Discount rate	3.25	3.50	3.00	3.25
Compensation increase	2.75	3.00	-	-
Medical claims inflation*	-	-	6.50	6.50

*The medical claims inflation trend used to measure the cost and obligation was 6.5% per annum until 2018 and 4.5% thereafter

	Defined benefit pension plans		Medical benefit plans	
Barbados	2017 %	2016 %	2017 %	2016 %
Benefit cost during the year:				
Discount rate	7.75	7.75	7.75	7.75
Compensation increase	6.00	6.00	-	-
Medical claims inflation	-	-	6.00	6.00
Defined benefit obligation at end of year:				
Discount rate	7.75	7.75	7.75	7.75
Compensation increase	2.50	2.50	-	-
Medical claims inflation	-	-	6.00	6.00

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

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

	Defined benefit pension plans		Medical benefit plans	
	2017 In years	2016 In years	2017 In years	2016 In years
Bermuda				
Male	20.15	20.07	20.15	20.07
Female	22.34	22.30	22.34	22.30
Barbados				
Male	20.15	20.07	20.15	20.07
Female	22.34	22.30	22.34	22.30

(in thousands of Bermuda dollars)

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

	Defined benefit pension plans		Medical benefit plans	
	Increase 2017 $	Decrease 2016 $	Increase 2017 $	Decrease 2017 $
Discount rate	5,724	7,015	328	383
Compensation increase/medical claims inflation	890	791	355	312
Average life expectancy	1,525	2,214	227	220

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

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

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

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

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

Expected contributions to post-employment benefit plans for the year ending 2018 are $1,367.

The weighted average duration of the defined benefit obligation is 12.55 years.

The weighted average duration of the medical plan obligation is 9.31 years.

Future benefit payments

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

	2018 $	2019 $	2020 $	2021 $	2022-2033 $
Defined benefit pension	2,828	2,882	3,176	3,468	46,903
Medical benefit plan	279	297	291	285	2,788
Total future payments	**3,107**	**3,179**	**3,467**	**3,753**	**49,691**

(in thousands of Bermuda dollars)

22. INVESTMENT CONTRACT LIABILITIES

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

Composition of investment contract liabilities	2017 $	2016 $
Guaranteed interest pension		
Bermuda	279,399	284,229
Barbados	53,869	56,889
Term certain annuities	1,970	2,376
Total Investment contract liabilities	**335,238**	**343,494**

Investment contract liabilities carried at amortised cost	2017 $	2016 $
At 1 January	56,889	56,262
Pension contributions	2,313	2,884
Net investment income	2,195	2,621
Benefits paid	(7,052)	(4,419)
Management fees deducted	(476)	(459)
Total At 31 December	**53,869**	**56,889**

Investment contract liabilities carried at fair value	2017 $	2016 $
At 1 January	286,605	286,424
Pension contributions	39,558	55,660
Net investment income	564	915
Benefits paid	(33,518)	(40,320)
Management fees deducted	(45)	(84)
Net transfers out	(11,795)	(15,990)
Total At 31 December	**281,369**	**286,605**

(in thousands of Bermuda dollars)

23. INSURANCE CONTRACT LIABILITIES

A. COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	2017			2016		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Short term insurance contracts:						
Claims reported and loss adjustment expenses	437,104	(398,352)	38,752	78,915	(44,155)	34,760
Unearned premiums	83,362	(54,934)	28,428	84,274	(47,392)	36,882
Claims incurred but not reported	187,563	(176,171)	11,392	21,502	(10,679)	10,823
Total short-term insurance contracts	**708,029**	**(629,457)**	**78,572**	**184,691**	**(102,226)**	**82,465**
Life and health insurance contracts:						
Participating						
Individual life	33,579	2,094	35,673	30,868	1,818	32,686
Non-participating						
Individual life	20,482	4,909	25,391	18,581	4,000	22,581
Individual and group annuities	127,987	-	127,987	118,374	-	118,374
Group life	10,830	(1,736)	9,094	11,036	(2,192)	8,844
Health and accident	15,245	(27)	15,218	15,478	(20)	15,458
Total life and health insurance contracts	**208,123**	**5,240**	**213,363**	**194,337**	**3,606**	**197,943**
Total Insurance contract liabilities	**916,152**	**(624,217)**	**291,935**	**379,028**	**(98,620)**	**280,408**

B. CHANGES IN SHORT TERM INSURANCE CONTRACT LIABILITIES

	2017			2016		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
At 1 January						
Claims and adjustment expenses	78,915	(44,155)	34,760	52,334	(16,970)	35,364
Claims incurred but not reported	21,502	(10,679)	10,823	15,600	(5,430)	10,170
Total at 1 January	100,417	(54,834)	45,583	67,934	(22,400)	45,534
Cash paid for claims settled in year	(161,779)	132,662	(29,117)	(64,104)	33,576	(30,528)
Increase in liabilities:						
Arising from current-year claims	674,126	(639,119)	35,007	92,795	(61,813)	30,982
Arising from prior-year claims	11,903	(13,232)	(1,329)	3,792	(4,197)	(405)
Total at 31 December	**624,667**	**(574,523)**	**50,144**	**100,417**	**(54,834)**	**45,583**
Claims and adjustment expenses	437,104	(398,252)	38,852	78,915	(44,155)	34,760
Claims incurred but not reported	187,563	(176,271)	11,292	21,502	(10,679)	10,823
Total at 31 December	**624,667**	**(574,523)**	**50,144**	**100,417**	**(54,834)**	**45,583**

The fair value of the net provision for claims and adjustment expenses of $50,144 (2016 - $45,583) is $50,139 (2016 - $46,070). The fair value is calculated by the Group's actuaries and represents the discounted value of the net provision.

(in thousands of Bermuda dollars)

C. UNEARNED PREMIUM LIABILITY

	2017			2016		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
At 1 January	84,274	(47,392)	36,882	82,801	(45,314)	37,487
Premium written during the year	111,481	(103,940)	7,541	196,570	(128,185)	68,385
Premium earned during the year	(112,393)	96,398	(15,995)	(195,097)	126,107	(68,990)
Total at 31 December	**83,362**	**(54,934)**	**28,428**	**84,274**	**(47,392)**	**36,882**
Movement during the year, net of acquisition	**906**	**7,542**	**8,448**	**(1,466)**	**2,078**	**612**

D. CHANGES IN LIFE AND HEALTH INSURANCE CONTRACT LIABILITIES

	2017			2016		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Provision for policy benefits	191,468	3,606	195,074	175,384	2,020	177,404
Claims payable	2,430	-	2,430	3,481	-	3,481
Provision for participating policyholders	439	-	439	(142)	-	(142)
Life and health insurance contract liabilities - 1 January	194,337	3,606	197,943	178,723	2,020	180,743
Change in provision for policy benefits:						
Aging and changes in balances on in-force policies	3,610	244	3,854	16,314	1,345	17,659
Changes in assumptions:						
Investment returns	8,980	1,146	10,126	1,662	340	2,002
Mortality	1,530	238	1,768	(524)	27	(497)
Lapse	-	-	-	-	-	-
Expense	185	2	187	(997)	(95)	(1,092)
Premium payment patterns	-	-	-	-	-	-
Other	83	15	98	(172)	(17)	(189)
Other changes	(18)	(11)	(29)	(199)	(14)	(213)
	14,370	1,634	16,004	16,084	1,586	17,670
Provision for policy benefits	205,838	5,240	211,078	191,468	3,606	195,074
Claims payable	1,775	-	1,775	2,430	-	2,430
Provision for participating policyholders	510	-	510	439	-	439
Total Life and health insurance contract liabilities – 31 December	**208,123**	**5,240**	**213,363**	**194,337**	**3,606**	**197,943**

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

(in thousands of Bermuda dollars)

E. COMPOSITION OF THE ASSETS SUPPORTING LIABILITIES

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

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

31 December 2016	Fixed income securities $	Mortgages and loans $	Cash $	Total $
Participating				
Individual life	28,284	2,228	2,174	32,686
Non-participating				
Individual life	15,710	6,646	225	22,581
Individual and group annuities	77,564	40,811	-	118,375
Group life	3,810	1,854	3,180	8,844
Health and accident	90	332	15,035	15,457
Total	**125,458**	**51,871**	**20,614**	**197,943**

24. EQUITY

A. SHARE CAPITAL

	2017 $	2016 $
Authorised -		
10,000,000 (2016 - 10,000,000) common shares of a par value of $1 each	10,000	10,000
Issued and fully paid -		
Common shares of a par value of $1 each	8,847	8,784

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

(in thousands of Bermuda dollars)

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

	2017 # of shares	2016 # of shares
At 1 January	8,783,551	8,722,446
Shares issued under the employee share purchase plan	-	4,705
Shares issued under the equity incentive plan	257	-
Share grants issued under the equity incentive plan	76,900	72,010
Share grants forfeited under the equity incentive plan	(13,672)	(15,610)
Total at 31 December	**8,847,036**	**8,783,551**

B. SHARE PREMIUM AND CONTRIBUTED SURPLUS

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

C. SHARE BUY BACK

In 2016, the Group's Board of Directors authorized a share repurchase program up to a maximum of 500,000 shares. As at 31 December 2017, the Group had repurchased 159,443 shares for a total of $3,049. The repurchased shares are held as treasury shares until reissued or cancelled. The current program expires in April 2018 and may be renewed at the discretion of the Group and upon approval by the Bermuda Stock Exchange. The repurchase of shares is at the discretion of the Group.

D. TREASURY SHARES

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

	2017 $	2017 # of shares	2016 $	2016 # of shares
At 1 January	1,265	67,286	-	-
Acquisition of shares through share buyback	1,187	57,328	1,862	102,115
Shares issued under the employee share purchase plan	(255)	(14,853)	(209)	(12,194)
Shares issued under the equity incentive plan	(166)	(9,685)	(388)	(22,635)
Total at 31 December	**2,031**	**100,076**	**1,265**	**67,286**

E. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

(in thousands of Bermuda dollars)

F. EMPLOYEE SHARE PURCHASE PLAN

During 2017, 14,853 (2016 – 16,899) shares were purchased by employees of the Group.

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

Source of shares	Shares issued #	Share Capital $	Treasury Shares $	Share Premium $	Compensation Expense $
2017					
Share capital	-	-	-	-	-
Treasury shares	14,853	-	255	47	45
Total	**14,853**	**-**	**255**	**47**	**45**
2016					
Share capital	4,705	83		83	12
Treasury shares	12,194		209	209	35
Total	**16,899**	**83**	**209**	**292**	**47**

G. SHARES HELD BY THE GROUP'S DEFINED BENEFIT PENSION SCHEME

As at 31 December 2017, 55,992 (2016 – 55,992) shares of the Group were owned within the investment portfolio of the Group's defined benefit pension scheme.

25. SHARE BASED PAYMENTS

A. SHARE OPTIONS

The Group ceased granting share options as part of its equity incentive plan in 2008. The share options when granted had a ten-year term. The following table summarises the share options issued under the Group's Equity Incentive Plan:

	# of options	2017 Weighted average exercise price	# of options	2016 Weighted average exercise price
Outstanding at beginning of year	44,000	22.00	85,800	19.48
Exercised	-	-	(12,545)	16.82
Forfeited	-	-	(29,255)	16.82
Total Outstanding at end of year	44,000	22.00	44,000	22.00
Exercisable at 1 January 2018 and 2017	**44,000**	**22.00**	**44,000**	**22.00**

On 1 January 2018, all remaining share options expired.

B. RESTRICTED SHARE GRANTS AND RESTRICTED UNIT GRANTS

During the year 76,900 (2016 – 71,929) common shares and 16,534 units (2016 – 17,978) were issued to certain employees in respect of restricted share grants and restricted unit grants. These are held by the Group and are restricted from sale or use by the employees for three years from the grant date. Restricted unit grants differ from restricted share grants in that no common shares are issued at the time of the grant; instead they are issued after the vesting date. The amount of the benefit to these employees totalled $1,915 (2016 – $1,525) and will be amortised through earnings over a three year period with accelerated vesting for employees over 55 years of age. The amount charged to compensation expense in the current year totalled $1,487 (2016 – $1,137). The carrying amount of the liability in respect of restricted unit grants, which is included in other liabilities, is $768 (2016 - $758).

(in thousands of Bermuda dollars)

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

Restricted share and unit grants vesting	# of share units	# of share units
14 April 2018	44,392	11,418
08 April 2019	65,235	15,448
04 April 2020	71,165	14,554
Total	**180,792**	**41,420**

26. 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.

	2017 $	2016 $
Commission income	36,229	32,492
Fees earned from management of insurance contracts	1,032	234
Fees earned from management of investment contracts	25	37
Pension administration income	7,475	6,433
Fee income	2,322	1,821
Total Commission and other income	**47,083**	**41,017**

27. INSURANCE CONTRACTS BENEFITS AND EXPENSES

	2017 $	2016 $
Gross life and health claims and benefits paid	103,300	103,889
Reinsurance recoveries	(5,770)	(4,446)
Change in insurance contract liabilities	14,370	16,084
Change in reinsurance assets	1,634	1,586
Total life and health policy benefits	**113,534**	**117,113**
Gross short term claim and adjustment expenses paid	161,779	64,104
Reinsurance recoveries	(131,819)	(33,576)
Change in insurance contract liabilities	524,250	33,956
Change in reinsurance assets	(519,689)	(33,488)
Total short term claim and adjustment expenses	**34,521**	**30,996**
TOTAL Insurance contracts benefits and expenses	**148,055**	**148,109**

(in thousands of Bermuda dollars)

28. OPERATING EXPENSES

	2017 $	2016 $
Wages and salaries	35,369	35,138
Professional and consulting fees	6,815	5,254
Post retirement benefit costs	1,637	1,893
IT maintenance contracts	5,549	3,919
Advertising and business development	3,090	3,677
Bank charges and foreign currency purchase tax	1,940	1,849
Office rent, building and utilities costs	3,047	3,274
Share expense	1,487	1,137
Compliance, legal and regulatory	1,262	1,079
Office and administration expenses	2,647	2,830
Bad debt	1,206	1,519
Travel	683	906
Memberships and subscriptions	331	258
Training and development	223	330
Other	713	1,251
Total Operating expenses	65,999	64,314

29. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

	2017 $	2016 $
Items that will not be subsequently reclassified to profit or loss		
Remeasurement of retirement benefit obligation		
Balance – beginning of year	(4,975)	(5,699)
Re-measurement of retirement benefit obligation	(488)	583
Non-controlling interest	347	141
Balance – end of year	(5,116)	(4,975)
Items that may be subsequently reclassified to profit or loss		
Changes in the fair value of available for sale financial assets		
Balance – beginning of year	(1,827)	(1,964)
Changes in the fair value of available for sale financial assets	461	267
Non-controlling interest	(225)	(130)
Balance – end of year	(1,591)	(1,827)
Currency translation differences		
Balance – beginning of year	(438)	(333)
Unrealised foreign exchange losses on translation of foreign operations	186	(105)
Balance – end of year	(252)	(438)
Total	(6,959)	(7,240)

(in thousands of Bermuda dollars)

30. EARNINGS PER SHARE

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

	2017			2016		
	Income $	# of weighted average shares	per share amount $	Income $	# of weighted average shares	per share amount $
Net earnings	3,691			14,365		
Basic earnings per share:						
Income available to common shareholders	3,691	8,743,568	0.42	14,365	8,733,114	1.64
Effect of dilutive securities:						
Share options	-	-		-	-	
Diluted earnings per share:						
Income available to common shareholders and assumed conversions	3,691	8,743,568	0.42	14,365	8,733,114	1.64

The weighted average number of shares, after deducting treasury shares, used in the calculation of diluted earnings per share for 2017 excludes 4,776 (2016 – 10,563) share options granted to employees of the Group, as these would have been anti-dilutive.

31. RELATED PARTIES

The Group has a significant shareholder, Lawrie (Bermuda) Ltd., incorporated in Bermuda, which owns 36% of the Group's shares. The remaining shares are widely held.

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

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

A. SALES OF INSURANCE CONTRACTS AND OTHER SERVICES

	2017 $	2016 $
Sales of insurance contracts and pension services:		
- Key management	164	151
Purchase of services:		
- Key management	84	213

B. KEY MANAGEMENT COMPENSATION

The following table shows compensation to key management:

	2017 $	2016 $
Salaries and other short-term employee benefits	2,468	3,256
Post-employment benefits	78	262
Other long-term benefits	-	197
Share based payments	764	704
Total	3,310	4,419

(in thousands of Bermuda dollars)

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 2017 were 320,439 (2016 – 362,391) 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 25.

C. LOANS TO RELATED PARTIES

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

	2017 $	2016 $
At 1 January	1,990	2,290
Adjustment for changes in key management	(1,643)	(647)
Loans extended (repayments received)	(31)	342
Interest charges	21	5
Total at 31 December	**337**	**1,990**

D. SELF-INSURANCE

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

32. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTEREST

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

Summarised statement of financial position	ICBL		Scarborough / Barr's Bay	
	2017 $	2016 $	2017 $	2016 $
Total assets	209,004	214,746	22,134	21,141
Total liabilities	142,032	143,360	1,600	2,853
Total Net assets	**66,972**	**71,386**	**20,534**	**18,288**

Summarised comprehensive income	ICBL		Scarborough / Barr's Bay	
	2017 $	2016 $	2017 $	2016 $
Net premium earned	31,390	34,417	-	-
Rental income	1,105	1,096	3,454	3,453
Total income	43,094	47,920	3,454	3,453
Total benefits & expenses	44,759	43,943	1,241	1,060
Income before taxes	(1,665)	3,977	2,213	2,393
Income taxes	897	(579)	-	-
Net income after taxes	**(768)**	**3,398**	**2,213**	**2,393**
Other comprehensive income				
Items that will not be reclassified to profit or loss	(731)	(334)	15	55
Items that may be subsequently reclassified to profit or loss	461	(67)	-	-
Total Comprehensive income	**(1,038)**	**2,997**	**2,228**	**2,448**
Total Income attributable to non-controlling interest	**117**	**163**	**885**	**957**

(in thousands of Bermuda dollars)

Summarised statement of cash flow	ICBL		Scarborough / Barr's Bay	
	2017 $	2016 $	2017 $	2016 $
Net cash generated from operating activities	(6,979)	3,625	2,026	4,040
Net cash generated from (used in) investing activities	11,987	7,383	(614)	(726)
Net cash used in financing activities	(3,437)	(3,624)	(477)	(3,046)
Net increase (decrease) in cash and cash equivalents	**1,571**	7,384	**935**	268
Cash and cash equivalents at beginning of year	**18,002**	10,618	**1,057**	789
Cash and cash equivalents at end of year	**19,573**	18,002	**1,992**	1,057

33. COMMITMENTS AND CONTINGENCIES

A. OPERATING LEASES

i) Group as Lessor

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

	2017 $	2016 $
No later than 1 year	3,363	3,385
Later than 1 year and no later than 5 years	5,104	7,987
Later than 5 years	-	-
Total	**8,467**	**11,372**

ii) Group as Lessee

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

	2017 $	2016 $
No later than 1 year	227	265
Later than 1 year and no later than 5 years	56	276
Later than 5 years	-	-
Total	**283**	**541**

B. COMMITMENTS

The Group has commitments made in the normal course of business that are to be disbursed upon fulfilment of certain contract conditions. $269 is payable in 2018 to fulfil contracts which have fixed and determinable amounts. For years 2018 through 2021, the Group has committed in principle to making an annual donation to a local charity. The amount to be disbursed is unknown but will be determinable on an annual basis subject to contract terms. While the future payment is probable, no obligation has been recognized at the balance sheet date as the amount cannot be reliably determined in accordance with IAS 37 – *Provisions, contingent liabilities and contingent assets.*

C. CONTINGENCIES

The Group and its subsidiaries are from time to time subject to legal actions arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty and it is possible that an adverse resolution could have a material effect on the consolidated financial statements of the Group. However, based on information presently known, management does not expect that it is probable that the outcome of existing legal action, relating to an interpretation of contract terms, will have a material adverse effect on the consolidated financial position of the Group. Actual results could differ from management's best estimates.

34. SUBSEQUENT EVENTS

On 26 March 2018, the Group, declared a dividend to be paid to shareholders of record at 2 April 2018. The dividend will be paid on 13 April 2018. $1,928 will be paid out in total, representing a $0.22 per share dividend paid on 8,765,064 shares.

BF&M GENERAL INSURANCE COMPANY LIMITED

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Gavin R. Arton
L. Anthony Joaquin, FCA
Catherine S. Lord, B.Sc., J.P.
Paul C. J. Markey
R. John Wight, FCPA, FCA, CPCU
Glen P. Gibbons, B.A., A.C.I.I.

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Michael White, FIA, Group Chief Financial Officer
Alissa Matthews, CPA, CA, Chief Financial Officer, P&C
Glen P. Gibbons, B.A., A.C.I.I., Chartered Insurer, Senior Vice President
Patrick Neal, B.A., CPCU, Senior Vice President, Business Development
Heather A. Bisbee, CPA, CA, Head of Financial Reporting

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C.L.F. "Lee" Watchorn, FCIA, FSA
R. John Wight, FCPA, FCA, CPCU

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Andrew Soares, ALMI, ARe, CPCU, Senior Vice President
Heather A. Bisbee, CPA, CA, Head of Financial Reporting
Jody Power, CPA, CA, CFA, Vice President Finance

BF&M INVESTMENT SERVICES LIMITED

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Michael White, FIA, Group Chief Financial Officer
Heather A. Bisbee, CPA, CA, Head of Financial Reporting

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Jennifer Hunte, F.C.G.A., F.C.I.S.
Toni Jones, LL.B. (Hons.)
C.L.F. "Lee" Watchorn, FCIA, FSA

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Henry Inniss, M.B.A., L.L.I.F., Senior Vice President and Head of Life Division
Valentina J.G.R. Blackman, LL.B. (Hons.), LL.M., SVP Legal and Corporate Secretary
Glenda Gilkes, E. M. B. A., Senior Vice President, Human Resources and Customer Experience
Rawle Knight, Vice President, Claims and ERM

ISLAND HERITAGE INSURANCE COMPANY LTD.

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C.L.F. "Lee" Watchorn, FCIA, FSA
Conor O'Dea, FCA

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SUBSIDIARY COMPANIES

BF&M General Insurance Company Limited

BF&M Life Insurance Company Limited

Insurance Corporation of Barbados Limited (51.2% ownership)

Insurance Corporation of Barbados Limited/
National Insurance Board Joint Venture (37.2% ownership)

Island Heritage Insurance Company Ltd.

BF&M Investment Services Limited

BF&M (Canada) Limited

BF&M Properties Limited

Barr's Bay Properties Limited (60% ownership)

Hamilton Reinsurance Company Limited

Scarborough Property Holdings Limited (60% ownership)

Hamilton Financial Limited

BF&M Brokers Limited

Island Heritage Insurance Company N.V.

Lawrence Boulevard Holdings Ltd.

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