



SIX MONTH REPORT
30 JUNE 2014

2014 Highlights

For the six months ended 30 June 2014 and 2013

	2014	2013	% Change
Gross Premiums Written (in \$000's)	\$184,694	\$184,107	0.3%
Net Income (in \$000's)	\$17,494	\$10,225	71.1%
Cash Dividends (in \$000's)	\$3,614	\$3,406	6.1%
Net Earnings per Share	\$2.04	\$1.20	70.0%
Cash Dividends per Share	\$0.42	\$0.40	5.0%
Annualized Return on General Fund Assets	3.0%	1.9%	56.2%
Annualized Return on Shareholders' Equity	14.5%	9.6%	50.4%

Report to Shareholders

We are pleased to present the unaudited financial statements for BF&M Limited for the half year to 30 June 2014. Consolidated shareholders' net income for the first six months was \$17.5 million. Shareholders' net income for the comparable period in 2013 was \$10.2 million. These 2014 results represent an annualized 14.5% return on equity for shareholders. At 30 June 2014, general fund assets totaled \$1.2 billion and shareholders' equity was \$242.4 million. Based on the Company's strong balance sheet and six month results, the Board of Directors declared and maintained the dividend of 22c per share for shareholders of record at 30 September 2014.

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

In closing, I would like to acknowledge the recent opening of the new Acute Care Wing of Bermuda's King Edward Memorial VII as a major milestone for the island, and congratulate everyone involved for their hard work and dedication to make this project a reality. The company contributed \$250,000 to this first class facility, which will serve Bermuda's residents for decades to come.

On behalf of all of us at BF&M, thank you for your continued support.



R. John Wight, CPA, CA, CPCU
Group President & Chief Executive Officer

Consolidated Statement of Financial Position

As at 30 June 2014 and 31 December 2013 (unaudited)
(in thousands of Bermuda dollars)

	30 Jun 2014	31 Dec 2013
	\$	\$
ASSETS		
Cash and cash equivalents	97,318	74,032
Fixed deposits	2,019	2,015
Regulatory deposits	18,171	19,399
Investments	740,967	709,873
Insurance receivables and other assets	104,427	79,723
Deferred policy acquisition costs	10,393	9,936
Reinsurance assets	85,250	61,433
Investment properties	38,221	38,621
Property and equipment	23,974	23,710
Tax recoverable	749	676
Intangible assets	46,780	46,969
Total general fund assets	1,168,269	1,066,387
Segregated funds assets	618,526	586,791
TOTAL ASSETS	1,786,795	1,653,178
LIABILITIES		
Other liabilities	111,425	67,191
Deferred tax liability	1,062	880
Loans payable	14,370	18,141
Retirement benefit obligations	2,412	2,230
Investment contract liabilities	335,825	333,262
Insurance contract liabilities	416,880	372,950
Total general fund liabilities	881,974	794,654
Segregated funds liabilities	618,526	586,791
TOTAL LIABILITIES	1,500,500	1,381,445
EQUITY		
Share capital	8,640	8,558
Contributed surplus	1,482	1,482
Share premium	59,751	59,037
Accumulated other comprehensive loss	(4,625)	(4,521)
Retained earnings	177,138	163,258
Total shareholders' equity	242,386	227,814
Non-controlling interests	43,909	43,919
TOTAL EQUITY	286,295	271,733
TOTAL LIABILITIES AND EQUITY	1,786,795	1,653,178

Consolidated Statement of Income

For the six months ended 30 June 2014 and 2013 (unaudited)
(in thousands of Bermuda dollars except per share amounts)

	30 Jun 2014	30 Jun 2013
	\$	\$
INCOME		
Gross premiums written	184,694	184,107
Reinsurance ceded	(93,602)	(87,785)
Net premiums written	91,092	96,322
Net change in unearned premiums	13,130	4,172
Net premiums earned	104,222	100,494
Investment income (loss)	21,355	(10,436)
Commission and other income	19,514	19,816
Rental income	2,089	2,088
TOTAL INCOME	147,180	111,962
EXPENSES		
Insurance contract benefits and expenses		
Life and health policy benefits	62,292	32,456
Short term claim and adjustment expenses	11,895	13,352
Investment contract benefits	397	1,235
Paid or credited to policyholder accounts	1,057	634
Participating policyholders' net (income) loss	(60)	18
Commission and acquisition expense	16,277	15,973
Operating expenses	31,865	31,766
Amortisation expense	3,898	3,835
Interest on loans	256	376
TOTAL BENEFITS AND EXPENSES	127,877	99,645
INCOME BEFORE INCOME TAXES	19,303	12,317
Income taxes	(655)	(909)
NET INCOME FOR THE PERIOD	18,648	11,408
Non-controlling interests in subsidiaries	(1,154)	(1,183)
SHAREHOLDERS' NET INCOME	17,494	10,225
Earnings per share:		
Basic and Fully diluted	\$2.04	\$1.20

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014 and 2013 (unaudited)
(in thousands of Bermuda dollars)

	30 Jun 2014	30 Jun 2013
	\$	\$
Net income after income taxes	18,648	11,408
Other comprehensive income		
Items that may be subsequently reclassified to the income statement		
Fair value loss on assets held as available for sale	(243)	(2)
Currency translation differences	21	(42)
Total other comprehensive loss after income taxes for the period	(222)	(44)
Comprehensive income	18,426	11,364
Comprehensive income attributable to:		
Shareholders	17,390	10,181
Non-controlling interests in subsidiaries	1,036	1,183
Comprehensive income	18,426	11,364

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014 and 2013 (unaudited)
(in thousands of Bermuda dollars)

	30 Jun 2014 \$	30 Jun 2013 \$
Share capital		
Balance - beginning of year	8,558	8,477
Shares issued under employee share purchase plan	17	12
Shares issued under equity incentive plan	-	13
Share grants issued under equity incentive plan	65	42
Balance - end of year	8,640	8,544
Contributed surplus – beginning and end of year	1,482	1,482
Share premium		
Balance - beginning of year	59,037	58,484
Shares issued under employee share purchase plan	264	179
Shares issued under equity incentive plan	-	122
Share grants issued under equity incentive plan	1,081	646
Deferred share grants issued under equity incentive plan	(631)	-
Balance - end of year	59,751	59,431
Accumulated other comprehensive loss		
Balance – beginning of year	(4,521)	(8,961)
Other comprehensive loss for the year	(104)	(44)
Balance - end of year	(4,625)	(9,005)
Retained earnings		
Balance - beginning of year	163,258	144,935
Net income for the year	17,494	10,225
Cash dividends	(3,614)	(3,406)
Balance – end of year	177,138	151,754
Total equity attributable to shareholders of the company	242,386	212,206
Attributable to non-controlling interests		
Balance - beginning of year	43,919	43,510
Net income for the year	1,154	1,183
Other comprehensive loss for the year	(118)	-
Cash dividends	(1,046)	(1,029)
Balance – end of year	43,909	43,664
Total equity	286,295	255,870

Consolidated Statement of Cash Flows

For the six months ended 30 June 2014 and 2013 (unaudited)
(in thousands of Bermuda dollars)

	30 Jun 2014 \$	30 Jun 2013 \$
Cash flows from operating activities		
Income before income taxes	19,303	12,317
Adjustments for:		
Investment income	(11,069)	(11,710)
Net realised loss (gain) on investments	670	(17)
Change in fair value of investments	(14,673)	17,339
Unrealised gain on investments allocated to insurance contracts	(2,652)	(338)
Provision for losses on investments	1,299	1,489
Amortisation of property and equipment	944	902
Amortisation of investment properties	470	464
Amortisation of intangible assets	2,484	2,469
Gain on sale of property and equipment	(3)	(42)
Interest on loan	256	376
Compensation expense related to shares and options	714	994
Changes in assets and liabilities:		
Regulatory deposits	-	413
Insurance receivables and other assets	(24,203)	(12,918)
Deferred policy acquisition costs	(457)	(396)
Reinsurance assets	(23,817)	(13,448)
Insurance contract liabilities	43,930	7,621
Investment contract liabilities	2,563	4,677
Other liabilities	44,234	22,584
Retirement benefit obligations	182	(1,038)
Cash generated from operations	40,175	31,738
Interest paid	(256)	(379)
Income taxes paid	(546)	(1,055)
Interest received	11,186	11,122
Net cash generated from operating activities	50,559	41,426
Cash flows from investing activities		
Purchase of investments	(126,848)	(120,455)
Proceeds from sales of investments	110,248	105,957
Acquisition of property and equipment	(1,261)	(10,492)
Purchase of fixed and regulatory deposits	1,224	(2,321)
Proceeds from sales of property and equipment	57	42
Acquisition of investment properties	(70)	(93)
Acquisition of intangible assets	(2,295)	(830)
Net cash used for investing activities	(18,945)	(28,192)
Cash flows from financing activities		
Cash dividends paid	(3,614)	(3,406)
Loans repaid	(3,771)	(4,284)
Cash dividends paid to non-controlling interest	(1,046)	(1,029)
Proceeds on issue of common shares	82	297
Net cash used for financing activities	(8,349)	(8,422)
Effect from changes in exchange rates	21	(42)
Increase in cash and cash equivalents	23,286	4,770
Cash and cash equivalents - beginning of period	74,032	73,986
Cash and cash equivalents - end of period	97,318	78,756

Notes to Consolidated Financial Statements

For the six months ended 30 June 2014 and 2013 (unaudited)
(in thousands of Bermuda dollars except share and per share amounts)

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

BF&M Limited (the “Group”) is domiciled in Bermuda as a holding company. It has subsidiaries with operations in 17 countries, with principal offices in Bermuda, Barbados, and the Cayman Islands. The consolidated group’s principal business is insurance. 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 reports under International Financial Reporting Standards (“IFRS”). These unaudited interim consolidated financial statements should be read in conjunction with the Group’s 2013 consolidated financial statements, as interim financial statements do not include all the information incorporated in annual consolidated financial statements prepared in accordance with IFRS. These condensed financial statements are presented in accordance with the requirements of Section IIA of the Bermuda Stock Exchange Listing Regulations and may not comply fully with the requirements of IAS 34 - Interim Financial Reporting.

The accounting policies used in the preparation of the unaudited interim consolidated financial statements are consistent with those adopted in the 2013 consolidated financial statements except as stated in Note 2 below.

All amounts in the unaudited interim consolidated financial statements and notes are shown in thousands of Bermuda dollars unless otherwise stated.

2. NEW AND REVISED ACCOUNTING STANDARDS

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- *IAS 32 (revised) - Financial Instruments: Presentation (“IAS 32”)*
- *IAS 36 (revised) - Impairments of assets (“IAS 36”)*
- *IAS 39 (revised) - Financial Instruments: Recognition and Measurement (“IAS 39”)*
- *IFRIC 21 - Levies*

The amendments above do not have a material impact on the Group’s overall results and financial position.

Notes to Consolidated Financial Statements

For the six months ended 30 June 2014 and 2013 (unaudited)
(in thousands of Bermuda dollars except share and per share amounts)

3. 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.

3.1. Health, life, annuity and pension (Bermuda)

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

3.2. 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.

3.3. 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.

3.4. Barbados operations

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

3.5. Cayman Islands and other Caribbean operations

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

3.6. Corporate and other

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

Measurement basis

The accounting policies of the segments are the same as those for the Group as a whole. The Group evaluates performance of operating segments on the basis of profit or loss from operations before tax.

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

Notes to Consolidated Financial Statements

For the six months ended 30 June 2014 and 2013 (unaudited)
(in thousands of Bermuda dollars except share and per share amounts)

The segmental information provided to the CEO for the reportable segments for the six months ended 30 June 2014 is as follows:

Segments	Health, life, annuity, and pension \$	Property and casualty \$	Real estate \$	Barbados operations \$	Cayman and other Caribbean operations \$	Corporate and other \$	Total \$
Income earned from							
external customers	66,344	13,921	1,552	21,051	22,918	39	125,825
Investment income	19,528	279	-	2,235	313	(1,000)	21,355
Total income	85,872	14,200	1,552	23,286	23,231	(961)	147,180
Insurance contract benefits and expenses	59,023	2,796	-	11,038	1,330	-	74,187
Commission and acquisition expense	2,808	1,398	-	2,270	9,801	-	16,277
Amortisation expense	763	534	405	733	259	1,204	3,898
Interest expense	-	-	52	-	-	204	256
Income tax expense	-	-	-	145	264	246	655
Shareholders' net income	7,367	4,156	787	649	5,612	(1,077)	17,494
Impairment losses recognized in income	299	-	-	-	-	1,000	1,299
Assets	1,266,762	86,804	24,282	212,536	161,046	35,365	1,786,795
Fixed asset & intangible expenditures	1,533	857	12	327	792	30	3,551
Liabilities	1,162,675	71,366	2,960	148,610	101,254	13,635	1,500,500

Notes to Consolidated Financial Statements

For the six months ended 30 June 2014 and 2013 (unaudited)
(in thousands of Bermuda dollars except share and per share amounts)

The segmental information provided to the CEO for the reportable segments for the six months ended 30 June 2013 is as follows:

Segments	Health, life, annuity, and pension \$	Property and casualty \$	Real estate \$	Barbados operations \$	Cayman and other Caribbean operations \$	Corporate and other \$	Total \$
Income earned from							
external customers	62,802	14,124	1,515	19,741	24,174	42	122,398
Investment income	(13,175)	201	-	2,315	223	-	(10,436)
Total income	49,627	14,325	1,515	22,056	24,397	42	111,962
Insurance contract benefits and expenses	29,639	3,348	-	10,108	2,713	-	45,808
Commission and acquisition expense	2,521	1,364	-	1,075	11,013	-	15,973
Amortisation expense	807	568	432	763	180	1,085	3,835
Interest expense	-	-	67	-	-	309	376
Income tax expense	-	-	-	84	753	72	909
Shareholders' net income	2,473	3,867	755	628	5,092	(2,590)	10,225
Impairment losses recognized in income	1,489	-	-	-	-	-	1,489
Assets	1,103,180	74,981	27,739	216,877	144,818	37,134	1,604,729
Fixed asset & intangible expenditures	491	511	-	421	9,130	769	11,322
Liabilities	1,011,089	64,707	4,003	154,728	91,479	20,803	1,346,809

4. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted for the current period.

Directors & Group Senior Management Team

Board of Directors

Gavin R. Arton, Chairman
L. Anthony Joaquin, FCA, Deputy Chairman
Nancy L. Gosling, B.Comm., LL.D., C.G.A.
Gregory D. Haycock, FCA, JP
Stephen W. Kempe
Catherine S. Lord, B.Sc., JP
Garry A. Madeiros, OBE, FCA, JP
Richard D. Spurling
Ann B. Teixeira, LLIF
C.L.F. “Lee” Watchorn, FCIA, FSA
R. John Wight, CPA, CA, CPCU

Group Senior Management Team

R. John Wight	Group President and Chief Executive Officer
Michael White	Group Chief Financial Officer
Abigail Clifford	Group Chief Human Resources Officer
Paul Matthews	Group Chief Information Officer
Ingrid Innes	ICBL, Chief Executive Officer
Marc Shirra	Island Heritage, Chief Executive Officer
Glen Gibbons	Senior Vice President, BF&M General
Patrick Neal	Senior Vice President, BF&M Business Development
Bryan O’Neal	Senior Vice President, BF&M Operations and Corporate Strategy P&C
Goulbourne Alleyne	ICBL, Deputy Chief Executive Officer

Directors & Officers Share Interests

The total shares held by Directors and Officers at 30 June 2014 were 394,521 (30 June 2013 - 376,950).



Head Office

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Subsidiary Companies

BF&M General Insurance Company Limited
BF&M Life Insurance Company Limited
Insurance Corporation of Barbados Limited (51.4% ownership)
Island Heritage Holdings Ltd.
Bermuda International Insurance Services Limited
Bermuda International Reinsurance Services Limited
BF&M Investment Services Limited
BF&M (Canada) Limited
BF&M Properties Limited
Barr's Bay Properties Limited (60% ownership)
Hamilton Reinsurance Company Limited
Scarborough Property Holdings Limited (60% ownership)
Hamilton Financial Limited

