Annual Report
2020

Our people. Our strength.

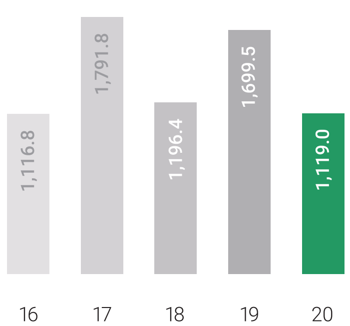
BF&M LIMITED

Contents

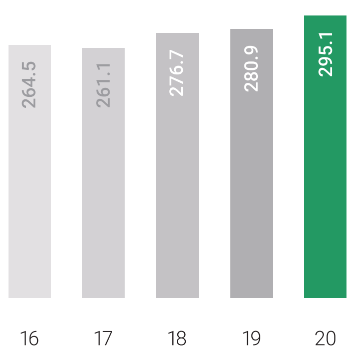
Financial and Statistical Summary

At End of Year

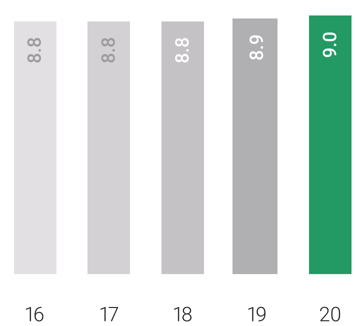
Total General Fund Assets (M$)



Shareholders' Equity (M$)

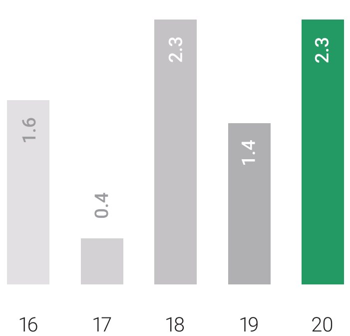


Number of Common Shares (M$)

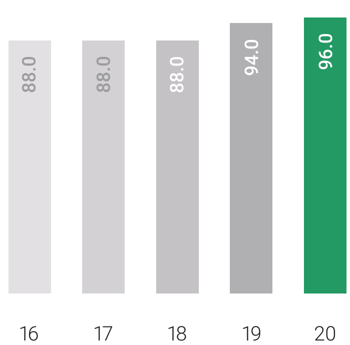


Per Common Share

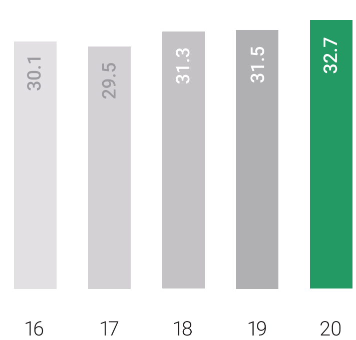
Net Earnings ($)



Cash Dividends (¢)

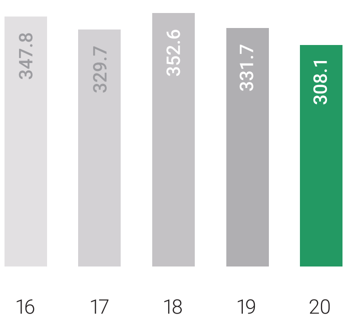


Book Value ($)

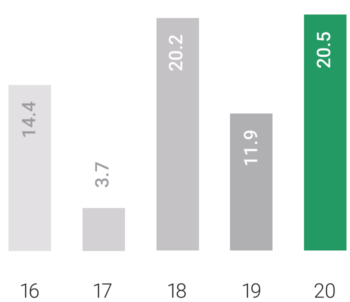


For the Year

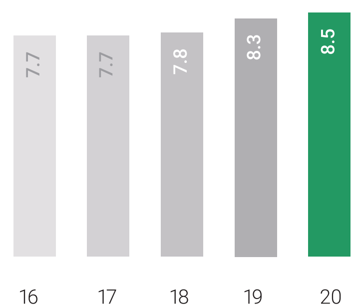
Gross Premiums Written (M$)



Shareholders’ Net Income (M$)

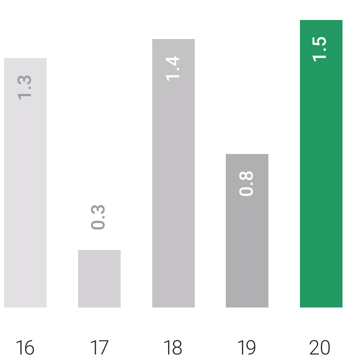


Dividends Declared (M$)

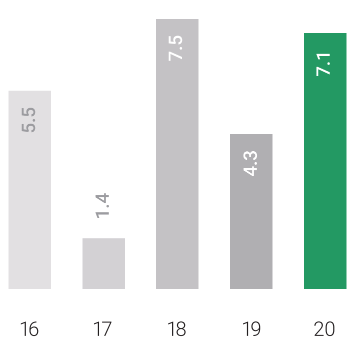


Financial Ratios

Return on Assets (%)



Return on Common Shareholders’ Equity (%)



Group Executive Committee

John Wight, FCPA, FCA, CPCU
Group Chairman and
Chief Executive Officer

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

Lily Chen, CPA, CA
Group Chief
Financial Officer

Board of Directors

John Wight
Group Chairman and CEO,
BF&M Limited

L. Anthony Joaquin [1]
Deputy Chairman,
Retired Managing Partner,
Ernst & Young

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

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

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

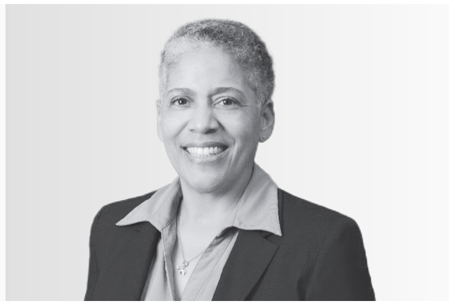
Andrew Lo [2]
Former CEO,
Kanetix Ltd.

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

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

Jennifer Reynolds [1]
President and CEO,
Toronto Finance International

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



Caroline Mills-White, M.Sc., FCIP
Group Chief
Underwriting Officer

Michelle Jackson
EVP, Head of
Life and Health

Stephanie Hanson, LL.B (Hons)
EVP, Chief Legal and
Compliance Officer

Corporate Structure

BF&M Limited

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

Report to Shareholders
John Wight

From every perspective, 2020 was extraordinary. Despite a year of intense stress, the BF&M group of companies demonstrated strong financial and operational resilience.

Towards the end of last year's message to Shareholders, I wrote: "Being ready for change is clearly a prerequisite for success". We could not foresee then the ramifications of the pandemic, that it was here for the long term. Change underpinned everything we undertook —from our day-to-day operations to accommodating the hardships facing our customers because of Covid-19. The agility of our response to change was a critical factor of our strong performance.

Each year, the Company tests a detailed and comprehensive business continuity plan as a matter of sound business practice. But there was no playbook to adequately prepare our employees for what was about to happen. This 2020 annual report, themed "Our people. Our strength.", celebrates the resilience of our staff, whose commitment to putting our customers first ultimately drove our success.

Financial performance

Shareholders' net earnings of $20.5 million in 2020 resulted in a return on Shareholders' equity of 7.1%, as compared to earnings of $11.9 million and a return of 4.3% in 2019. Shareholders' equity at 31 December 2020 was $295.1 million.

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 2020 resulted in a decrease in investment income due to market value gains being less than they were in 2019. This decrease to investment income of $30.1 million compared with an increase of $37.7 million in 2019.

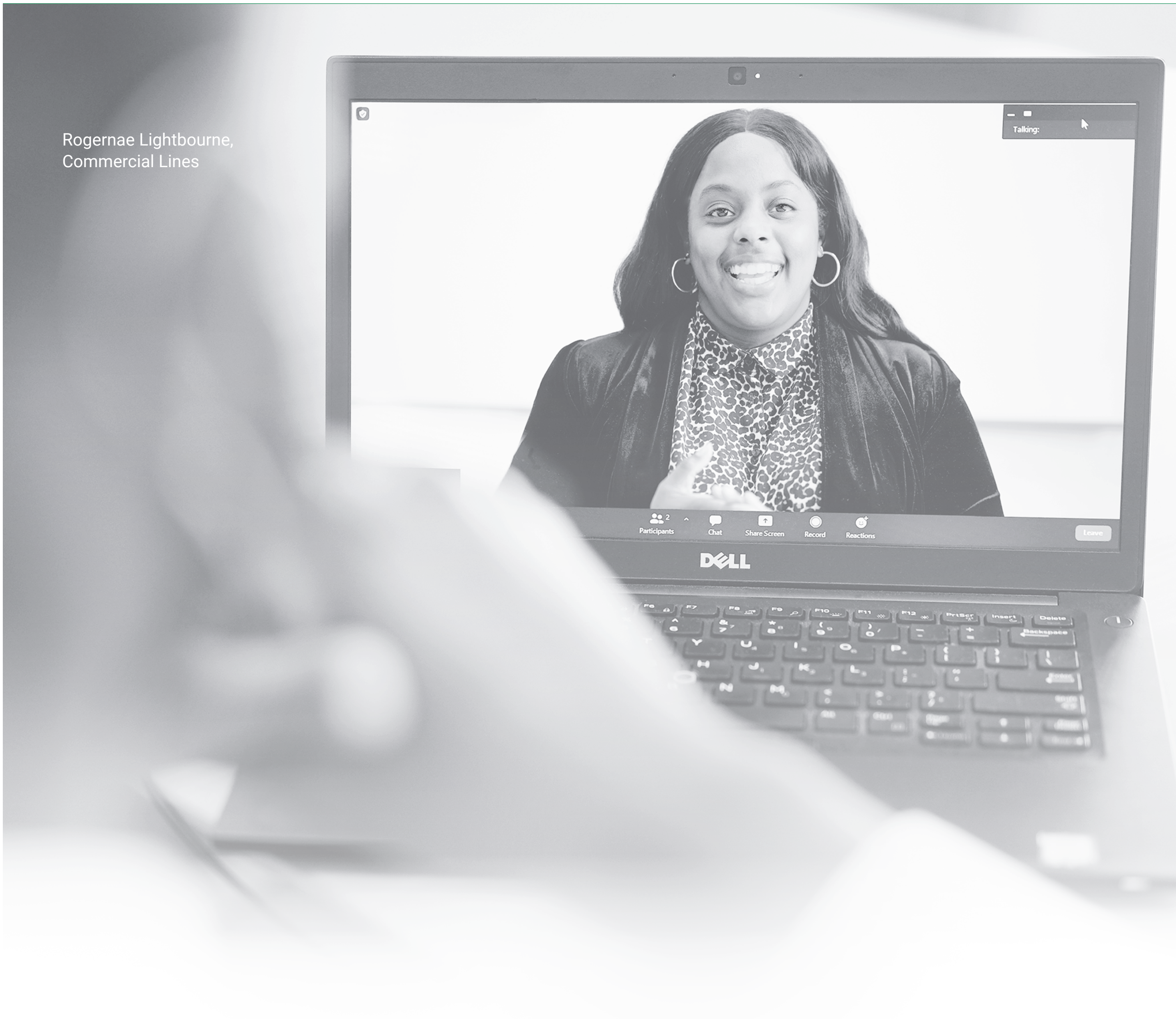
In order to mitigate some of this volatility, that from year to year can potentially have a significant influence on earnings, the Company follows a disciplined asset liability matching policy so that increases (or decreases) in the fair value of the majority of its investments are matched with corresponding increases (or decreases) in insurance reserves, reducing the net effect on earnings in any one year. In 2020, the difference between the fair valuing of investments supporting reserves and reserve liabilities for BF&M's Life insurance companies produced a net loss of approximately

A.M. Best Financial Strength Ratings

Bermuda BF&M General Insurance Company Limited	A (Excellent)
Bermuda BF&M Life Insurance Company Limited	A (Excellent)
Cayman Island Heritage Insurance Company, Ltd.	A (Excellent)

The agility of our response to change was a critical factor of our strong performance.

John Wight, FCPA, FCA, CPCU
Group Chairman and Chief Executive Officer



Rogernae Lightbourne,
Commercial Lines

The dedication shown by our employees throughout this period was nothing short of remarkable.

Report to Shareholders
John Wight

$2.5 million. In 2019, the asset liability matching difference resulted in a net gain of approximately $1.8 million.

While the core business operations performed well, the Company prudently set up impairment provisions of $1.9 million relating to its commercial and residential properties that reduced in value in 2020. Impairments of $9.6 million were also recorded against intangible assets where future value was uncertain.

In the third quarter of 2020, BF&M sold its 51% share in the Barbados-based Insurance Corporation of Barbados Limited ("ICBL") to Paynes Bay Finance Inc. (PBF). We determined that moving forward with our wholly-owned subsidiaries across jurisdictions would position us better to execute on our long-term strategy. With ICBL's management and staff, and PBF as the new majority shareholder, the Company is in great hands. Upon the sale of our interest in the Insurance Corporation of Barbados Limited, we incurred a net loss on income from discontinued operations of $2.4 million.

Property and Casualty: resilience and service

In 2020, we saw that even in the midst of great change, some things endure: the need to protect our families, our homes, our businesses. And so we went about showing the BF&M difference and providing insurance the way it should be more resolutely than ever.

The first company in our market to do so, we closed our doors for walk-in service, determined to move quickly to join global efforts to limit the transmission of Covid-19 and protect our staff, while remaining committed to serving our customers. Our IT, customer-facing and support teams successfully implemented a rapid transition, making the systems and operational adjustments necessary to switch to a remote-working model, with minimal disruption to customer service and claims service.

The dedication shown by our employees throughout this period was nothing short of remarkable. While juggling the many personal stresses associated with Covid-19, the commitment and positive attitude around helping our policyholders who themselves were going through the same stresses, were a testament to the character of our people.

BF&M's fully automated quote and bind Bermuda web platform for personal lines insurance products contributed to the provision of efficient service through this period. Our clients in Bermuda were able to continue to buy and renew their home, motor, and marine insurance via our website. The number of customers registering to do business online increased steadily throughout the year. We are proud to be the only insurance provider in Bermuda that offers a website with this functionality.

In addition to the resilience shown by our staff in 2020, we observed the same by policyholders in all islands in which we operate. With the relief measures implemented by governments and banks everywhere, our customers were for the most part able to pay premiums on time and keep their insurance coverages in place.

Despite 2020 being one of the most active Atlantic hurricane seasons on record, we encountered only limited impact in Bermuda from Hurricanes Teddy and Paulette. Thus any storm-related losses were minimal. There was no hurricane activity that impacted the Company in any of the other islands where we conduct business. And although the economies of all the jurisdictions in which we operate were disrupted by the pandemic, we saw reduced claims experience. Both these factors contributed to good financial results for the year.

Investments and Retirement: agility and innovation

In 2020, the impacts of the pandemic led to emergency regulatory changes in both Bermuda and Cayman to allow individuals certain access to their pension monies for financial relief. In Bermuda, the first quarter of 2020 also saw the largest amendments to the pension law since the implementation of the act in 1998. This presented us with an opportunity to leverage our existing online pension portal and improve our automation capabilities to respond effectively to our customers' needs.

Capital markets were also affected by considerable volatility, showing one of the sharpest declines in equity and bond markets in March, only to reverse and turn into a strong recovery by the end of the year. The MSCI All Country World stock index finished the year 16% higher in U.S. dollar terms and the Barclays Global Bond Index finished the year 9.2% higher in U.S. dollar terms.

Despite this turbulence, assets under management rose 11% in 2020, new business growth remained strong and we continued to make progress with growing our pensions business in

Report to Shareholders
John Wight

Cayman. We saw an influx of new business when both the Bermuda and Cayman economies were allowed to operate normally again. Client retention also remained high throughout the year.

I'd like to recognise the large number of staff across the Group who have been or continue to be involved in our response to the pensions law amendments. A significant amount of work has been completed, on top of an already stressful time, to ensure that we remain leaders in our markets in serving an unprecedented number of customers in unprecedented circumstances.

Health and Life Insurances: partnership and assistance

The Health and Life division performed well in 2020 and we achieved strong earnings. We successfully transitioned to a work-from-home environment and continued to service our customers, ensuring that they could count on their health and life insurance during the pandemic.

At BF&M, the health of our communities, clients and staff is our priority and, early in the onset of Covid-19, we took measures to inform, support and protect. We shared information on our Bermuda website in February and updated it regularly. We confirmed that we would provide coverage in the case of Covid-19 just as we would for other infectious diseases per clients' health plans. We clarified that we would extend coverage to include tele-consultations where necessary.

We recognised that many of our clients had to face significant challenges because of the pandemic. During the lockdown in Bermuda, we worked to navigate quarantine measures and reduced flights in order to ensure that existing overseas patients, emergency evacuees and those needing to be returned home continued to be supported.

We also understood that retaining health insurance was of great importance during the pandemic and to that end, we worked with many customers to defer premium payments while their businesses were closed. We increased the age of children able to stay on parents' health insurance, if they were of working age but had been laid off. We listened to our clients and decided to defer our annual health renewal from June 2020 to October 2020, allowing our customers the relief of several months without an adjustment to their health rates.

As a part of ongoing efforts to address rising healthcare costs, we took several proactive measures in 2020, which included reviewing and enhancing our overseas network. We continued to advocate for and collaborate with all stakeholders to support an improved, sustainable healthcare system for our community.

Prevention and support

BF&M remains committed to address the underlying root causes that contribute significantly to driving up healthcare costs, by helping our clients to prevent and manage chronic conditions and take steps to address their lifestyle risks. Our LiveWell wellness programme is a differentiator as we provide significant support to our clients and the community to take small steps to better health, through our robust wellness offerings and individualised client wellness plans.

We developed a Covid-19 Toolkit for employers to support their staff, which we updated monthly with a multitude of resources in the areas of nutrition and well-being, sleep and self-care. We also developed and provided monthly webinars to meet their needs and help them navigate this challenging period, including ways to stay healthy and be active while working from home, strategies for snacking at home, and supporting employees' emotional health. We provided a monthly newsletter with a wellness calendar of events and resources.

Our digital, 24/7 access, global LiveWell Wellness Platform was expanded to provide clients with additional resources in nutrition, exercise, emotional and mental well-being. We extended our wellness benefits with our local wellness partners to allow for virtual client sessions to ensure continuity of service. We continued to offer our standard client presentations, such as the BF&M Eat Right for Life Meal Planning 101 session, both virtually, and in-person as the year progressed.

With the impact of the pandemic, BF&M saw an increased need for mental health services. To meet that need, we expanded our WorldCare Second Opinion product to include Mental Health—an offering that is without additional cost to our customers. We also helped our clients maintain their health by providing onsite, outdoor, and even drive-through flu shot clinics for their employees. We continue to focus on prevention as the best spend of any healthcare dollar.

As a leading health insurer in Bermuda, we feel a tremendous sense of responsibility and pride around supporting wellness-related community

Andrew Hanwell,
Personal Insurance

We recognised that many of our clients had to face significant challenges because of the pandemic.

Penny Ingram,
Life, Health and Pensions

We listened to our customers and decided to defer our annual health renewals.

Report to Shareholders
John Wight

partnerships and charities. In January, we supported Butterfield & Vallis in raising awareness and funds for the Bermuda Heart Foundation, followed in February by supporting PALS in raising funds to cover the cost of patient care, and in March supporting the Bermuda Diabetes Association in the Lindo's to Lindo's event, to raise money for Diabetes awareness and care.

In October, we celebrated our 24th year as sole sponsor of the BF&M Breast Cancer Awareness Walk and, although this year we had to 'walk apart' for the first time, our staff and the community came out in force showing how strongly they support this cause. The walk—and all the initiatives that took place during Breast Cancer Awareness Month—supported our mission to prevent, detect and treat cancer, as well as to provide significant funding for the Bermuda Cancer and Health Centre's Equal Access Fund.

We partnered with a number of local agencies on events to educate, raise awareness and raise funds for cancer prevention and support (Bermuda Cancer and Health Centre Relay for Life), the Women's Resource Centre (U Go Gurl Relay), the Centre Against Abuse (PartnerRe 5K), and to fight kidney disease (Hamilton Rotary Club 5K). We supported and involved health clients in the Bermuda Heart Foundation's 30x30 Challenge, as well as the Open Airways free online asthma education course entitled "Supporting Children's Health–Asthma". We sponsored and celebrated World Book day with both East End Primary and St. George's Preparatory Schools.

We were pleased to continue working with the Departments of Health and Education to support the Premier's Youth Fitness Programme, as well as participating on the Healthy Schools Committee and Well Bermuda Committee.

Responding to crisis from Covid-19

In 2020, more than any other year, charities and non-profit organisations were particularly stretched. On top of our regular sponsorships and charitable commitments, we pledged $40,000 in response to the crisis. In Bermuda, we pledged $10,000 to support an initiative to bring in urgent personal protective equipment for community frontline carers. We donated $10,000 to The Coalition for the Protection of Children, which had to service more than double the number of families and children in need. As well as helping to replenish food supplies in the Coalition storehouse, the funds went towards providing medications, laundry supplies, and personal hygiene supplies.

In addition, BF&M committed support for Tomorrow's Voices (assisting families living with autism) by covering expenses for virtual platforms, so the centre could stay in touch with and train individual ASD families during the pandemic. BF&M also supported Project Action to get two vans on the road to assist seniors. And we covered insurance for a Salvation Army vehicle to help their ministry on the streets.

In Cayman, BF&M's sister company Island Heritage, pledged $10,000 to Meals on Wheels (Cayman), which saw a rapidly growing waiting list of vulnerable people needing meals. In addition, we donated $10,000 to the Cayman Islands Crisis Centre, providing safe temporary shelter for women and their children suffering from domestic and sexual abuse.

Strengthening community

2020 was, as we know, a challenging year for events of any kind—fundraising or sporting. As well as supporting charitable causes, at BF&M we believe in contributing towards building strong communities by sponsoring events and initiatives that not only celebrate sport and wellness, but that raise the profile of our jurisdictions as well.

In Bermuda, where we have served the population for 117 years, we are vested in preserving our history and building a legacy. BF&M was a main sponsor of the 35th America's Cup, which took place in Bermuda in 2017, and we have been an ongoing main sponsor of its legacy Endeavour programme ever since. The Endeavour Community Sailing programme has introduced sailing to thousands of middle school students of all backgrounds for free. Importantly, Endeavour connects students to an activity which is deeply ingrained in Bermuda's maritime history and heritage.

In 2017 also, BF&M founded the BF&M No Limits sailing programme in partnership with Endeavour, for children living with autism spectrum disorders. We continue to be the sole sponsor of what has become an extremely popular, growing and very successful programme.

For the second year in a row, we were proud to be the Official Volunteer Sponsor for the PGA Tour's 2020 Bermuda Championship. This was the PGA Tour's first event to open up to spectators (though in limited numbers) since the onset of Covid-19. With the rigorous safety measures and protocols that were put in place, the event was extremely successful and we were proud to sponsor the participation

Report to Shareholders
John Wight

of around 500 local volunteers as well as help shine a light on Bermuda as a safe and beautiful location to hold premier sporting events.

Environment, Social and Governance engagement

If ever there was a year that brought environmental, social and governance issues to the fore, it was 2020.

Our policy has always has been, and always will be, to treat all our employees with dignity, equity and respect. As an equal opportunity employer, we do not tolerate discrimination of any kind. While we are proud of the diversity reflected across our group, when the cry that Black Lives Matter rang out last summer, we recognised that there is much more work to be done.

In 2020, we established a Diversity programme and a Diversity Committee to keep the elimination of unfair biases or barriers high on our corporate agenda. We began work to take a closer look at our Diversity, Equity and Inclusion (DEI) practices and policies, building on our solid foundation of equitable corporate practice across all locations, to ensure that reality reflected our policies.

All Bermuda office employees attended a virtual workshop covering the History of Racism in Bermuda. Managers in our Bermuda and Cayman offices attended Unconscious Bias training, which will be mandatory for management across all locations before being rolled out to the wider staff.

We are proud of our progress in gender diversity in what has historically been a male-dominated industry. Of the six senior-most Group Executive Committee roles, five are held by women. They were hired because they were the best-qualified leaders for their role. We celebrate that they are women, believing that at BF&M, unconscious bias is being challenged.

Appointments, promotions and designations

In 2020, we welcomed to the Bermuda office, Lin Zhou as SVP, Chief Accounting Officer and Matthew Radoux as SVP, Head of Actuarial and Risk Management. We also welcomed Maureen Kennedy as Head of Pension Regulations. In Cayman, Evelyn Tibbetts-Farrar assumed additional responsibility as General Manager for the Cayman office along with her role as Chief Underwriting Officer.

Bermuda promotions

- Stephanie Hanson
  promoted to EVP, Chief Legal and Compliance Officer
- Sacha Pedro
  promoted to Group Underwriting Manager
- Michelle Cardoso
  promoted to Senior Financial Supervisor
- Penny Ingram
  promoted to AVP, Client Relations
- Joanne Benevides
  promoted to Supervisor, Pension Administration
- Chan Aming
  promoted to Senior Corporate Relationship Manager
- Marna Louw
  promoted to Finance Manager

Bermuda designations

- Lisa Ferreira
  LOMA, Associate, Life Management Institute (ALMI) Designation
- Rogernae Lightbourne
  CPCU, Chartered Property Casualty Underwriter
- Sinead Simmons
  LOMA, Associate, Insurance Regulatory Compliance (AIRC) Designation

Cayman promotions

- Carol Phelps
  promoted to Underwriter
- Richard Van Den Berg
  promoted to Finance Manager

Barbados promotions

- Carol Dottin
  promoted to Lead Developer

Halifax promotions

- Brenna Shand
  promoted to Finance Manager, Life
- Darcy McBay
  promoted to PMO Lead

Insurance and financial planning will always have a place in people's lives.

Jill McDonald,
Administration

Anthony Rodrigues, Financial Services

We have provided—and will continue to provide—coverage people can count on.

Report to Shareholders
John Wight

Board update

Our Board of Directors was further strengthened at the 2020 Annual General Meeting with the addition of Jennifer Reynolds, President and CEO of Toronto Finance International, and Andrew Lo, former CEO of Kanetix Ltd. The value of their contributions has already benefitted our organisation.

I would like to thank my fellow Directors for their guidance and commitment to our Company in a particularly testing year.

Looking ahead

A key challenge we continue to face is managing the delicate balance of being there to support customers through crises or shorter-term needs, while managing risks and costs over time. A long-term view is essential if we are to meet our promise—and our customers' trust—that we will be there to cover needs over each customer's lifetime.

And, of course, we must continue to navigate our "new normal". Our business model must serve us both for the near and the long term. For the foreseeable future, even if the risk of Covid-19 contamination is contained, we need to be ready for possible future waves or new variants of the virus. We will need to maintain a flexible operating model that can feature remote-working and social distancing as and when required, as well as achieving our strategic objectives of providing market-leading efficiency and service.

In closing

I have talked a lot about change, and about how critical it is that we implement change to continue to be successful. Some things, however, will remain the same. Insurance and financial planning will always have a place in people's lives. For over a century, we have served our customers and our communities. We have provided—and will continue to provide—coverage people can count on, because of our risk management and financial strength. And we have been successful, above all, because of our people who, anchored in our core values of truth, trust and team, continue to put our customers first.

I want to thank all the employees of the BF&M group of companies for the resourcefulness they have shown and for achieving so much under relentless pressure. And I thank you, our Shareholders, for your continued support through an unparalleled year.

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

Operating with safety in mind

Financial Statements

Responsibility for Financial Reporting

For the year ended 31 December 2020

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 24 March 2021.
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 Chairman
and Chief Executive Officer

Lily Chen, CPA, CA
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 2020, 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

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- 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 and other explanatory information.

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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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: $1.4 million, which represents 1% of net premiums earned for 2020.

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

- Valuation of claims incurred but not reported for property and casualty lines
- Methodologies and assumptions used for determining insurance contract liabilities for life and health claims
- Assessment of the carrying value of goodwill

Audit scope

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

How we tailored our group audit scope

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

BF&M Limited is the parent of a group of entities. The financial information of this Group is included in the consolidated financial statements of BF&M Limited. The Group is structured into five operating segments (see Note 7 of the consolidated financial statements) and is a consolidation of 13 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, and the Cayman Islands 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 three legal entities which also represent three operating segments, and as such these legal entities required an audit of their complete financial information which provided us with over 90% coverage of the Group's operations as measured by consolidated total assets and revenue. These legal entities are: (i) BF&M Life Insurance Company Limited, (ii) BF&M General Insurance Company Limited, and (iii) Island Heritage Insurance Company, Ltd. Additionally, based on our professional judgment, audit procedures were conducted by the Group engagement team over certain balances within the Group's real estate segment, as well as analytical procedures over the remaining components. The Group engagement team had regular interaction with all component audit teams and reviewed in detail all reports with regards to the audit approach and findings submitted by the component audit teams.

Materiality

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

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

Overall group materiality	$1.4 million
How we determined it	1% of net premiums earned for 2020
Rationale for the materiality benchmark applied	We chose net premiums earned as the benchmark because in our view it is a benchmark against which the historical share price of the Group trends closely, and therefore is most meaningful to users of the Group's consolidated financial statements. Net premiums earned fairly represents the size and complexity of the business and it is not distorted by insured catastrophe events to which the Group is exposed. We chose a threshold of 1%, which is within the range of acceptable quantitative materiality thresholds for our selected benchmark, to arrive at our determination of materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $70,000 dollars, and reclassification misstatements above $1.4 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 claims incurred but not reported for property and casualty lines *See notes 2, 5B, and 23 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.* Total claims incurred but not reported as at 31 December 2020 are $20.95 million. The methodologies and assumptions utilized to develop claims incurred but not reported involves a significant degree of judgement. The liabilities are based on the best-estimate ultimate cost of all claims incurred but not reported, a provision for development on reported claims, together with the related claims handling costs. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims which are also subject to complex calculations. Management uses an external actuarial expert to assist in determining the value of claims incurred but not reported.	Our approach to testing management's valuation of claims incurred but not reported for property and casualty lines involved the following procedures, amongst others: ● In order to challenge management's assumptions and methodologies, we were assisted by our PwC actuarial experts, who performed independent re-projections on selected classes of business, particularly focusing on the largest and most volatile reserves as these were considered higher risk. For these classes, we compared our independent claims reserve estimates to those recorded by management, and sought to understand any significant differences. ● For the remaining classes of business, 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 commonly used in the insurance industry and in prior periods. ● We tested the completeness, accuracy and reliability of the underlying data utilized by management and their external actuarial expert to support the actuarial valuation. The results of our procedures indicated that the estimates recorded by management for claims incurred but not reported for property and casualty lines are not unreasonable.

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Methodologies and assumptions used for determining insurance contract liabilities for life and health claims

See notes 2, 5B, and 23 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.

Total insurance contract liabilities for life and health claims as at 31 December 2020 are $229.3 million.

The valuation of the provision for the settlement of future claims involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities. The key assumptions include mortality, morbidity, lapse and policy administration expenses.

Management uses both internal and external actuarial experts to assist in determining these assumptions and in valuing insurance contract liabilities for life and health claims.

Our approach for testing management's methodologies and assumptions used for determining insurance contract liabilities for life and health claims involved the following procedures, amongst others:

- We have utilized our PwC actuarial experts to assist in the evaluation of the methodologies and assumptions utilized by management's actuarial experts in the context of industry and entity-specific facts and circumstances.
- We updated our understanding for any changes impacting the key assumptions and for selected classes of business based on reserve volume, evaluated the key assumptions including mortality, morbidity, lapse, and policy administration expenses, all of which are based on the experience of the relevant component or published industry studies, and consistent with relevant actuarial standards of practice.
- We tested a sample of contracts to ascertain that contract features were appropriately reflected by the actuarial model.

The results of our procedures indicated that the methodologies and assumptions used by management for determining insurance contract liabilities for life and health claims are not unreasonable.

Key audit matter	How our audit addressed the key audit matter
Assessment of the carrying value of goodwill *See notes 2 and 18 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.* The total carrying value of goodwill amounts to \$5.6 million as at 31 December 2020, of which \$5.4 million relates to the goodwill created upon acquisition of Island Heritage Insurance Company, Ltd. (the Cash Generating Unit ("CGU")) in 2012. We focused on future cash flow forecasts utilized to develop management's assessment of the carrying value of goodwill, as they involve significant judgment, given both industry and relevant CGU facts and circumstances. The key inputs to the cash flow forecasts include expected cash inflows, expected cash outflows and the discount rate applied. Management's annual impairment assessment of the CGU, resulted in the recognition of an impairment of goodwill of \$2.3 million.	Our approach for testing the carrying value of goodwill involved the following procedures, amongst others: • With respect to management's assumptions surrounding cash inflows and outflows, (i) we compared management's forecasts against historical performance of the CGU, as well as the current market environment, and (ii) performed sensitivities around the key assumptions and considered the likelihood of these outcomes. • Tested the mathematical accuracy of management's model used to assess the carrying value. • We were assisted by our PwC valuation expert who (i) performed an assessment of the value of the CGU using management's cash inflows and outflows, and (ii) performed an evaluation of the discount rate applied against market based inputs. The range of values that resulted from this assessment were consistent with management's conclusion that there was impairment of goodwill for the Island Heritage Insurance Company, Ltd. CGU as at 31 December 2020. The results of our audit procedures indicated that the carrying value of goodwill and related financial statement disclosures are supported by the evidence we obtained.

Other information

Management is responsible for the other information. The other information comprises the *Annual Report* (but does not include the consolidated financial statements and our auditor's report thereon).

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Marisa Savage.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Hamilton, Bermuda
12 April 2021

Consolidated Statement of Financial Position

As at 31 December 2020
(in thousands of Bermuda dollars)

	Notes	2020 $	2019 $
Assets			
Cash and cash equivalents	9	153,564	143,333
Regulatory assets	10	24,673	23,258
Investments	11	675,744	630,147
Insurance receivables and other assets	12	80,811	120,992
Deferred acquisition costs	13	11,019	11,614
Reinsurance assets	14	107,547	514,101
Investment properties	15	20,712	20,097
Property and equipment	16	16,450	16,039
Tax recoverable	17	1,029	1,212
Deferred tax asset	17	315	746
Intangible assets	18	27,175	42,590
Assets held-for-sale	4	–	175,375
Total general fund assets		1,119,039	1,699,504
Segregated funds assets	19	1,171,424	1,028,050
Total assets		**2,290,463**	2,727,554
Liabilities			
Other liabilities	20	114,771	182,465
Retirement benefit obligations	21	1,795	1,441
Investment contract liabilities	22	314,637	299,608
Insurance contract liabilities	23	382,012	769,756
Liabilities held-for-sale	4	–	126,531
Total general fund liabilities		813,215	1,379,801
Segregated funds liabilities	19	1,171,424	1,028,050
Total liabilities		**1,984,639**	2,407,851
Equity			
Share capital	24	9,025	8,923
Treasury shares	24	(1,664)	(1,168)
Contributed surplus	24	1,482	1,482
Share premium	24	65,086	63,589
Accumulated other comprehensive loss	29	(2,186)	(5,509)
Retained earnings		223,358	213,584
Total shareholders' equity		**295,101**	280,901
Non-controlling interests		10,723	38,802
Total equity		**305,824**	319,703
Total liabilities and equity		**2,290,463**	2,727,554

Approved by the Board of Directors

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

L. Anthony Joaquin, FCA, JP
Deputy Chairman

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

Consolidated Statement of Income

For the year ended 31 December 2020
(in thousands of Bermuda dollars except for per share amounts)

	Notes	2020 $	2019 $
Income			
Gross premiums written		308,064	331,712
Reinsurance ceded		(166,336)	(174,710)
Net premiums written		**141,728**	157,002
Net change in unearned premiums	23	(1,175)	(2,215)
Net premiums earned		**140,553**	154,787
Investment result	11	44,561	50,718
Commission and other income	26	46,141	45,771
Rental income		2,702	2,923
Total income		**233,957**	254,199
Benefits and Expenses			
Insurance contracts benefits and expenses			
Life and health policy benefits	27	95,786	118,952
Short-term claim and adjustment expenses	27	9,671	18,475
Investment contract benefits		5,474	9,170
Participating policyholders' net loss		123	388
Commission and acquisition expense		27,629	28,719
Operating expenses	28	52,019	48,610
Amortisation expense		18,410	10,451
Interest expense	16	74	101
Total benefits and expenses		**209,186**	234,866
Net income before income taxes		24,771	19,333
Income taxes expense	17	(796)	(219)
Income from continuing operations		23,975	19,114
Loss from discontinued operations	4	(2,382)	(6,032)
Net income for the year		**21,593**	13,082
Net income attributable to:			
Shareholders		20,480	11,908
Non-controlling interests in subsidiaries		1,113	1,174
Net income for the year		**21,593**	13,082
Net income from continuing operations attributable to:			
Shareholders		*23,180*	*18,240*
Non-controlling interests in subsidiaries		*795*	*874*
Net income from continuing operations for the year		***23,975***	*19,114*
Net loss from discontinued operations attributable to:			
Shareholders	*4*	*(2,700)*	*(6,332)*
Non-controlling interests in subsidiaries		*318*	*300*
Net loss from discontinued operations for the year		***(2,382)***	*(6,032)*
Earnings per share:			
Basic and fully diluted – from continuing operations	30	**$2.61**	$2.07
Basic and fully diluted – from discontinued operations	30	**($0.31)**	($0.72)
Basic and fully diluted – total	30	**$2.30**	$1.35

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020
(in thousands of Bermuda dollars except for per share amounts)

	2020 **$**	2019 $
Net income for the year	**21,593**	13,082
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Re-measurement of retirement benefit obligations	(294)	(462)
Re-measurement of retirement benefit obligations from discontinued operations	–	(56)
Reclassification of discontinued operations on disposal to Retained Earnings	2,158	–
	1,864	(518)
Items that may be subsequently reclassified to profit or loss		
Investments classified as available-for-sale		
Change in fair value of available-for-sale financial assets of discontinued operations	(266)	482
Reclassification of discontinued operations on disposal to loss on disposal	1,459	–
Currency translation differences	127	194
	1,320	676
Total other comprehensive income for the year after income taxes	**3,184**	158
Total other comprehensive income attributable to:		
Shareholders	(294)	(41)
Reclassification of discontinued operations on disposal to Retained Earnings – Shareholders	4,217	–
Reclassification of discontinued operations on disposal to loss on disposal – Shareholders	814	–
Non-controlling interests in subsidiaries	(139)	199
Reclassification of discontinued operations on disposal to Retained Earnings – Non-controlling interests	(2,059)	–
Reclassification of discontinued operations on disposal to loss on disposal – Non-controlling interests	645	–
Total other comprehensive income for the year after income taxes	**3,184**	158
Total other comprehensive loss from continuing operations attributable to:		
Shareholders	*(158)*	*(259)*
Non-controlling interests in subsidiaries	*(9)*	*(9)*
Total other comprehensive loss from continuing operations for the year after income taxes	***(167)***	*(268)*
Total other comprehensive income from discontinued operations attributable to:		
Shareholders	*4,895*	*218*
Non-controlling interests in subsidiaries	*(1,544)*	*208*
Total other comprehensive income from discontinued operations for the year after income taxes	**3,351**	*426*
Comprehensive income	**24,777**	13,240
Comprehensive income attributable to:		
Shareholders	23,803	11,867
Non-controlling interests in subsidiaries	974	1,373
Comprehensive income	**24,777**	13,240
Comprehensive income from continuing operations attributable to:		
Shareholders	*26,899*	*17,564*
Non-controlling interests in subsidiaries	*526*	*1,282*
Comprehensive income from continuing operations	***27,425***	*18,846*
Comprehensive loss from discontinued operations attributable to:		
Shareholders	*(3,096)*	*(5,697)*
Non-controlling interests in subsidiaries	*448*	*91*
Comprehensive loss from discontinued operations	***(2,648)***	*(5,606)*

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 17.

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020
(in thousands of Bermuda dollars except for per share amounts)

	Notes	2020 $	2019 $
Share capital			
Balance – beginning of year		8,923	8,827
Shares issued under employee share purchase plan	24	15	29
Shares issued under equity incentive plan	24	10	14
Share grants issued under equity incentive plan	24	85	80
Share grants forfeited under equity incentive plan	24	(8)	(27)
Balance – end of year		**9,025**	8,923
Treasury shares			
Balance – beginning of year		(1,168)	(325)
Acquisition of shares	24	(496)	(843)
Balance – end of year		**(1,664)**	(1,168)
Contributed surplus – beginning and end of year		**1,482**	1,482
Share premium			
Balance – beginning of year		63,589	62,167
Shares issued under employee share purchase plan	24	257	434
Shares issued under equity incentive plan	24	181	215
Share grants issued under equity incentive plan	24	1,485	1,183
Share grants forfeited under equity incentive plan	24	(114)	(183)
Deferred share grant	24	(312)	(227)
Balance – end of year		**65,086**	63,589
Accumulated other comprehensive loss			
Balance – beginning of year		(5,509)	(5,468)
Other comprehensive loss for the year – from continuing operations		(158)	(259)
Other comprehensive (loss) / income for the year – from discontinued operations		(136)	218
Reclassification of discontinued operations on disposal to loss on disposal		1,459	–
Reclassification of discontinued operations on disposal to retained earnings		2,158	–
Balance – end of year		**(2,186)**	(5,509)
Retained earnings			
Balance – beginning of year		213,584	209,984
Net income for the year – from continuing operations		23,180	18,240
Net loss for the year – from discontinued operations		(2,700)	(6,332)
Cash dividends		(8,548)	(8,308)
Reclassification of discontinued operations on disposal from accumulated other comprehensive loss		(2,158)	–
Balance – end of year		**223,358**	213,584
Total equity attributable to shareholders of the company		**295,101**	280,901
Attributable to non-controlling interests			
Balance – beginning of year		38,802	38,676
Net income for the year – from continuing operations		795	874
Net income for the year – from discontinued operations		318	300
Other comprehensive loss for the year – from continuing operations		(9)	(9)
Other comprehensive (loss) / income for the year – from discontinued operations		(1,544)	208
Cash dividends		–	(1,247)
Elimination of non-controlling interest of discontinued operations at disposal		(27,639)	–
Balance – end of year		**10,723**	38,802
Total equity		**305,824**	319,703

The dividends paid in 2020 and 2019 were $8,548 ($0.96 per share) and $8,308 ($0.94 per share) respectively.

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020
(in thousands of Bermuda dollars)

	Notes	2020 $	2019 $
Cash flows from operating activities			
Income from continuing operations for the year before income taxes		**24,771**	19,333
Loss from discontinued operations for the year before income taxes	4	**(2,380)**	(6,057)
Adjustments for:			
Investment income		(18,403)	(20,829)
Net realised gain on investments		(8,883)	(1,259)
Change in fair value of investments		(21,174)	(36,470)
Impairment of investments		1,886	4,972
Amortisation of property and equipment		1,436	1,484
Amortisation of investment properties		756	814
Amortisation of intangible assets		7,434	8,153
Impairment of intangible assets		9,571	–
(Gain)/loss on sale of property and equipment		(12)	13
Interest expense		74	101
Compensation expense related to shares and options		1,578	995
Loss on write down of discontinued operations		3,014	6,635
Changes in assets and liabilities:			
Fixed deposits & regulatory assets		(2,029)	(797)
Insurance receivables and other assets		40,414	(49,218)
Deferred acquisition costs		595	(1,810)
Reinsurance assets		406,554	(393,064)
Net tax recoverable		114	(27)
Insurance contract liabilities		(387,744)	417,816
Investment contract liabilities		15,029	15,559
Other liabilities		(67,389)	65,805
Retirement benefit obligations		60	513
Cash generated from operations		**5,272**	32,662
Income taxes paid		(296)	(381)
Interest received		18,151	20,083
Dividends received		718	818
Cash flows from operating activities – discontinued operations		4,802	6,313
Net cash generated from operating activities		**28,647**	59,495
Cash flows from investing activities			
Purchase of investments		(160,554)	(186,139)
Proceeds from sales of investments		155,012	154,803
Acquisition of property and equipment		(1,835)	(1,472)
Proceeds from sales of property and equipment		–	5
Acquisition of investment properties		(1,371)	(1,814)
Acquisition of intangible assets		(1,590)	(1,716)
Net cash disposed of on sale of subsidiaries		(23,074)	–
Cash flows from investing activities – discontinued operations		(1,504)	(4,614)
Net cash used for investing activities		**(34,916)**	(40,947)
Cash flows from financing activities			
Cash dividends paid		(8,548)	(8,308)
Interest paid		(74)	(101)
Acquisition of treasury shares		(496)	(843)
Cash proceeds on issue of common shares		21	523
Principal elements of lease payments		(305)	(370)
Cash flows from financing activities – discontinued operations		–	(1,247)
Net cash used for financing activities		(9,402)	(10,346)
Effect from changes in exchange rates		127	194
(Decrease)/Increase in cash and cash equivalents		(15,544)	8,396
Cash and cash equivalents – beginning of year		**169,108**	160,712
Cash and cash equivalents – end of year		**153,564**	169,108
Cash and cash equivalents attributable to			
Cash and cash equivalents of discontinued operations		–	25,775
Cash and cash equivalents of continuing operations		153,564	143,333
		153,564	169,108

See Note 11 for disclosures of non cash investing activities arising in the year

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

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

(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, 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
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 Reinsurance Company Limited ("Hamilton")	100	Bermuda
Island Heritage Insurance Company 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

During 2020, the Group disposed of Insurance Corporation of Barbados Limited, Insurance Corporation of Barbados Limited/ National Insurance Board Joint Venture, and Hamilton Financial Limited. These entities were owned 51.2%, 37.2%, and 100% respectively. Further details are provided in Note 4 Discontinued Operations.

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 24 March 2021 the Board of Directors approved the consolidated financial statements and authorised them for issue. The Board of Directors has the power to amend the consolidated 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 i) available-for-sale financial instruments and certain segregated fund assets and liabilities measured at fair value and ii) financial assets and liabilities at fair value through profit or loss; and the remeasurement of retirement benefit obligations measured at present value.

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

ii) Critical estimates, judgments and assumptions

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

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

- The actuarial assumptions used in the valuation of life and health insurance and investment contract liabilities under the Canadian Asset Liability Method ("CALM") require significant judgment and estimation. Key assumptions and considerations in choosing assumptions and sensitivities are discussed in Note 5B.
- The estimate of the ultimate liability arising from claims under short-term insurance contracts. Refer to Note 5B.
- 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 8.
- 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 evaluating 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 2N and Note 18.
- 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 Notes 8 and 15.

iii) COVID-19 pandemic considerations

In early 2020, the world was impacted by COVID-19, which was declared a pandemic by the World Health Organization. The overall impact of the COVID-19 pandemic is still uncertain and dependent on the progression of the virus and on actions taken by governments, businesses and individuals, which could vary by country and result in differing outcomes.

The application of our accounting policies requires estimates, assumptions and judgments as they relate to matters that are inherently uncertain. We have established procedures to ensure that our accounting policies are applied consistently and there have been no material changes to methodologies applied for determining estimates. With respect to the critical estimates, judgments, and assumptions in 2B (ii), no material COVID-19 specific provisions or adjustments were warranted. Management continues to monitor the Group's experience and exposure to the COVID-19 pandemic, including continued monitoring and evaluation of the risks included in Note 5.

C. Consolidation

i) Subsidiaries

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

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

ii) Transactions with non-controlling interest

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

D. Determination of fair value

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

When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair value is typically based on alternative valuation methods such as discounted cash flows and other techniques. When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation methods and inputs. For bonds and fixed income securities, broker quotes are typically used when external public vendor prices are not available. Judgment is also applied in adjusting external observable data for items including liquidity and credit factors. A description of the fair value methodologies and assumptions by type of asset is included in Note 8.

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 consolidated statement of financial position date. Income and expenses are translated at rates of exchange in effect on the transaction dates. Foreign exchange gains and losses are expensed in the consolidated statement of income.

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

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

The functional currency of the discontinued operation was the Barbados dollar. The exchange rate between Barbadian and Bermudian dollars had not changed significantly since the acquisition of the Barbadian operation in 2005 to the date of disposal. 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 are readily convertible to known amounts of cash and which are subject to an insignificant change in value, and bank overdrafts.

H. Regulatory assets
Regulatory assets are held with Regulators as a legal requirement in order to provide services in the respective territories. Regulatory assets comprise deposits and fixed income securities. Refer to Note 2I(i) for the classification, recognition and subsequent measurement of fixed income securities held as regulatory assets.

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 result. Attributable transaction costs upon initial recognition are recognised in investment result 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 result in the consolidated statement of income. Dividends earned on equities are recorded in investment result 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 result 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 mortgages and other loans. Realised gains or losses from the sale of loans and receivables are recorded in investment result 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 are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected in the consolidated statement of financial position as receivable for investments sold and payable for investments purchased.

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

Investment income
Dividends on equity and fund instruments are recognised in the consolidated statement of income on the ex-dividend date. Interest income is recorded on the accruals basis, using the effective interest rate method, in investment result 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. Such financial liabilities are initially recognised at fair value plus any directly attributable transaction costs. Included under other liabilities are accounts payable. Other remaining liabilities are considered short-term payables with no stated interest rate and the carrying value of these financial liabilities approximates fair value at the reporting date.

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 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 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 result in the consolidated statement of income.

b) Financial assets classified as available-for-sale
In the case of equity and fund financial assets classified as available-for-sale, in addition to the 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 result in the consolidated statement of income. The cumulative loss that is reclassified from other comprehensive income to investment result 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 an available-for-sale debt security 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. Leases

i) The Group as a lessee

The Group leases various buildings and equipment. Rental contracts are typically made for fixed periods (5 to 10 years for buildings and 3 to 6 years for equipment) but may have extension options described further below. These leases do not include residual value guarantees or purchase options.

The Group has adopted IFRS 16 – *Leases* from 1 January 2019, and has changed its accounting policy for leases where the Group is a lessee. Until 31 December 2018, the Group had leases that did not transfer substantially all the risks and rewards of ownership and were classified as operating leases. Payments made under operating leases were included within operating expenses in the consolidated statement of income.

From 1 January 2019, lease contracts that contain an identified asset for which the Group has the right to direct the use of the identified asset and obtain substantially all of the economic benefits through the period of use are recognised on the consolidated statement of financial position as a right-of-use asset within Property and Equipment and a corresponding liability within Other Liabilities at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present-value basis. Lease liabilities include the net present value of the following lease payments: fixed payments, less any lease incentives receivable; variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date; lease payments for reasonably certain renewal options; and payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the Group as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received
- because all third-party financing is to be arranged at the Group level, the use of the Group financing rates has been applied.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases with a lease term of 12 months or less and all leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of income.

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The probability of renewal (or termination) is assessed using several factors such as: suitability and location of the asset; comparison to market rates; historical lease durations; costs and business disruption to replace the lease assets; and any other relevant factors.

Most extension options in equipment leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

ii) The Group as a lessor

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liabilities for investment contracts have been designated at FVTPL. 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.

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

Q. 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 19. Fee income earned on the management of these contracts is included in commission and other income in the consolidated statement of income.

R. 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.

S. Current and deferred income tax

The tax expense for the period on the Group's 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.

T. Employee benefits

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

i) Pension obligations

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

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

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

ii) Other post-employment obligations

In addition to pension benefits, the Group provides post-retirement benefits for health care to qualified Bermuda retirees. The entitlement to these benefits was 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. As the plan is closed to new participants, only the interest on the obligation is recognised in the consolidated statement of income. Actuarial gains and losses are charged or credited to equity in other comprehensive income in the period in which they arise.

iii) Share-based compensation

The Group has an Equity Incentive Plan under which the entity receives services from employees as consideration for equity instruments of the Group (both equity, and equity based but cash settled, transactions). Share grants are issued to employees equal to the fair value of the shares on the grant date. The amount of the benefit of these share grants is amortised over the vesting period as operating expense in the consolidated statement of income. 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.

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. 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.

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

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

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

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

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

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

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

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

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

W. Dividend distribution

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

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

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

Y. Non-current assets and disposal groups classified as held-for-sale and discontinued operations

Non-current assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied when a sale is highly probable and the assets are available for immediate sale in their present condition, subject only to terms that are usual and customary for sales of non-current assets and disposal groups. For a sale to be highly probable management are committed to sell the non-current asset or disposal group within one year from the date of classification as held-for-sale.

Non-current assets and disposal groups classified as held-for-sale are measured at the lower of their carrying amount and fair value less cost to sell. Certain assets are specifically excluded from these measurement requirements. The assets in this category include financial assets, investment properties and insurance and reinsurance assets. These exempt assets are measured in accordance with the relevant accounting policies described within the Notes to these consolidated financial statements. The disposal group as a whole is then measured to the lower of its carrying amount and fair value less cost to sell. Any impairment loss for the disposal group is recognised as a reduction to the carrying amount of the non-current assets in the disposal group that are in scope of the measurement requirements.

Assets and liabilities in a disposal group classified as held-for-sale are presented separately in the consolidated statements of financial position.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discounted operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative consolidated statement of income and consolidated statement of comprehensive income is represented as if the operation had been discontinued from the start of the comparative year.

3. New and revised accounting standards

A. New and revised accounting standards effective 1 January 2020

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2020:

i) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

LIBOR (London Interbank Offering Rate) and similar benchmark interest rates are expected to be phased out by the end of 2021 and replaced by alternative, nearly risk-free rates being developed by various agencies around the world (IBOR Reform). Companies have and will be transitioning to alternative interest rate benchmarks over the next year. The International Accounting Standards Board (IASB) has addressed specific financial reporting issues resulting from IBOR Reform through two phases. Phase I: amendments to IFRS 9: *Financial instruments*, IAS 39 *Financial instruments – Recognition and measurement,* IFRS 7: *Financial instruments – Disclosures.* The amendments are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform. The adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

ii) Extension of the temporary exemption from applying IFRS 9 *Financial Instruments*

In response to concerns regarding temporary accounting mismatches and volatility, and increased costs and complexity, IASB issued amendments to IFRS 4 *Insurance Contracts* in 2017.The two optional solutions (Temporary exemption from IFRS 9 and Overlay approach) raised some considerations which required detailed analysis and management judgement. On the issue of IFRS 17 (Revised) *Insurance Contracts* in June 2020, the end date for applying the two options under the IFRS 4 amendments was extended to 1 January 2023, aligned with the effective date of IFRS 17.

The Group adopted the Temporary exemption from IFRS 9 by continuing to apply IAS 39 *Financial Instruments: Recognition and Measurement.* The Group's activities are predominantly connected with insurance. The predominance assessment completed as at 31 December 2015 is 90% as required by amendments to IFRS 4.

iii) Amendments to Other

The Group adopted amendments to IFRS 3 – *Business Combinations* and amendments to IAS 1- *Presentation of Financial Statements* and IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors.* The adoption of these standards and amendments did not have a significant impact on the Groups' consolidated financial statements.

B. New and revised accounting standards not yet effective

COVID-19 related rent concessions (Amendments to IFRS 16) – Under the current IFRS 16, rent concessions often met the definition of a lease modification, unless they were envisaged in the original lease agreement. The accounting for lease modifications can be complex. The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. No practical expedient is provided for lessors. The amendments are effective for annual financial periods beginning on or after 1 June 2020. The Group does not anticipate significant impact from adopting the amendments.

Interest rate benchmark reform - Phase 2 (Amendments to IFRS 9, IAS39, IFRS 7, IFRS 4 and IFRS 16) – Phase II amendments address issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark rate with an alternative one. The key reliefs provided by the Phase 2 amendments include: (i) Changes to contractual cash flows. When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes that are required by an interest rate benchmark reform (that is, are necessary as a direct consequence of IBOR reform and are economically equivalent) will not result in an immediate gain or loss in the income statement; and (ii) Hedge accounting. The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded. The amendments are effective 1 January 2021. The group does not anticipate significant impact from adopting the amendment.

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.

The Group satisfies the criteria set out in IFRS 4 *Insurance Contracts* for the temporary exemption from IFRS 9. At 31 December 2015 (the date specified by IFRS 4), the carrying value of the Group's liabilities connected with insurance comprised over 90% of the total liabilities. In March 2020, the IASB decided to further defer the effective date of IFRS 9 to 1 January 2023, in line with the deferral of the implementation of IFRS 17. The Group is assessing the impact of this standard.

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

In March 2020, IASB decided to defer the effective date of IFRS 17 to 1 January 2023. 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.

4. Discontinued operations

A. Description

In October 2019, Group management committed to a plan to dispose of its Barbados operation ("ICBL") following a strategic decision to place greater focus on the Group's core territories. The associated assets and liabilities were consequently presented as held-for-sale in the 2019 consolidated financial statements.

The subsidiary and its holding company, Hamilton Financial Limited, (the "disposal group") were both sold on 3 September 2020, and are reported as discontinued operations. Financial information relating to the discontinued operations to the date of disposal is set out below.

For the year ended 31 December 2020
(in thousands of Bermuda dollars)

B. Financial performance information

	2020 to the date of disposal $	2019 $
Total income	28,092	44,414
Total benefits and expenses	(27,458)	(43,836)
Net income before income taxes	634	578
Income tax (expense) recovered	(2)	25
Shareholders' net income	632	603
Non-controlling interest	(318)	(300)
Net income	314	303
Loss on write down of discontinued operations	(1,555)	(6,635)
Reclassification of accumulated other comprehensive loss to loss on disposal	(1,459)	–
Loss from discontinued operations, net of tax	**(2,700)**	(6,332)

C. Details of the sale of the disposal group

	2020 $
Consideration received or receivable:	
Cash	4,500
Proceeds held in escrow	1,500
Collateralised loan advanced to buyer	12,000
Total disposal consideration	18,000
Closing costs	(1,450)
Net disposal consideration	16,550
Carrying amount of net assets sold	(24,740)
Loss on sale	(8,190)
Loss on write down of discontinued operation recognised in 2019	6,635
Loss on sale recognised in 2020	**(1,555)**

(in thousands of Bermuda dollars)

D. Carrying amount of assets and liabilities

	3 September 2020 $	2019* $
Assets		
Cash and cash equivalents	29,080	25,775
Fixed deposits	8,293	6,834
Regulatory assets	692	740
Investments	69,429	69,077
Insurance receivables and other assets	16,410	13,062
Deferred acquisition costs	1,304	1,173
Reinsurance assets	26,267	22,466
Investment properties	14,509	15,687
Property and equipment	9,597	9,708
Tax recoverable	434	399
Deferred tax asset	174	175
Intangible assets	3,300	3,051
Restricted cash	9,184	13,863
Total assets	**188,673**	182,010
Liabilities		
Other liabilities	22,579	15,427
Retirement benefit obligation	441	677
Investment contract liabilities	36,132	40,262
Insurance contract liabilities	75,734	72,252
Total liabilities	**134,886**	128,618
Net assets before non-controlling interest	53,787	53,392
Less: Non-controlling interest	29,047	28,857
BF&M share of disposal group Net Assets	**24,740**	24,535

** Revised to conform with current year presentation.*

5. Management of financial and insurance risk

Risk management and objectives

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

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

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

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 consolidated statement of financial position 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.

(in thousands of Bermuda dollars)

A. Financial risks

i) Credit risk

Credit risk is the exposure that a counterparty 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.

	2020 $	2019 $
Cash and cash equivalents	153,564	143,333
Regulatory assets	24,673	23,258
Fixed income securities	570,202	530,861
Mortgages and loans	49,424	42,899
Insurance receivables and other assets	80,811	120,992
Reinsurance assets	107,547	514,101
Total	**986,221**	1,375,444

Concentration of credit risk

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

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

	2020 $	**2020 $**	2019 $	2019 $
Assets held in:	Investments	Regulatory Assets	Investments	Regulatory Assets
Fixed income securities issued or guaranteed by:				
Financials	97,462	3,424	106,093	3,705
Government	67,395	7,409	38,030	8,132
U.S. Treasury and other agencies	62,066	366	62,400	352
Utilities and energy	93,431	109	88,365	106
Consumer staples and discretionary	86,707	627	84,964	809
Telecom	16,293	–	18,623	–
Computer technology products and services	15,360	439	16,106	422
Industrials and materials	41,897	–	42,140	–
Other	89,591	–	74,140	–
Total Fixed income securities	**570,202**	**12,374**	530,861	13,526

Notes to Consolidated Financial Statements

For the year ended 31 December 2020
(in thousands of Bermuda dollars)

Assets held in:	2020 $ Investments	2020 $ Regulatory Assets	2019 $ Investments	2019 $ Regulatory Assets
United States	504,604	2,920	472,066	3,037
Canada	7,226	374	10,098	349
Northern Europe	17,520	1,615	15,099	1,593
Asia-Pacific	3,517	758	4,054	1,053
United Kingdom	13,112	430	14,320	418
Caribbean	20,602	6,277	10,523	7,076
Other	3,621	–	4,701	–
Total Fixed income securities	**570,202**	**12,374**	530,861	13,526

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

	2020 $	2019 $
Bermuda	49,424	42,899
Total Mortgages and loans	**49,424**	42,899

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 consolidated statement of financial position date.

As at 31 December 2020

	AAA $	AA $	A $	BBB $	BB and lower $	Not rated $	Total $
Cash and cash equivalents	69,537	8,782	32,580	39,628	–	3,037	**153,564**
Regulatory deposits	3,119	693	8,984	1,676	5,925	4,276	**24,673**
Fixed income securities (1)	87,214	170,827	224,541	86,095	1,525	–	**570,202**
Total	159,870	180,302	266,105	127,399	7,450	7,313	**748,439**

(1) Fixed income securities designated as either available-for-sale or loans and receivables and which have a credit rating below investment grade have a total carrying value of $nil (fair value $nil) as at 31 December 2020.

As at 31 December 2019

	AAA $	AA $	A $	BBB $	BB and lower $	Not rated $	Total $
Cash and cash equivalents	29,936	1,538	73,345	37,934	–	580	**143,333**
Regulatory deposits	1,140	774	7,591	1,710	7,437	4,606	**23,258**
Fixed income securities (1)	66,760	149,455	249,165	65,481	–	–	**530,861**
Total	97,836	151,767	330,101	105,125	7,437	5,186	**697,452**

1) Fixed income securities designated as either available-for-sale or loans and receivables and which have a credit rating below investment grade have a total carrying value of $nil (fair value $nil) as at 31 December 2019.

(in thousands of Bermuda dollars)

The Group's reinsurance panel consists of 59 reinsurance companies, excluding facultative and fronting policies, 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 are registered under The Mortgage Registration Act 1976 and The Trustee Act 1975.

Other loans are secured by collateral assignments.

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:

	2020 $	2019 $
Not past due	38,420	31,542
Past due but not impaired:		
Past due less than 90 days	7,113	4,240
Past due 90 to 180 days	–	651
Past due 180 days or more	503	838
Impaired (net of impairment provisions)	3,388	5,628
Total Mortgages and loans	**49,424**	42,899

Of the $49,424 of mortgages and loans held, $16,758 are currently interest-only with future principal repayment schedules established.

Interest accrued on the impaired mortgages amounted to $626 as at 31 December 2020 (2019 - $283).

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 mortgages and loans is as follows:

	2020 $	2019 $
At 1 January	12,519	8,527
Transfer to available-for-sale residential properties	(271)	(970)
Increase in impairment and provision allowances	1,886	4,962
Total At 31 December	**14,134**	12,519

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 $129 and $254 could be incurred if collection occurred within 18-24 months. A 10% drop in the collateral value supporting the mortgages on our credit watch list plus all foreclosed properties, would result in a further impairment charge of $497 ($577 – 2019).

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;

(in thousands of Bermuda dollars)

- 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 2020 is as follows:

	Within 1 year $	2 to 3 years $	4 to 5 years $	Over 5 years $	Total $	Effective interest rate ranges
Corporate loans	–	12,000	–	–	12,000	3.50%
Policyholder loans	200	401	401	3,006	4,008	4.75% - 8.25%
Mortgages	5,009	4,544	3,786	20,077	33,416	5.00% - 9.00%
Regulatory deposits	13,040	2,713	3,825	5,095	24,673	0.00% - 6.95%
Fixed income securities	99,598	135,287	104,521	230,796	570,202	0.04% - 7.13%
Insurance receivables and other assets	80,811	–	–	–	80,811	0%
Total	**198,658**	**154,945**	**112,533**	**258,974**	**725,110**	
Percent of total	**27.4%**	**21.4%**	**15.5%**	**35.7%**	**100.0%**	

The maturity profile of financial assets at 31 December 2019 was as follows:

	Within 1 year $	2 to 3 years $	4 to 5 years $	Over 5 years $	Total $	Effective interest rate ranges
Policyholder loans	189	378	378	2,835	3,780	4.75% - 8.25%
Mortgages	6,764	4,995	4,472	22,888	39,119	5% - 9.00%
Regulatory deposits	10,079	1,741	5,273	6,165	23,258	0% - 4.95%
Fixed income securities	58,695	147,028	109,627	215,511	530,861	0.04% - 7.13%
Insurance receivables and other assets	120,992	–	–	–	120,992	0%
Total	**196,719**	**154,142**	**119,750**	**247,399**	**718,010**	
Percent of total	**27.4%**	**21.5%**	**16.7%**	**34.5%**	**100.0%**	

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

The maturity profile of liabilities at 31 December 2020 is as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Other liabilities	113,614	811	346	114,771
Investment contract liabilities	109,138	205,445	54	314,637
Insurance contract liabilities – net of reinsurance	61,827	300	212,338	274,465
Total	**284,579**	**206,556**	**212,738**	**703,873**

(in thousands of Bermuda dollars)

The maturity profile of liabilities at 31 December 2019 was as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Other liabilities	178,885	1,479	2,101	182,465
Investment contract liabilities	70,787	228,101	720	299,608
Insurance contract liabilities – net of reinsurance	61,726	639	193,290	255,655
Total	311,398	230,219	196,111	737,728

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, Cayman, Bahamian or United States dollars;
- The Bermuda, 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 5B - Insurance Risk. 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 $3,158 / 2,696 (2019 – $3,178 / 3,009) 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.

(in thousands of Bermuda dollars)

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 10% increase/decrease in the value of the Group's equity and fund portfolio would increase/decrease the Group's comprehensive income by $5,532 (2019 - $5,571) and the Group's other components of equity by $nil (2019 - $nil). The price risk sensitivity impact was calculated by using the ending balances in equity and funds at a 10% 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.
- 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.

		2020			2019*	
	Gross $	**Reinsurance $**	**Net $**	Gross $	Reinsurance $	Net $
Bermuda	217,699	4,869	222,568	201,402	5,372	206,774
Bahamas	6,295	822	7,117	5,353	704	6,057
Other Caribbean & Latin America	4,469	–	4,469	3,781	–	3,781
Cayman	870	–	870	47	–	47
Total	**229,333**	**5,691**	**235,024**	210,583	6,076	216,659

** Revised to conform with current year presentation.*

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

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

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

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

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

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

c) Investment returns
With the exception of assets backing certain participating liabilities, assets are not formally segmented by line of business or product line. Invested assets are notionally segmented to support the actuarial liabilities valued under CALM. For each segment, the future cash flows from insurance and investment contracts and the assets supporting them are projected under a number of interest rate scenarios, some of which are prescribed for CALM under Canadian Actuarial Standards of Practice or an approximation of CALM. Both current assets and future reinvestment consider credit/asset default risk (assumed to earn a credit spread, including appropriate default provision, above the risk-free Treasury yield based on current and future expected market conditions). U.S. Treasury and Agency bonds were assigned a "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.

(in thousands of Bermuda dollars)

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	2020 $	2019 $
Mortality rate – life products	+3%	345	373
Mortality rate – annuity products	-3%	1,190	1,036
Morbidity – medical claims	+3%	1,845	2,466
Expenses	+10%	1,802	1,818
Termination rate	+10%	1,343	1,266

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

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

The effect of an immediate 1% increase in interest rates would be to decrease the present value of these net projected cash outflows by approximately $8,700 (2019 - $3,239). The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash outflows by approximately $8,700 (2019 - $3,239).

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 general insurance exposures are located in Bermuda and throughout the Caribbean. Climate change may impact the frequency and severity of tropical cyclone activity in the regions in which the Group writes general insurance, which in turn may impact the frequency and severity of claims. 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.

(in thousands of Bermuda dollars)

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 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.

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 will 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 2020

Territory		Property $	Motor $	All Other $	Total $
Bermuda					
	Gross	2,882	4,652	2,116	9,650
	Net	648	4,472	1,546	6,666
Cayman/Other Caribbean					
	Gross	45,621	5,737	4,295	55,653
	Net	1,179	4,747	2,638	8,564
Barbados					
	Gross	1	54	12	67
	Net	1	24	7	32
Total					
	Gross	**48,504**	**10,443**	**6,423**	**65,370**
	Net	**1,828**	**9,243**	**4,191**	**15,262**

(in thousands of Bermuda dollars)

31 December 2019

Territory		Property $	Motor $	All Other $	Total $
Bermuda					
	Gross	6,549	4,517	2,863	13,929
	Net	1,906	4,436	1,468	7,810
Cayman/Other Caribbean					
	Gross	443,248	6,176	4,653	454,077
	Net	1,061	5,050	2,050	8,161
Barbados					
	Gross	16	25	11	52
	Net	2	14	6	22
Total					
	Gross	**449,813**	**10,718**	**7,527**	**468,058**
	Net	**2,969**	**9,500**	**3,524**	**15,993**

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 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.

For the year ended 31 December 2020
(in thousands of Bermuda dollars)

Gross loss development

Accident year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimate of ultimate claims cost:	$	$	$	$	$	$	$	$	$	$	$
At the end of accident year	32,770	18,877	17,933	53,618	17,475	81,040	662,761	17,426	604,188	18,575	–
One year later	29,887	17,289	17,171	45,163	17,725	77,231	603,079	16,511	524,655	–	–
Two years later	29,822	16,699	16,081	44,157	16,716	78,486	595,127	15,413	–	–	–
Three years later	29,596	16,874	16,600	45,104	16,539	76,898	595,520	–	–	–	–
Four years later	29,503	16,846	19,919	45,488	16,661	76,354	–	–	–	–	–
Five years later	29,187	16,912	17,918	45,115	16,647	–	–	–	–	–	–
Six years later	29,185	16,637	17,913	45,011	–	–	–	–	–	–	–
Seven years later	28,841	16,725	17,648	–	–	–	–	–	–	–	–
Eight years later	29,107	16,774	–	–	–	–	–	–	–	–	–
Nine years later	29,055	–	–	–	–	–	–	–	–	–	–
Current estimates of cumulative claims	29,055	16,774	17,648	45,011	16,647	76,354	595,520	15,413	524,655	18,575	1,355,652
Cumulative payments to date	(29,040)	(16,636)	(17,553)	(44,878)	(15,980)	(75,440)	(584,820)	(9,203)	(489,442)	(7,649)	(1,290,641)
Gross Liability recognised in the consolidated statement of financial position	15	138	95	133	667	914	10,700	6,210	35,213	10,926	65,011
Reserve in respect of prior years	–	–	–	–	–	–	–	–	–	–	359
Total reserve included in the consolidated statement of financial position	–	–	–	–	–	–	–	–	–	–	**65,370**

Net loss development

Accident year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimate of ultimate claims cost:	$	$	$	$	$	$	$	$	$	$	$
At the end of accident year	9,049	9,529	11,974	16,469	11,651	20,733	25,680	13,858	20,671	12,724	–
One year later	8,786	8,903	11,679	16,207	11,672	19,129	25,334	12,720	19,580	–	–
Two years later	8,565	8,585	10,950	15,627	11,217	18,724	24,233	11,970	–	–	–
Three years later	8,850	8,854	11,216	15,607	11,231	18,565	23,914	–	–	–	–
Four years later	9,199	8,922	11,052	15,714	11,155	18,156	–	–	–	–	–
Five years later	8,960	8,843	10,959	15,676	11,138	–	–	–	–	–	–
Six years later	8,949	8,710	10,932	15,640	–	–	–	–	–	–	–
Seven years later	8,697	8,733	10,679	–	–	–	–	–	–	–	–
Eight years later	8,961	8,737	–	–	–	–	–	–	–	–	–
Nine years later	8,910	–	–	–	–	–	–	–	–	–	–
Current estimates of cumulative claims	8,910	8,737	10,679	15,640	11,138	18,156	23,914	11,970	19,580	12,724	141,448
Cumulative payments to date	(8,904)	(8,724)	(10,662)	(15,612)	(10,722)	(17,429)	(22,562)	(10,627)	(15,605)	(5,701)	(126,548)
Net Liability recognised in the consolidated statement of financial position	6	13	17	28	416	727	1,352	1,343	3,975	7,023	14,900
Reserve in respect of prior years	–	–	–	–	–	–	–	–	–	–	362
Total reserve included in the consolidated statement of financial position	–	–	–	–	–	–	–	–	–	–	**15,262**

6. 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 2020, 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 shown 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 shown in the previous financial year statutory balance sheet, 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. Cayman Islands

The Cayman Islands Monetary Authority ("CIMA") has statutory powers that enable it to use its discretion to require the Group to conduct its Cayman operations in accordance with general or specific conditions which may be imposed by CIMA or may be agreed between CIMA and the Group. The Group is required to maintain capital in excess of the greater of approximately $300 for domestic insurers or $1,000 for external insurers, and an amount determined as per a prescribed formula set out in legislation. The formula prescribes the minimum capital requirements for the Group's assets and liabilities on a risk basis and also provides for a margin of catastrophe. The Group holds both a domestic insurer license and an external insurer Class A license. Additionally, IHIC has regulated insurance operations in several other jurisdictions throughout the Caribbean. As at 31 December 2020, the Group was in compliance with regulatory requirements as an external insurer.

7. Segmental information

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

Health, life, annuity and pension

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

(in thousands of Bermuda dollars)

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 was identified by its geographical location. Insurance coverage included motor, property, marine, miscellaneous accident, group and individual health, group and individual life, and pension business. This operating segment was disposed of in 2020 and it was classified as discontinued operations in 2019, refer to Note 4.

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 a holding company, 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.

The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2020 is as follows:

Segments	Health, life, annuity, and pension 2020 $	Property and casualty 2020 $	Real estate 2020 $	Barbados operations 2020 $	Cayman & Other Caribbean operations 2020 $	Corporate and other 2020 $	Total 2020 $
Income earned from external customers	111,829	29,574	2,675	–	44,685	633	189,396
Investment result	39,880	2,126	–	–	2,102	453	44,561
Total income	151,709	31,700	2,675	–	46,787	1,086	233,957
Insurance contracts benefits and expenses	95,786	4,646	–	–	5,025	–	105,457
Commission and acquisition expense	1,029	2,788	–	–	23,812	–	27,629
Operating expenses	25,063	15,556	1,007	–	10,870	(477)	52,019
Amortisation expense	6,153	10,998	974	–	363	(78)	18,410
Interest expense	–	4	–	–	7	63	74
Income taxes	–	–	–	–	536	260	796
Loss from discontinued operations	–	–	–	2,382	–	–	2,382
Non-controlling interest	–	–	795	318	–	–	1,113
Shareholders' net income	18,465	(177)	960	(2,700)	2,588	1,344	20,480
Impairment losses recognised in income *	4,417	6,253	–	–	–	–	10,670
Assets	1,864,724	136,857	33,082	–	222,995	32,805	2,290,463
Fixed asset & intangible expenditures	1,334	256	265	–	315	1,791	3,961
Liabilities	1,753,549	51,541	1,057	–	165,699	12,793	1,984,639

Notes to Consolidated Financial Statements

For the year ended 31 December 2020
(in thousands of Bermuda dollars)

*The table below summarises impairment losses by asset type:

Segments	Health, life, annuity, and pension 2020 $	Property and casualty 2020 $	Barbados* operations 2020 $	Total 2020 $
Mortgages	1,886	–	–	1,886
Intangible assets	2,531	6,253	787	9,571
Total	**4,417**	**6,253**	**787**	**11,457**

** included as part of loss on discontinued operations*

The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2019 is as follows:

Segments	Health, life, annuity, and pension 2019 $	Property and casualty 2019 $	Real estate 2019 $	Barbados operations 2019 $	Cayman & Other Caribbean operations 2019 $	Corporate and other 2019 $	Total 2019 $
Income earned from external customers	127,112	29,989	2,897	–	43,342	141	203,481
Investment result	42,427	3,783	–	–	4,115	393	50,718
Total income	169,539	33,772	2,897	–	47,457	534	254,199
Insurance contracts benefits and expenses	118,952	7,672	–	–	10,803	–	137,427
Commission and acquisition expense	2,549	3,279	–	–	22,891	–	28,719
Operating expenses	19,553	11,767	935	–	9,701	6,654	48,610
Amortisation expense	2,918	5,297	985	–	582	669	10,451
Interest expense	–	6	–	–	35	60	101
Income taxes	–	–	–	–	133	86	219
Loss from discontinued operations	–	–	–	(6,032)	–	–	(6,032)
Non-controlling interest	–	–	891	300	–	(17)	1,174
Shareholders’ net income	10,028	5,539	1,149	(6,332)	913	611	11,908
Impairment losses recognised in income *	4,972	–	–	–	–	–	4,972
Assets	1,675,181	138,438	31,159	175,375	694,190	13,211	2,727,554
Fixed asset & intangible expenditures	631	946	212	–	243	1,156	3,188
Liabilities	1,572,696	57,422	871	126,531	641,629	8,702	2,407,851

*The table below summarises impairment losses by asset type:

Segments	Health, life, annuity, and pension 2019 $	Total 2019 $
Mortgages	4,962	4,962
Residential properties	10	10
Total	4,972	4,972

8. Fair value measurements

A. Fair value methodologies and assumptions

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

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

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

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

Fair values for investment properties and residential and commercial properties held-for-sale are assessed annually and reviewed quarterly for material changes. The fair value is assessed using the most recently available reports from qualified external appraisal services. These properties are appraised externally at least once every three years. The Bermuda properties were externally valued as at 30 September 2020. 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 2.O(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 consolidated statement of financial position 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.

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 publicly.
- Inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves.

(in thousands of Bermuda dollars)

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 2020	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Cash and cash equivalents	153,564	–	–	153,564
Regulatory deposits	12,665	12,008	–	24,673
Financial assets at FVTPL				
Fixed income securities	56,721	512,481	–	569,202
Equities	34,196	21,126	–	55,322
Available-for-sale financial assets				
Residential properties	–	–	796	796
Segregated fund assets	1,022,009	149,415	–	1,171,424
Total assets measured at fair value	**1,279,155**	**695,030**	**796**	**1,974,981**
Liabilities				
Investment contract liabilities	–	314,637	–	314,637
Segregated fund liabilities	–	1,171,424	–	1,171,424
Total liabilities measured at fair value	**–**	**1,486,061**	**–**	**1,486,061**

31 December 2019	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Cash and cash equivalents	143,333	–	–	143,333
Regulatory deposits	10,085	13,173	–	23,258
Financial assets at FVTPL				
Fixed income securities	57,828	472,035	–	529,863
Equities	31,511	24,200	–	55,711
Available-for-sale financial assets				
Residential properties	–	–	676	676
Segregated fund assets	888,692	139,358	–	1,028,050
Total assets measured at fair value	**1,131,449**	**648,766**	**676**	**1,780,891**
Liabilities				
Investment contract liabilities	–	299,608	–	299,608
Segregated fund liabilities	–	1,028,050	–	1,028,050
Total liabilities measured at fair value	**–**	**1,327,658**	**–**	**1,327,658**

(in thousands of Bermuda dollars)

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

	2020 $	2019 $
Opening balance	676	1,531
Purchases / (Sales)	161	(765)
Losses recognised in income	(41)	(90)
Total	**796**	676

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.

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 2020	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Held-to-maturity financial assets				
Fixed income securities	–	1,114	–	1,114
Loans and receivable financial assets				
Mortgages	–	–	34,169	34,169
Policyholder loans	–	–	4,008	4,008
Corporate loan	–	–	12,000	12,000
Investment properties	–	–	30,800	30,800
Total assets not measured at fair value	–	**1,114**	**80,977**	**82,091**
Liabilities				
Investment contract liabilities	–	–	–	–
Total liabilities not measured at fair value	–	–	–	–

31 December 2019	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Held-to-maturity financial assets				
Fixed income securities	–	940	–	940
Loans and receivable financial assets				
Mortgages	–	–	39,068	39,068
Policyholder loans	–	–	3,780	3,780
Investment properties	–	–	49,500	49,500
Total assets not measured at fair value	–	**940**	**92,348**	**93,288**
Liabilities				
Investment contract liabilities	–	–	–	–
Total liabilities not measured at fair value	–	–	–	–

(in thousands of Bermuda dollars)

9. Cash and cash equivalents

	2020 $	2019 $
Cash at bank and in hand	145,171	137,963
Short-term bank deposits	8,393	5,370
Total	**153,564**	143,333

10. Regulatory assets

	2020 $	2019 $
Regulatory assets	24,673	23,258
Total	**24,673**	23,258

Regulatory assets 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 assets cannot be removed, nor the accounts reduced without the prior written consent of the relevant regulator.

11. Investments

A. Carrying amount and fair value of investments

Investments comprise:

31 December	2020 Carrying amount $	2020 Fair value $	2019 Carrying amount $	2019 Fair value $
At fair value through profit and loss				
- Fixed income securities	569,202	569,202	529,861	529,863
- Equities	55,322	55,322	55,711	55,711
Held-to-maturity				
- Fixed income securities	1,000	1,114	1,000	940
Loans and receivables				
- Mortgages	33,416	34,169	39,119	39,068
- Corporate Loan	12,000	12,000	–	–
- Policyholder loans	4,008	4,008	3,780	3,780
	674,948	**675,815**	629,471	629,362
Available-for-sale				
- Residential properties	796	796	676	676
	796	**796**	676	676
Total	**675,744**	**676,611**	630,147	630,038

(in thousands of Bermuda dollars)

The fair value of the assets that pass the SPPI test but are neither managed or have their performance evaluated on a fair value basis are as follows:

	2020			2019		
	Total Fair Value $	**SPPI $**	**Non-SPPI $**	Total Fair Value $	SPPI $	Non-SPPI $
Held-to-maturity						
- Fixed income securities	1,114	1,114	–	940	940	–
Loans and receivables*						
- Mortgages	34,168	34,168	–	39,068	39,068	–
- Corporate loan	12,000	12,000	–	–	–	–
- Policyholder loans	4,008	4,008	–	3,780	3,780	–
Total	**51,290**	**51,290**	**–**	43,788	43,788	–

** Loans and receivables are unrated*

B. Investment result

	2020 $	2019 $
Interest income		
Fixed income securities - at FVTPL	14,593	14,488
Mortgages and loans	3,096	3,519
Bank deposits and policyholder loans	695	2,021
	18,384	20,028
Dividend income		
Equities- at FVTPL	719	802
	719	802
Net realised gains/(losses) on sale of investments		
Equities - at FVTPL	3,247	159
Fixed income securities - at FVTPL	5,677	1,180
Residential properties – available-for-sale	(41)	(80)
	8,883	1,259
Change in fair value arising from		
Fixed income securities	20,808	29,168
Equities	980	6,585
Regulatory assets	(614)	717
	21,174	36,470
Impairments and deductions		
Less: Impairment loss on investments	(1,886)	(4,962)
Less: Impairment loss on investment properties	–	(10)
Less: Crediting interest on guaranteed contracts for the account of customers	(2,713)	(2,869)
	(4,599)	(7,841)
Total Investment result	**44,561**	50,718

(in thousands of Bermuda dollars)

12. Insurance receivables and other assets

	2020 $	2019 $
Insurance receivables*	68,050	109,390
Accounts receivable	8,070	7,291
Accrued investment income	4,691	4,311
Total	**80,811**	120,992

** Insurance receivables are net of provisions for bad debt of $2,800 (2019 - $1,400).*

13. Deferred acquisition costs

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

	2020 $	2019 $
At 1 January	11,614	10,922
Transfer to held-for-sale assets	–	(1,118)
Recognised deferred acquisition costs	26,162	28,225
Amortisation charge through income	(26,757)	(26,415)
At 31 December	**11,019**	11,614

14. Reinsurance assets

Reinsurance assets are comprised of the following:

	2020 $	2019 $
Short-term insurance contracts:		
Claims reported and adjustment expenses	34,173	370,730
Unearned premiums ceded	63,130	68,112
Claims incurred but not reported	15,935	81,335
Total short-term insurance contracts	**113,238**	520,177
Life and health insurance contracts:		
Participating		
Individual life	(2,734)	(2,358)
Non-participating		
Individual life	(5,144)	(4,952)
Individual and group annuities		
Group life	2,188	1,234
Health and accident	(1)	–
Total life and health insurance contracts	**(5,691)**	(6,076)
Total reinsurance assets	**107,547**	514,101

(in thousands of Bermuda dollars)

15. Investment properties

	2020 $	2019 $
Cost	34,364	33,269
Accumulated depreciation	(13,652)	(13,172)
Net book value	**20,712**	**20,097**
Year ended 31 December		
At beginning of year	20,097	34,560
Transfer to held-for-sale assets	-	(15,463)
Net additions and capital improvements	1,371	1,814
Disposals/retirements	(276)	(3,054)
Disposals/retirements – accumulated amortisation	276	3,054
Depreciation	(756)	(814)
Closing net book value	**20,712**	**20,097**

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. The Group has entered into non-cancellable operating leases on space within several of the Group's office buildings as a lessor.

At 31 December 2020, investment properties with a net book value of $20,712 (2019 - $20,097) were estimated to be valued at $30,800 (2019 - $49,500) on the basis of their estimated open market value for existing use. During the year ended 31 December 2020 and 2019, there were no impairments of investment properties for continuing operations.

Rental income generated from these investment properties during the year amounted to $3,154 (2019 - $2,896). Operating expenses incurred in support of generating rental income from investment properties was $447 (2019 - $400).

(in thousands of Bermuda dollars)

16. Property and equipment

A. Property and equipment comprises:

	Land and buildings $	Furniture, equipment and leasehold improvements $	Computer hardware $	Motor Vehicles $	Total $
At 1 January 2019					
Cost	25,994	10,039	9,111	749	45,893
Accumulated amortisation	(5,823)	(7,862)	(7,627)	(563)	(21,875)
Net book value	**20,171**	**2,177**	**1,484**	**186**	**24,018**
Adjustment for change in accounting policy, see Note 3. (IFRS 16)	2,058	180	–	274	2,512
Opening net book value after adjustment for change in accounting policy	**22,229**	**2,357**	**1,484**	**460**	**26,530**
Year ended 31 December 2019					
Transfer to held-for-sale assets - cost	(9,595)	(6,078)	(5,044)	(897)	(21,614)
Transfer to held-for-sale assets – accumulated amortisation	1,373	4,468	4,902	477	11,220
Additions	405	293	676	–	1,374
Disposals	(896)	(739)	(923)	–	(2,558)
Disposals – accumulated amortisation	896	739	907	–	2,542
Amortisation charge	(520)	(339)	(613)	(12)	(1,484)
Effect of movement in exchange rates	(3)	4	28	–	29
Closing net book value	**13,889**	**705**	**1,417**	**28**	**16,039**
At 31 December 2019					
Cost	17,966	3,712	3,901	126	25,705
Accumulated amortisation	(4,077)	(3,007)	(2,484)	(98)	(9,666)
Net book value	**13,889**	**705**	**1,417**	**28**	**16,039**
Year ended 31 December 2020					
Additions	257	337	1,505	–	2,099
Revised terms on right-of-use assets	(260)	–	–	–	(260)
Disposals	(1,099)	(11)	(14)	–	(1,124)
Disposals – accumulated amortisation	1,099	7	–	–	1,106
Amortisation charge	(539)	(231)	(655)	(11)	(1,436)
Effect of movement in exchange rates	22	1	3	–	26
Closing net book value	**13,369**	**808**	**2,256**	**17**	**16,450**
At 31 December 2020					
Cost	16,894	4,045	5,433	126	26,498
Accumulated amortisation	(3,525)	(3,237)	(3,177)	(109)	(10,048)
Total Net book value	**13,369**	**808**	**2,256**	**17**	**16,450**

(in thousands of Bermuda dollars)

B. Leases:

This note provides information for leases where the Group is a lessee. For leases where the Group is a lessor, see Note 15.

i) Amounts recognised in the consolidated statement of financial position:

	2020 $	2019 $
Right-of-use assets		
Land and buildings	1,579	1,988
Furniture, equipment and leasehold improvements	66	107
	1,645	2,095
Lease liabilities		
Other liabilities	1,734	2,044
	1,734	2,044

Additions to the right-of-use assets during the year were $17 (2019 – $295).

ii) Amounts recognised in the consolidated statement of income:

	2020 $	2019 $
Amortisation charge of right-of-use assets		
Land and buildings	194	192
Furniture, equipment and leasehold improvements	58	74
	252	266
Interest expense	74	101
Expense relating to short-term leases (included in operating expenses)	123	56

The total cash outflow for leases was $305 (2019 – $370).

iii) The maturity profile of right-of-use liabilities at 31 December 2020 is as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Right-of-use liabilities	206	1,073	455	1,734

The maturity profile of right-of-use liabilities at 31 December 2019 is as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Right-of-use liabilities	108	739	1,197	2,044

(in thousands of Bermuda dollars)

17. Income taxes

Income tax is calculated and payable on the profits of 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 (recovered) expense comprises:

	2020 $	2019 $
Current tax	368	227
Deferred tax	428	(8)
Total Income tax expense	**796**	219

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

	2020 $	2019 $
BF&M Canada and IHIC's income before corporation tax	4,023	1,104
Tax calculated at effective rates of 29% and 17% respectively	607	588
Prior year adjustments	13	(28)
Income not subject to tax	(227)	(290)
Tax effect of other amounts not allowed	376	–
Tax under accrual	28	(20)
Other	(1)	(31)
Income tax expense	**796**	219

B. Deferred taxes

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

	2020 $	2019 $
Deferred tax assets:		
Net unearned premium	158	105
Deferred ceding commissions	407	208
Outstanding claims	16	18
Tax charge related to components of other comprehensive income	485	850
Deferred tax asset	**1,066**	1,181
Deferred tax liabilities:		
Accelerated tax depreciation	(61)	(6)
Deferred acquisition cost	(690)	(429)
Deferred tax liability	**(751)**	(435)
Net deferred tax asset	**315**	746

(in thousands of Bermuda dollars)

C. Tax recoverable

	2020 $	2019 $
Tax recoverable at beginning of year	1,378	1,597
Transfer to held-for-sale assets	–	(374)
Tax payments made	4	253
Current tax recovered for year	(29)	(94)
Tax under accrual	(3)	–
Other	(94)	(4)
Total Tax recoverable at end of year	**1,256**	1,378
Tax payable at beginning of year	(166)	(161)
Tax payments made	292	128
Current tax expense for year	(339)	(133)
Tax over accrual	(26)	–
Other	12	–
Total Tax payable at end of year	**(227)**	(166)
Net tax recoverable	**1,029**	1,212

D. Impact to other comprehensive (loss) / income

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

		2020	
	Before tax $	Tax (charge) / credit $	After tax $
Re-measurements of retirement benefit obligations	(294)	–	(294)
Investments classified as available-for-sale			
Fair value losses	(266)	–	(266)
Currency translation differences	(133)	260	127
Total Other comprehensive (loss) / income	**(693)**	**260**	**(433)**

		2019	
	Before tax $	Tax (charge) / credit $	After tax $
Re-measurements of retirement benefit obligations	(519)	1	(518)
Investments classified as available-for-sale			
Fair value gains	482	–	482
Currency translation differences	194	–	194
Total Other comprehensive income	**157**	**1**	**158**

(in thousands of Bermuda dollars)

18. Goodwill and intangible assets

The carrying amounts of intangible assets are as follows:

	Customer relationships & contracts $	Distribution channels $	Brands $	Software development costs $	Goodwill $	Total $
At 1 January 2019						
Cost	13,859	14,500	2,737	57,951	10,328	99,375
Accumulated amortisation	(8,516)	(9,787)	(2,737)	(23,888)	(2,628)	(47,556)
Net book value	**5,343**	**4,713**	**–**	**34,063**	**7,700**	**51,819**
Year ended 31 December 2019						
Transfer to held-for-sale assets – cost	(5,087)	–	(697)	(4,259)	(2,628)	(12,671)
Transfer to held-for-sale assets – accumulated amortisation	5,087	–	697	1,465	2,628	9,877
Additions	–	–	–	1,716	–	1,716
Disposals	–	–	–	(43)	–	(43)
Disposals – accumulated amortisation	–	–	–	45	–	45
Amortisation	(1,017)	(1,451)	–	(5,685)	–	(8,153)
Closing net book value	**4,326**	**3,262**	**–**	**27,302**	**7,700**	**42,590**
At 31 December 2019						
Cost	8,772	14,500	2,040	55,365	7,700	88,377
Accumulated amortisation	(4,446)	(11,238)	(2,040)	(28,063)	–	(45,787)
Net book value	**4,326**	**3,262**	**–**	**27,302**	**7,700**	**42,590**
Year ended 31 December 2020						
Additions (1)	1,080	–	–	497	207	1,784
Disposals	(282)	–	–	(2,243)	–	(2,525)
Disposals – accumulated amortisation	75	–	–	2,256	–	2,331
Amortisation	(1,085)	(1,450)	–	(4,899)	–	(7,434)
Impairment losses	(200)	–	–	(7,071)	(2,300)	(9,571)
Closing net book value	**3,914**	**1,812**	**–**	**15,842**	**5,607**	**27,175**
At 31 December 2020						
Cost	9,370	14,500	2,040	46,548	5,607	78,065
Accumulated amortisation	(5,456)	(12,688)	(2,040)	(30,706)	–	(50,890)
Total Net book value	**3,914**	**1,812**	**–**	**15,842**	**5,607**	**27,175**
Remaining weighted average amortisation period in years	4.2	1.2	–	3.4	n/a	

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

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

A. Goodwill

Goodwill represents the excess of the cost of IHIC at acquisition over the fair value of the net assets acquired. The goodwill at acquisition was allocated to the IHIC operation which is identified as a separate CGU. Goodwill is assessed for impairment as per the accounting policy described in Note 2J, by comparing the carrying amount of the CGU against its recoverable amount. The recoverable amount of the CGU has been determined based on a value-in-use calculation, which is the discounted present value of future cash flows expected to be derived from the CGU. These calculations use pre-tax cash flow projections based on the 2021 financial business plan approved by management and estimates of cash flows for the subsequent five years to which a terminal value is then calculated.

(in thousands of Bermuda dollars)

The plans reflect management's best estimate of future profits based on both historical experience and target growth rates. A discount rate of 13.26% was applied reflecting the nature of the environment for the CGU and the evolution of the business post acquisition. A terminal growth rate of 2.0% was used which represents the estimated long-term nominal growth rate of the economy.

Following challenging expected future economic environments, and in particular the hardening of the reinsurance market, management has reassessed the expected future business performance. As a result, projected cash flows are lower and this has led to an impairment charge with respect to goodwill. For the year ended 31 December 2020, the Group recorded an impairment charge of $2,300 in respect of IHIC goodwill.

The recoverable amount for the year ended 31 December 2020 is estimated at $5,400 based on the value in use calculation mentioned above which is also the carrying amount. Any adverse movement in a key assumption would lead to further impairment.

A sensitivity on assumptions was noted as follows: If the projected underwriting income decreases by 8.0% or the discount rate increases by 64 basis points the goodwill will be fully impaired.

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 thereof.

B. Software development costs

Costs associated with the development of information systems 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 expected useful life. Annually, the Group reviews its software development costs available for use, for evidence of impairment. During the year the group re-evaluated its digital strategy and identified software which no longer align with the Group's strategy. As a result, the Group impaired software development costs of $7,071 in 2020 (2019 – Nil). For significant software development costs not available for use, management performs an impairment assessment annually in accordance with IAS 36, using the methodology described in note 2J(ii).

19. Segregated funds

The Group's segregated funds net assets were comprised entirely of mutual funds for both the 2020 and 2019 years.

Segregated funds – consolidated statements of changes in net assets

	2020 $	2019 $
Segregated funds assets – beginning of year	1,028,050	822,613
Additions:		
Pension contributions	116,932	119,243
Life insurance	–	2
Net realised and unrealised gains	168,023	175,754
Total additions	**284,955**	**294,999**
Deductions:		
Payments to policyholders and their beneficiaries	(131,274)	(80,364)
Management fees	(10,307)	(9,198)
Total deductions	**(141,581)**	(89,562)
Net additions to segregated funds	**143,374**	205,437
Total Segregated funds assets – end of year	**1,171,424**	1,028,050

(in thousands of Bermuda dollars)

20. Other liabilities

	2020 $	2019 $
Advances from reinsurers	13,637	80,028
Insurance balances payable	47,124	52,229
Payables and accrued expenses	30,960	25,533
Deferred commission income	13,754	15,213
Policyholder dividends payable	5,227	5,156
Lease liabilities	1,734	2,044
Dividends payable	2,335	2,262
Total	**114,771**	182,465

Insurance balances payable include amounts payable to reinsurers and brokers.

21. Retirement benefit obligations

A. Defined contribution pension plan

The Group has established a defined contribution pension plan for eligible qualifying employees. Contributions by the Group to the defined contribution plan 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 plan is not reflected in the tables below. An expense of $1,100 (2019 - $1,129) 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. The Barbados retirement medical plan has been reclassified to liabilities held-for-sale, refer to Note 4.

Cash contributions to the plan by the Group during 2020 were $226 (2019 - $227).

C. Defined benefit pension plan

The Group sponsors a defined benefit pension plan for eligible employees in Bermuda, which follows the National Pension Scheme (Occupational Pensions) Act 1998 regulatory framework. The plan is closed to new entrants for employees hired after 1999. The defined benefit plan is administered by a separate Fund that is legally separated from the Group. Responsibility for governance of the plan including investment and contributions lies jointly with the Group and the Trustees of the pension fund.

Under the plan, the pension amount at retirement is based on an employee's final average earnings. The scheme is generally funded through payments determined by periodic actuarial calculations. Cash contributions to the plan by the Group during 2020 were $nil (2019 - $nil).

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 2020.

Notes to Consolidated Financial Statements

For the year ended 31 December 2020
(in thousands of Bermuda dollars)

The following table provides a summary of the defined benefit pension and post-retirement medical plans' estimated financial position at 31 December 2020 and 2019:

	2020 $	2019 $
Defined benefit pension plan	(1,393)	(1,534)
Medical benefit plan	3,188	2,975
Total Retirement benefit obligations	1,795	1,441

	Defined benefit pension plan		Medical benefit plan	
Changes in Benefit Obligation	**2020 $**	**2019 $**	**2020 $**	**2019 $**
Balance - beginning of year	38,210	52,693	2,975	3,084
Transfer to held-for-sale assets & liabilities	–	(17,773)	–	(200)
Current service cost	209	269	–	–
Interest expense	1,011	1,262	79	104
Past service cost and gains and losses on settlements	–	–	–	–
Actuarial (gains) and losses due to changes in:				
Experience	527	(178)	25	(33)
Economic assumption changes	3,235	3,804	335	247
Changes in asset ceiling, excluding amounts included in interest expense	(674)	121	–	–
Benefits paid	(1,990)	(1,988)	(226)	(227)
Total Benefit Obligation - End of year	**40,528**	**38,210**	**3,188**	**2,975**

	Defined benefit pension plan		Medical benefit plan	
Change in Plan Assets	**2020 $**	**2019 $**	**2020 $**	**2019 $**
Fair value - beginning of year	39,744	53,927	–	–
Transfer to held-for-sale assets & liabilities		(16,995)	–	–
Interest income	4,218	4,846	–	–
Return on plan assets, excluding amounts included in interest income	–	–	–	–
Employer contributions	–	–	226	227
Plan expenses	(52)	(46)	–	–
Benefits paid	(1,989)	(1,988)	(226)	(227)
Total Fair value of plan assets - End of year	41,921	39,744	–	–
Net (benefit) liability recognised in the Consolidated Statement of Financial Position	**(1,393)**	**(1,534)**	**3,188**	**2,975**

Amounts recognised in respect of these plans:

	Defined benefit pension plan		Medical benefit plan	
Net benefit cost recognised in Consolidated Statement of Income	**2020 $**	**2019 $**	**2020 $**	**2019 $**
Current service cost	209	269	–	–
Interest expense	1,011	1,262	79	104
Expected return on plan assets	(1,065)	(1,346)	–	–
Administrative expense	52	46	–	–
Past services cost and gains and losses	–	–	–	–
Total Net benefit cost	**207**	**231**	**79**	**104**

(in thousands of Bermuda dollars)

Re-measurement effects recognised in OCI	Defined benefit pension plan 2020 $	Defined benefit pension plan 2019 $	Medical benefit plan 2020 $	Medical benefit plan 2019 $
Return on plan assets (excluding amounts included in interest income)	(3,153)	(3,499)	–	–
Actuarial gains and losses due to change in:				
Experience	527	(178)	25	(33)
Financial assumptions	3,235	3,804	335	247
Adjustments for restrictions on the defined benefit asset	(675)	121	–	–
Total Re-measurements effects	**(66)**	**248**	**360**	**214**

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

	2020 Quoted $	2020 Unquoted $	2020 Total $	2019 Quoted $	2019 Unquoted $	2019 Total $
Equity and fund instruments	16,816	–	16,816	15,858	–	15,858
Fixed income instruments	21,419	–	21,419	20,293	–	20,293
Real estate	–	1,906	1,906	–	2,089	2,089
Other	–	1,780	1,780	–	1,504	1,504
Total Asset allocation	**38,235**	**3,686**	**41,921**	36,151	3,593	39,744

Plan assets include the Group's ordinary shares with a fair value of $1,092 (2019 - $1,148).

Risk

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

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

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

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

As the Group's defined benefit plan is 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 significant weighted-average assumptions as of 31 December 2020 and 2019 are:

Bermuda	Defined benefit pension plan 2020 %	Defined benefit pension plan 2019 %	Medical benefit plan 2020 %	Medical benefit plan 2019 %
Benefit cost during the year:				
Discount rate	2.00	2.75	1.50	2.75
Compensation increase	0.50	1.25	–	–
Medical claims inflation	–	–	4.50	4.50
Defined benefit obligation at end of year:				
Discount rate	2.00	2.75	1.50	2.75
Compensation increase	1.50	2.25	–	–
Medical claims inflation	–	–	4.50	4.50

(in thousands of Bermuda dollars)

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. As the defined benefit plan is 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 plan		Medical benefit plan	
Bermuda	2020 In years	2019 In years	2020 In years	2019 In years
Male	20.38	20.30	20.38	20.30
Female	22.46	22.42	22.46	22.42

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% in either direction will change the retirement benefit obligation as follows:

	Defined benefit pension plan		Medical benefit plan	
	Increase 2020 $	Decrease 2019 $	Increase 2020 $	Decrease 2019 $
Discount rate	4,474	5,474	273	318
Compensation increase	161	152	n/a	n/a
Average life expectancy	1,470	2,568	223	211

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 plan, 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 scheme. The Group's ALM objective is to match assets to the pension's obligation by investing in long-term fixed interest securities with maturities that match the benefits payments as they fall due.

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

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

Expected contributions to post-employment benefit plans for the year ending 31 December 2020 are $229.

The weighted average duration of the defined benefit obligation is 12.27 years. The weighted average duration of the medical plan obligation is 9.26 years.

Future benefit payments

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

	2021 $	2022 $	2023 $	2024 $	2025-2035 $
Defined benefit pension	2,240	2,285	2,408	2,413	31,182
Medical benefit plan	229	223	216	210	1,923
Total future payments	**2,469**	**2,508**	**2,624**	**2,623**	**33,105**

(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	2020 $	2019 $
Guaranteed interest pension	313,004	297,563
Term certain annuities	1,633	2,045
Total Investment contract liabilities	**314,637**	299,608

Investment contract liabilities carried at amortised cost	2020 $	2019 $
At 1 January	–	43,217
Transfer to held-for-sale liabilities	–	(43,217)
Total at 31 December	**–**	–

Investment contract liabilities carried at fair value	2020 $	2019 $
At 1 January	299,608	284,049
Pension contributions	49,223	33,370
Net investment (loss) / income	8,201	12,039
Benefits paid	(39,662)	(25,272)
Management fees deducted	(220)	(14)
Net transfers out	(2,513)	(4,564)
Total at 31 December	**314,637**	299,608

23. Insurance contract liabilities

A. Composition of insurance contract liabilities

	2020			2019		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Short-term insurance contracts:						
Claims reported and loss adjustment expenses	44,417	(34,173)	10,244	381,462	(370,730)	10,732
Unearned premiums	87,309	(63,130)	24,179	91,115	(68,112)	23,003
Claims incurred but not reported	20,953	(15,935)	5,018	86,596	(81,335)	5,261
Total short-term insurance contracts	152,679	(113,238)	39,441	559,173	(520,177)	38,996
Life and health insurance contracts:						
Participating						
Individual life	39,590	2,734	42,324	34,668	2,358	37,026
Non-participating						
Individual life	27,759	5,144	32,903	24,067	4,952	29,019
Individual and group annuities	138,691	–	138,691	129,666	–	129,666
Group life	8,631	(2,188)	6,443	6,102	(1,234)	4,868
Health and accident	14,662	1	14,663	16,080	–	16,080
Total life and health insurance contracts	**229,333**	**5,691**	**235,024**	210,583	6,076	216,659
Total Insurance contract liabilities	**382,012**	**(107,547)**	**274,465**	769,756	(514,101)	255,655

(in thousands of Bermuda dollars)

B. Changes in short-term insurance contract liabilities

	2020 Gross $	2020 Reinsurance $	2020 Net $	2019 Gross $	2019 Reinsurance $	2019 Net $
At 1 January						
Claims and adjustment expenses	381,462	(370,730)	10,732	107,833	(73,436)	34,397
Claims incurred but not reported	86,596	(81,335)	5,261	25,613	(14,825)	10,788
At 1 January	468,058	(452,065)	15,993	133,446	(88,261)	45,185
Transfer to held-for-sale liabilities	–	–	–	(47,438)	16,545	(30,893)
Cash paid for claims settled in year	(339,864)	329,586	(10,278)	(211,439)	194,562	(16,877)
Increase in liabilities:						
Arising from current-year claims	18,186	(5,841)	12,345	597,720	(579,153)	18,567
Arising from prior-year claims	(81,010)	78,212	(2,798)	(4,231)	4,242	11
Total at 31 December	**65,370**	**(50,108)**	**15,262**	468,058	(452,065)	15,993
Claims and adjustment expenses	44,417	(34,173)	10,244	381,462	(370,730)	10,732
Claims incurred but not reported	20,953	(15,935)	5,018	86,596	(81,335)	5,261
Total at 31 December	**65,370**	**(50,108)**	**15,262**	468,058	(452,065)	15,993

The fair value of the net provision for claims and adjustment expenses of $15,262 (2019 - $15,993) is $15,063 (2019 - $15,209). The fair value is calculated by the Group's actuaries and represents the discounted value of the net provision.

C. Unearned premium liability

	2020 Gross $	2020 Reinsurance $	2020 Net $	2019 Gross $	2019 Reinsurance $	2019 Net $
At 1 January	91,115	(68,112)	23,003	91,012	(61,704)	29,308
Transfer to held-for-sale liabilities	–	–	–	(16,021)	7,493	(8,528)
Premium written during the year	200,187	(160,022)	40,165	211,240	(169,896)	41,344
Premium earned during the year	(203,993)	165,004	(38,989)	(195,116)	155,995	(39,121)
Total at 31 December	**87,309**	**(63,130)**	**24,179**	91,115	(68,112)	23,003
Movement during the year, net of acquisition costs	**3,807**	**(4,982)**	**(1,175)**	(16,123)	13,908	(2,215)

(in thousands of Bermuda dollars)

D. Changes in life and health insurance contract liabilities

	2020 Gross $	2020 Reinsurance $	2020 Net $	2019 Gross $	2019 Reinsurance $	2019 Net $
Provision for policy benefits	204,436	6,076	210,512	196,471	4,850	201,321
Claims payable	5,062	–	5,062	6,099	–	6,099
Provision for participating policyholders	1,085	–	1,085	697	–	697
Life and health insurance contract liabilities - 1 January	210,583	6,076	216,659	203,267	4,850	208,117
Change in provision for policy benefits:						
Transfer to held-for-sale liabilities	–	–	–	(12,327)	33	(12,294)
Aging and changes in balances on in-force policies	443	30	473	3,340	197	3,537
Changes in assumptions:						
Investment returns	19,706	(440)	19,266	16,470	980	17,450
Mortality	(50)	1	(49)	1,017	41	1,058
Lapse	–	–	–	102	4	106
Expense	206	(3)	203	(274)	(14)	(288)
Other	(1,677)	27	(1,650)	(662)	(27)	(689)
Other changes	–	–	–	299	12	311
	18,628	(385)	18,243	7,965	1,226	9,191
Provision for policy benefits	223,064	5,691	228,755	204,436	6,076	210,512
Claims payable	5,061	–	5,061	5,062	–	5,062
Provision for participating policyholders	1,208	–	1,208	1,085	–	1,085
Total life and health insurance contract liabilities – 31 December	**229,333**	**5,691**	**235,024**	210,583	6,076	216,659

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

E. Composition of the assets supporting liabilities

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

31 December 2020	**Fixed income securities $**	**Mortgages and loans $**	**Cash $**	**Total $**
Participating				
Individual life	38,249	2,190	1,885	42,324
Non-participating				
Individual life	25,531	5,093	2,279	32,903
Individual and group annuities	115,243	22,991	457	138,691
Group life	2,524	504	3,415	6,443
Health and accident	–	–	14,663	14,663
Total	**181,547**	**30,778**	**22,699**	**235,024**

For the year ended 31 December 2020
(in thousands of Bermuda dollars)

31 December 2019	Fixed income securities $	Mortgages and loans $	Cash $	Total $
Participating				
Individual life	33,515	2,017	1,494	37,026
Non-participating				
Individual life	21,098	5,739	2,182	29,019
Individual and group annuities	101,715	27,668	283	129,666
Group life	1,658	451	2,759	4,868
Health and accident	2	–	16,078	16,080
Total	**157,988**	**35,875**	**22,796**	**216,659**

24. Equity

A. Share capital

	2020 $	2019 $
Authorised - 10,000,000 (2019 - 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	9,025	8,923

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

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

	2020 # of shares	2019 # of shares
At 1 January	8,922,537	8,826,578
Shares issued under the employee share purchase plan	14,808	29,096
Shares issued under the equity incentive plan	9,776	14,190
Share grants issued under the equity incentive plan	86,351	79,491
Share grants forfeited under the equity incentive plan	(8,492)	(26,818)
Total at 31 December	**9,024,980**	**8,922,537**

B. Share premium and contributed surplus

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

C. Share buy back

In 2016, the Group's Board of Directors authorised a share repurchase programme up to a maximum of 500,000 shares. As at 31 December 2020, the Group had repurchased 258,575 shares for a total of $4,713. The repurchased shares are held as treasury shares until reissued or cancelled. The current programme expires in May 2021 and may be renewed at the discretion of the Group and upon approval by the Bermuda Stock Exchange. The repurchase of shares is at the discretion of the Group.

(in thousands of Bermuda dollars)

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

	2020 $	2020 # of shares	2019 $	2019 # of shares
At 1 January	1,168	71,332	325	20,000
Acquisition of shares through share buyback	496	27,800	843	51,332
Total at 31 December	**1,664**	**99,132**	1,168	71,332

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

F. Employee share purchase plan
During 2020, 14,808 (2019 – 29,096) 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 $
2020					
Share capital	14,808	15	–	257	41
Treasury shares	–	–	–	-	–
Total	**14,808**	**15**	**–**	**257**	**41**
2019					
Share capital	29,096	29	–	434	69
Treasury shares	–	–	–	–	–
Total	**29,096**	**29**	**–**	**434**	**69**

G. Shares held by the group's defined benefit pension scheme
As at 31 December 2020, 55,992 (2019 – 55,992) shares of the Group were owned within the investment portfolio of the Group's defined benefit pension scheme.

25. Share based payments

Restricted share grants and restricted unit grants
During the year 86,351 (2019 – 79,491) common shares and 9,150 units (2019 – 8,600) 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 $1,643 (2019 – $1,401) 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 $1,578 (2019 – $995). The carrying amount of the liability in respect of restricted unit grants, which is included in other liabilities, is $535 (2019 - $478).

(in thousands of Bermuda dollars)

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

Restricted share and unit grants vesting	# of shares	# of share units
01 April 2021	51,296	7,690
01 April 2022	72,399	8,600
01 April 2023	79,551	9,150
Total	**203,246**	**25,440**

26. Commission and other income

The following tables present commission earned from reinsurers and fee income from service contracts by reporting segments as disclosed in Note 7.

Commission and other income	Health, life, annuity, and pension 2020 $	Property and casualty 2020 $	Cayman & Other Caribbean operations 2020 $	Corporate and other 2020 $	Total 2020 $
Commission income from insurance contracts	205	15,202	17,134	(2)	32,539
Fees earned from management of insurance contracts	368	–	–	–	368
Fee income from service contracts:					
Pension administration asset-based income	9,165	–	–	–	9,165
Administrative services and other fees	728	103	1,221	2,017	4,069
Total Commission and other income	10,466	15,305	18,355	2,015	46,141

Commission and other income	Health, life, annuity, and pension 2019 $	Property and casualty 2019 $	Cayman & Other Caribbean operations 2019 $	Corporate and other 2019 $	Total 2019 $
Commission income from insurance contracts	1	15,088	18,597	1	33,687
Fees earned from management of insurance contracts	524	–	–	–	524
Fee income from service contracts:					
Pension administration asset based income	8,315	–	–	–	8,315
Administrative services and other fees	767	60	819	1,599	3,245
Total Commission and other income	9,607	15,148	19,416	1,600	45,771

(in thousands of Bermuda dollars)

27. Insurance contracts benefits and expenses

	2020 $	2019 $
Gross life and health claims and benefits paid	85,601	103,467
Reinsurance recoveries	(8,058)	(6,000)
Change in insurance contract liabilities	18,628	20,292
Change in reinsurance assets	(385)	1,193
Total life and health policy benefits	**95,786**	118,952
Gross short-term claim and adjustment expenses paid	339,864	211,336
Reinsurance recoveries	(329,586)	(194,562)
Change in insurance contract liabilities	(402,557)	382,050
Change in reinsurance assets	401,950	(380,349)
Total short-term claim and adjustment expenses	**9,671**	18,475
Total Insurance contracts benefits and expenses	**105,457**	137,427

28. Operating expenses

	2020 $	2019 $
Wages and salaries	30,046	28,088
Professional and consulting fees	5,405	3,797
Post retirement benefit costs	1,386	1,473
IT maintenance contracts	5,362	3,968
Advertising and business development	1,897	2,256
Bank charges and foreign currency purchase tax	1,276	2,227
Office rent, building and utilities costs	1,719	1,858
Share expense	1,578	995
Compliance, legal and regulatory	1,944	1,746
Office and administration expenses	615	701
Travel	227	768
Bad debt	1,571	563
Memberships and subscriptions	186	164
Training and development	162	232
Alloction of costs to discontinued operations	(1,355)	(226)
Total operating expenses	**52,019**	48,610

For the year ended 31 December 2020
(in thousands of Bermuda dollars)

29. Components of accumulated other comprehensive loss

	2020 $	2019 $
Items that will not be subsequently reclassified to profit or loss		
Remeasurement of retirement benefit obligation		
Balance – beginning of year	(3,845)	(3,365)
Re-measurement of retirement benefit obligation – continuing operations	(294)	(462)
Re-measurement of retirement benefit obligation – discontinued operations	–	(56)
Non-controlling interest	9	38
Reclassification of discontinued operations on disposal to Retained Earnings	2,158	–
Balance – end of year	(1,972)	(3,845)
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	(1,323)	(1,568)
Changes in the fair value of available-for-sale financial assets – discontinued operations	(266)	482
Non-controlling interest	130	(237)
Reclassification of discontinued operations on disposal to loss on disposal	1,459	–
Balance – end of year	–	(1,323)
Currency translation differences		
Balance – beginning of year	(341)	(535)
Unrealised foreign exchange gains on translation of foreign operations	127	194
Balance – end of year	(214)	(341)
Total	**(2,186)**	**(5,509)**

30. Earnings per share

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

	2020			2019		
	Income $	# of weighted average shares	per share amount $	Income $	# of weighted average shares	per share amount $
Net earnings	20,480			11,908		
Basic earnings per share:						
Income available to common shareholders	20,480	8,893,565	2.30	11,908	8,830,802	1.35
Effect of dilutive securities:						
Share options	–	–	–	–	–	–
Diluted earnings per share:						
Income available to common shareholders and assumed conversions	**20,480**	**8,893,565**	**2.30**	11,908	8,830,802	1.35
Income available to common shareholders – continuing operations	**23,180**	**8,893,565**	**2.61**	18,240	8,830,802	2.07
Income available to common shareholders – discontinued operations	**(2,700)**	**8,893,565**	**-0.31**	(6,332)	8,830,802	-0.72

There are no share options granted to employees of the Group and thus there is no dilutive or anti-dilutive impact on earnings per share.

(in thousands of Bermuda dollars)

31. Related parties

The Group has a significant shareholder, Lawrie (Bermuda) Ltd., incorporated in Bermuda, which owns 37.6% 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

	2020 $	2019 $
Sales of insurance contracts and pension services:		
- Key management	**195**	194
Purchase of services:		
- Key management	**200**	–

B. Key management compensation

The following table shows compensation to key management:

	2020 $	2019 $
Salaries and other short-term employee benefits	3,261	3,397
Post-employment benefits	128	104
Share based payments	557	543
Total	**3,946**	4,044

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 2020 were 240,340 (2019 – 354,046) 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.

	2020 $	2019 $
At 1 January	316	327
Adjustment for changes in key management	–	–
Loans extended (repayments received)	1,173	(31)
Interest charges	74	20
Total at 31 December	**1,563**	316

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.

(in thousands of Bermuda dollars)

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* 2020 $	ICBL* 2019 $	Scarborough / Barr's Bay 2020 $	Scarborough / Barr's Bay 2019 $
Total assets	–	181,934	28,986	27,103
Total liabilities	–	128,542	1,825	1,912
Total Net assets	**–**	53,392	**27,161**	25,191

Summarised comprehensive income	ICBL* 2020 $	ICBL* 2019 $	Scarborough / Barr's Bay 2020 $	Scarborough / Barr's Bay 2019 $
Net premium earned	21,152	31,492	–	–
Rental income	702	1,095	3,190	3,444
Total income	28,092	44,414	3,190	3,444
Total benefits & expenses	27,429	43,836	1,202	1,216
Income before taxes	663	578	1,988	2,228
Income taxes	(2)	25	–	–
Net income after taxes	**661**	603	**1,988**	2,228
Other comprehensive income/ (loss)				
Items that will not be reclassified to profit or loss	2,158	(56)	(18)	(28)
Items that may be subsequently reclassified to profit or loss	1,193	482	–	–
Total Comprehensive income	**4,012**	1,029	**1,970**	2,200
Total Income attributable to non-controlling interest	**318**	300	**795**	891

Summarised statement of cash flows	ICBL* 2020 $	ICBL* 2019 $	Scarborough / Barr's Bay 2020 $	Scarborough / Barr's Bay 2019 $
Net cash generated from operating activities	4,803	6,313	2,282	342
Net cash generated from (used in) investing activities	(1,504)	(4,614)	(1,095)	1,686
Net cash used in financing activities (including dividends to parent)	–	(2,557)	–	–
Cash disposed of on sale of discontinued operations	(29,074)	–	–	–
Net (decrease) / increase in cash and cash equivalents	**(25,775)**	(858)	**1,187**	2,028
Cash and cash equivalents at beginning of year	**25,775**	26,633	**5,783**	3,755
Cash and cash equivalents at end of year	**–**	25,775	**6,970**	5,783

** ICBL was disposed of in 2020, amounts above relate to the period up to date of sale. Refer to Note 4.*

(in thousands of Bermuda dollars)

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 2021 and 2026. The future minimum lease payments receivable are as follows:

	2020 $	2019 $
No later than 1 year	2,564	2,634
Later than 1 year and no later than 5 years	3,634	1,750
Later than 5 years	235	–
Total	**6,433**	4,384

B. Commitments

The Group has commitments made in the normal course of business that are to be disbursed upon fulfilment of certain contract conditions. $533 is payable in 2021 to fulfil contracts which have fixed and determinable amounts. For years 2022 and 2023, the Group has committed in principle to making donations to various local charities. The amount to be disbursed is unknown but will be determinable on an annual basis subject to contract terms. The Group also expects significant capital expenditures related to renovation work on its investment properties. This is estimated at $3.6 million.

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.

34. Subsequent events

A. Dividends

On 18 February 2021 the Group, declared a dividend to be paid to shareholders of record at 31 March 2021. The dividend will be paid on 15 April 2021. $2,123 will be paid out in total, representing a $0.24 per share dividend paid on 8,847,864 shares.

B. La Soufrière eruption

On 9 April 2021, the La Soufrière volcano in St. Vincent erupted. The Group through its subsidiary Island Heritage Insurance Company, Ltd. provides property and casualty insurance coverage in St. Vincent. Due to the recentness of this event, and the continuing aftermath of the initial eruption, management is only beginning to evaluate what impact, if any, it will have on the Group's financial results in 2021, however it believes it will be inconsequential.

Directors and Officers of Principal Operating Subsidiaries

BF&M General Insurance Company Limited

Directors
Nancy L. Gosling, B.Comm., C.G.A., LLD, Chairman
Paul C. J. Markey, Deputy Chairman
Abigail Clifford, B.A., M.Sc.
Christopher Harris, B.Sc. (Hons.), MBA, CFA
R. John Wight, FCPA, FCA, CPCU
Andrew Lo, BASc, P. Eng.

Officers
R. John Wight, FCPA, FCA, CPCU, Group Chairman and Chief Executive Officer
Lily Chen, CPA, CA, Group Chief Financial Officer
Abigail Clifford, B.A., M.Sc., Group Chief Operating Officer
Stephanie Hanson, LL.B. (Hons.), Executive Vice President, Chief Legal and Compliance Officer and Corporate Secretary
Alissa Matthews, CPA, CA, Senior Vice President, Chief Financial Officer, P&C
Patrick Neal, B.A., CPCU, Senior Vice President, Chief Underwriting Officer (Bermuda)

BF&M Life Insurance Company Limited

Directors
Gordon Henderson, B.A. (Hons.), LL.B., Chairman
L. Anthony Joaquin, FCA, Deputy Chairman
Abigail Clifford, B.A., M.Sc.
Conor O'Dea, FCA
R. John Wight, FCPA, FCA, CPCU
Jennifer Reynolds, MBA, ICD.D

Officers
R. John Wight, FCPA, FCA, CPCU, Group Chairman and Chief Executive Officer
Lily Chen, CPA, CA, Group Chief Financial Officer
Abigail Clifford, B.A., M.Sc., Group Chief Operating Officer
Stephanie Hanson, LL.B. (Hons.), Executive Vice President, Chief Legal and Compliance Officer and Corporate Secretary
Jody Power, CPA, CA, CFA, Vice President, Finance
Michelle Jackson, Executive Vice President, Head of Life and Health

BF&M Investment Services Limited

Directors
Christopher Harris, B.Sc. (Hons.), MBA, CFA, Chairman
R. John Wight, FCPA, FCA, CPCU, Deputy Chairman
Abigail Clifford, B.A., M.Sc.
Jennifer Reynolds, MBA, ICD.D

Officers
R. John Wight, FCPA, FCA, CPCU, Group Chairman and Chief Executive Officer
Lily Chen, CPA, CA, Group Chief Financial Officer
Abigail Clifford, B.A., M.Sc., Group Chief Operating Officer
Miguel DaPonte, CFA, MBA, Senior Vice President, Investments
Stephanie Hanson, LL.B. (Hons.), Executive Vice President, Chief Legal and Compliance Officer and Corporate Secretary

Directors and Officers of Principal Operating Subsidiaries

Island Heritage Insurance Company, Ltd.

Directors
Conor O'Dea, FCA, Chairman
R. John Wight, FCPA, FCA, CPCU, Deputy Chairman
Abigail Clifford, B.A., M.Sc.
Gordon Henderson, B.A. (Hons.), LL.B.
Paul C. J. Markey

Officers
Alissa Matthews, CPA, CA, Senior Vice President, Chief Financial Officer, P&C
Evelyn Tibbetts-Farrar, CPCU, ACII, Senior Vice President, Chief Underwriting Officer
Judy Ebanks, Assistant Company Secretary
Maples Corporate Services, Corporate Secretary

Island Heritage Retirement Trust Company Ltd.

Directors
Conor O'Dea, FCA, Chairman
R. John Wight, FCPA, FCA, CPCU, Deputy Chairman

Officers
Miguel DaPonte, CFA, MBA, Senior Vice President, Investments
Talia Woods, Vice President, Compliance Officer

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Subsidiary Companies

BF&M General Insurance Company Limited
BF&M Life Insurance Company Limited
Island Heritage Insurance Company, Ltd.
Island Heritage Retirement Trust 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)
BF&M Brokers Limited
Island Heritage Insurance Company N.V.
Lawrence Boulevard Holdings Ltd.

BF&M Life | BF&M General

Island Heritage

BF&M Limited

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